INVESTMENT POLICY OF NEPAL SBI BANK LIMITED

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"Investment Policy of Nepal SBI Bank Limited"** submitted to Office of Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (M.B.S.) under the guidance and supervision of Mr. Sajeeb Shrestha and Dr. Keshav Raj joshi of Shanker Dev Campus, Tribhuvan University.

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ABSTRACT

Banking sector plays an important role in the economic development of the country. These are the sectors which transfer funds from surplus unit to deficit unit, and thus help in overall development of country.

Under this research the nature of investment policy of one sample bank i.e. Nepal SBI Bank Ltd is studied in detail. This study explored the overall investment policy of bank, including its liquidity ratios, investment management ratios, profitability ratios, growth ratios and correlation between important parameters has been studied for past five years (2008/09-2012/13).

From the study it was found that as a whole the bank has adopted good investment policy. The liquidity position of the bank is able to meet its short term obligations. The bank has utilized about 90% of its deposits liability into income generating assets and most of them in the form of loans and advances. The bank has given priority to invest in risky assets than in risk free assets. The bank has been utilizing about 80% of its total assets for income generating purposes, which shows the aggressive risk taking policy of the bank. It was also found that the bank has been collecting the deposits funds in increasing trend and it has been increasing its loans and advances and investments with the almost same rate. So, both the sources and uses of fund is in increasing trend. At the same time net profit of the bank has also positive growth and it is increasing over the year. It shows that the bank has been successful to adopt the appropriate investment policy to increase the profitability of the bank with positive growth rate of deposit and loans and advances.

Although the overall condition is satisfactory, the bank is investing very less in government sector. The government sector is the most risk free sector, so it is suggested to invest more in such sectors. Similarly there was no any scheme for investing in priority sector like agriculture, industrial, service and so on, so it is also recommended to make a proper strategy to make investment on such sectors, because development of these sectors is directly related to development of the country. It is also recommended to adopt innovative approach to marketing and aggressive lending policy for the betterment of the bank.

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CHAPTER - I

INTRODUCTION

1.1 Background of the Study

It is obvious that economic development is impossible without the development of different sectors like Agriculture, Industry, Trade etc. of the country. So, development of these sectors needs a regular supply of financial resources. In developing countries there is always shortage of the capital for the development activities. It is not possible to handle and develop all the sectors by the Government alone at a time. Private people also can not undertake large business because per capita income of the people is very low while their propensity to consume is very high. Due to low income their saving is very low and capital formation is very low. So their saving is not sufficient for carrying on development works.

"Economic development demands transformation of savings or investible resources into the actual investment. It is the financial institution that transfer funds from surplus spending units to deficit units" (Nepal Rastra Bank, 1996)

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of the national output, income, and employment, solving the problem of inflation and balance of payment and making the economy free from the burden of foreign debt. Domestic capital formation helps in making a country self-sustainable. Profit made by business community constituted the major part of the saving of the community and what was saved was assumed to be invested.

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

"The business of banking is one of collecting funds from the community and extending credit (making loans) to people for useful purposes" (Edmister, 1980). Loaning money has always been a basic function of commercial bank. After providing for its cash need a bank normally seeks to loan as large a portion of its deposit and excess capital as it prudentially can. The remaining portion of its investible fund is placed in suitable securities (American Institute of Banking, 1966).

Loans are an essential aspect of commercial bank. "First, income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community- bank relationship. Third, lending money spurs business development and supports a growing economy" (Edmister, 1980). Credit being the most important function of commercial banks, affects overall development of the country. So far as pace of economic development is considered, it is directly related to the quality and quantity of the credit, which is derived from various financial institutions, especially commercial banks in Nepal.

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

1.2 Focus of the Study

A bank always puts in efforts to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should reasonably excess over expenses. The major source of income of a bank is interest from loans and investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loans and advances. Hence loan is known as risky asset and investment operation of commercial banks is very risky one. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society by helping for the growth of economy while non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations. Sound credit policy has the following objectives:

- To have performing assets.
- To contribute to economic development.
- To give guidance to lending officials.
- To establish a standard for control, etc.

Commercial banks, especially Joint venture banks are successful in bringing healthy competition among banks, increase in foreign investments, promote and expand export-import trade, introduce new techniques and technologies. Considering these facts, this study mainly focuses on the investment policy of joint venture commercial banks in Nepal with special reference to the Nepal SBI Bank Limited. SBI Bank Limited is a joint venture with state bank of India and thus opens up endless trade opportunities with our nearest and one of the vastest markets in the world.

1.3 Statement of the Problem

"The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and act as development banks, due to the lack of other specialized institutions" (Dali, 1974).

Credit extended by commercial banks is directly related to the National Interest of the country. So the investment policy of the commercial banks should be very sound and farsighted. "A policy is a statement or general understanding which provides guidance in decision making to members of an organization in respect to any course of action" (Gautam, 2002). Defining the commercial banks investment policy, Naughton (1994) says that investment policy should incorporate several elements such as regulatory environment, the availability of the funds, the selection of the risk, loasn portfolio balance and term structure of the liabilities.

Project appraisal method followed by commercial banks is also not scientific one. So a large volume of credit extended by commercial banks is drifting from basic credit principle and found to have lower productivity. Loan supervision and follow up regarding whether clients are properly utilizing the bank investment is found to be poor in many of the commercial banks.

Credit extended by commercial banks to agricultural and industrial sector is not satisfactory. Even if NRB has regulated to invest in priority sector like agriculture, small-scale industries and service, all the commercial banks have not yet financed full 12% of their loans to this sector. Commercial banks, including NSBL, are following conservative loan policy that is based on string security. They do not consider the profit potential of the project. There is not good trade-off between liquidity and profitability of banks.

Similarly, the investment portfolio position of the banks is not satisfactory. They are not following a sound diversification principle. Portfolio theory gives the concept of investment in a very good way that "do not put all eggs in a single basket". Diversity of funds reduces the risk. One-time commercial banks had invested a large proportion of their loan to Garment, Hotel and Carpet industries. But now these sectors became sick and banks are in trouble of their loan repayment.

The directions and guidance provided by Nepal Rastra Bank are the major policy statements for Nepalese commercial banks. A long term and published policy about their operation is not found even in the joint venture banks. Even if some how they have formulated some procedural guidelines they are failing in proper implementation due to poor supervision.
Thus, in this scenario of Nepalese commercial banking sector, this study mainly seeks the answers of the following specific problems related to investment policy of Nepal SBI Bank Ltd.:

a) What is the proportion of bank's investment on different sectors?
b) What is the relationship of total deposit on total investment and total investment on total net profit of the bank?

1.4 Objective of the Study

The main objective of the study is to evaluate the investment policy of Nepal SBI Bank Ltd. However, the specific objectives of the study are:

- To review the investment policy of bank with reference to liquidity, profitability, investment management ratios and so on,
- To analyze the portfolio management of the bank,
- To analyze relationship between deposit utilization and total investment and net profit and Total investment,

1.5 Significance of the Study

This study mainly fills a research gap on the study of investment policy of NSBL. Definitely, the study will provide a useful feedback to the policy makers of the bank and also becomes a useful reference for other commercial banks of Nepal and central bank (NRB) for the formulation of appropriate strategies. This study evaluates the investment policy of NSBL and finds its loopholes and significantly contributes to make the policy sound.

1.6 Limitations of the Study

This study has the following limitations:

a) This is a case study of NSBL and more samples should be included for the generalization of research.
b) The study is limited to five years period from 2008/09 to 2012/13 A.D.
c) The study is based only on secondary data collected from the bank, which may not be far from limitation due to inherent characters.

1.7 Organization of the Study

The whole study has been divided into five chapters as:

Chapter 1. Introduction
Chapter 2. Review of Literature
Chapter 3. Research Methodology
Chapter 4. Presentation and Analysis of Data
Chapter 5. Summary, Conclusions and Recommendations

CHAPTER – II

REVIEW OF LITERATURE

In this chapter, focus has been made on the review of literature that is relevant to the investment policy of commercial banks. Review of literature is basically a stock taking of available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, other information managing bureaus and concerned commercial bank. This chapter helps to take adequate feed back to broaden the information base and inputs to the study. Conceptual framework given by different authors, research scholars, practitioners etc. are reviewed from books, research papers, annual reports, articles etc., which are arranged into the following order:

(a) Conceptual framework

(b) Review of related studies

- Review of research papers
- Review of articles
- Review of Ph. D. Thesis
- Review of Master's Degree Thesis

(c) Justification of the study/ Research Gap

2.1 Conceptual Review

2.1.1Concept of commercial bank and their investment policy

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 (American Institute of Banking, 1972).

Commercial Bank Act of Nepal (1974) has defined that "A commercial bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose."

A Commercial Bank is business organization that receives and holds deposits of fund from others, makes loans or extends credits and transfers funds by written order of deposits (Grolier Incorporated, 1984).

This Act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the most because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e., investment on different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested. These information include as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank. As well as lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies it is always taken in mind that "the greater the credit created by the bank, higher will be the profitability." A sound lending and investment policy is not only pre-requisite for bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most important one. In the words of Crosse, H. D. (1963), "Commercial banks bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investments."

Investment operation of commercial banks is very risky one. For this, commercial banks have to pay due consideration while formulating investment policy regarding loan investment. Investment policy is one facet of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy can attract both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety, etc. These fundamental principles of commercial bank's investment are fully considered while making investment policy. Emphasizing upon this Crosse, H.D. stated, "The investment policy should be carefully analyzed". Commercial bank should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending.

According to Clemens, J.H. (1963), "Commercial bank should consider the national interest followed by borrower's interest and the interest of the bank itself before investing to the borrowers". To further pursue his view, bank lending must be for such purposes of the borrowers that are in keeping with the national policy and bank’s overall investment policy. A bank’s overall investment: -

a) Should be basically of short term characters,
b) Should be well spread,
c) Should be repayable on demand,
d) Must be profitable
e) Must be well in adequate security.

Naughton, M.D. (1994) stated in the research paper 'Banking institution in developing markets' that, "Investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities".

Thus, commercial banks have to consider government and Nepal Rastra Bank's instructions and national and their own interest as well. Good investment policy ensures maximum amount of investment to all sectors with proper utilization.

2.1.2 Evolution of Financial System in Nepal (Early Era)

In almost all countries the logical historical order of the development of financial structure has gone through different stages. In Nepal, the first stage starts from rudimentary economy in which the commodity money such as gold and silver coins generally accepted as a means of payment. At 12th century silver coinage came into existence in Nepal. But no financial intermediation was possible in this stage.

The second major stage is the development of interest bearing debt such as bonds, mortgages and loans. In the year 79/80 A.D., we came across the term 'Debt' in Nepal. At the end of the 14th century we further came across the term 'Tanka Dhari', meaning money dealer, which is one of the sixty-four casts classified on the basis of occupation. In historical order of development an organized market was missed out in Nepal. The development of the market is seen only in the last stage. Treasury bills were only issued for the first time in 1962. Government bonds were introduced in February 1964 (Nepal Rastra Bank, 1996).

2.1.3 Evolution of Banking System

In Nepal financial system is still in evolutionary phase. The existence of unorganized money market consisting of Land-lords, Shahukars (Rich Merchants), Shopkeepers and other indigenous individual money lenders has acted as barriers to institutionalized credit.
During the Prime Ministership of Ranoddip Singh around 1877 A.D., a number of economic and financial reforms were introduced. The establishment of the "Tejarath Adda" fully subscribed by the government in the Kathmandu valley was one of them. The "Tejarath Adda" disbursed credit to the people especially on the collateral of gold and silver. Thus the establishment of the "Tejarath Adda" could be regarded as the premier foundation of modern banking in Nepal (Nepal Rastra Bank, 1996).

Beginning of modern banking was the establishment of Nepal Bank Limited on November 1937. It laid the foundation of modern financial system in Nepal. It was a joint venture between government and the private sector. After then, the Nepal Rastra Bank came into existence as the central bank on April 26, 1956. It had authorized capital of Rs. 10 million fully subscribed by the government. It was empowered by act to have direct control over financial institutions within the country. It started issuing currency in 1959 A.D. The second commercial bank Rastriya Banijya Bank was established in 1966 A.D.

Besides Nepal Bank Limited and Rastriya Banijya Bank, other commercial banks didn't come into existence until 1984 A.D (Nepal Rastra Bank, 1996). The commercial banking act 1974 was amended in 1984 A.D. to increase the competition between commercial banks. As per the provision made in this act, private sector (including foreign investment) was given freedom in opening commercial bank. Consequently, Nepal Arab Bank Limited was established in 1984 A.D. as a joint venture bank (Joshi, 2000). Likewise Nepal Indo-suez Bank Ltd. and Nepal Grindlays Bank Ltd. were established under joint venture in 1986 and 1987 A.D. respectively.

After the initiation of democracy in 1990 A.D., NRB adopted a more liberal policy in establishing the commercial banks. Now the number reached 30, more than three folds.

The banks are such types of institutions, which deal in money and substitute for money. They deal with cash, credit and credit instruments. Good circulation of credit is very much important for the bank. Unsteady and unevenly flow of credit with ad-hoc decisions harms the economy and the bank as well. Thus, to collect fund and utilize it in a good investment, is a very difficult and important task for such organization. An investment of fund may be the question of life and death for the bank.

Emphasizing the importance of investment policy, Crosse, H. D. (1963) puts his view in this way, "Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit".

He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and asset pledged to security borrowing , interest rate policy, etc.

According to Chandler, L. V. (1973), "A banker seeks optimum combination of earning, liquidity and safety while formulating investment policy".

"Investing involves making a current commitment of funds in order to obtain an uncertain future return. It is a risky business that demands information. To process information effectively and select the best investments require goals that are clear cut and realistic" (Clark, 1981).

According to Valla, V. K. (1983), there are basically three concepts of investment:

a) Economic investment – that is an economist's definition of investment.

b) Investment in a more general or extended sense which is used by 'the man of the street', and

c) The sense in which we are going to be very much interested, namely financial investment.

According to Singh, S. P. and Singh, S. (1983), "The investment (credit) policies of banks are conditional, to great extent, by the national policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping, of course, his bank's credit policy also in mind".

They further stated, "The field of investment is more challenging as it offers relatively greater scope to bankers for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk, particularly during recent years, the credit function has become greater complex."

Dr. Singh, P. 1985) has defined investment as "Investment is the employment of funds with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves 'waiting' for a reward."

Bexley, J. B. (1987) express his views as, "Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan, and establishing responsibility for day to day management of those assets."

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

Frank, K. R. (1991) defines investment as, "An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds".

Sharpe, W. F. and Gorden A.J. (1998) define investment as, "Investment, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value"

According to Sharpe, Alexander and Baily (1999), "Investment can be categorized as Real investments and financial investments. Real investments generally involve some kinds of tangible asset, such as land, machineries or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds."
Thus investment is the most important function of commercial banks. It is the long-term commitment of bank in the uncertain and risky environment. It is a very challenging task for commercial banks. So a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investible funds.

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk.
Various authors have expressed their views regarding investment policies of commercial banks, their formulation and implementation differently.

"A sound investment policy of a bank is such that its funds are distributed on different type of assets with good profitability on the one hand and provides 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. Therefore the banks investment policy must ensure that it is sound and prudent in order to protect public funds. Bank makes a variety of loans to a wide variety of customers for different purposes. Therefore no uniform rules can be laid down to determine a portfolio of a bank. The environment in which it operates influences the investment policy of the bank. The nature and availability of funds also differ widely from one region to another within the country. For example scope of a bank operating in Jumla will be different from the scope of bank operating in Kathmandu. Therefore, the investment policy to be applied in Kathmandu may not be applicable to the bank operating in Jumla" (Baidhya, 1999).

Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

According to Edward, W. R., Richard, V. C., Edward, K. G. and Richard, K. S. (1980), "Commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets." The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their actions, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same.

Reed et al. (1980) added that "The rate of return on assets is a valuable measure when comparing the profitability of one bank with another or with the commercial banking system. A low rate might be the result of conservative lending and investment policies or excessive operating expenses. Banks could, of course, attempt to offset this by adopting more aggressive lending and investment policies to generate more income"

Investment policies include credit analysis and its principal purpose is to determine the ability and willingness of a borrower to repay a requested loan in accordance with the terms of the loan contract. Factors considered in credit analysis are capacity to borrow, characters (honesty, integrity, industry, morality, ability to create income, ownership of assets, economic conditions, etc. Loans are the most important assets held by banks and bank lending provides the bulk of bank income (Reed et al, 1980).

In broad sense the investment operation of bank includes lending and investing in different types of securities. We can say lending is the primary investment activity and investment in different types of securities is the secondary investment activity of the commercial banks.

Reed et al. (1980) further stressed that "More and more banks have developed formal, written lending policies in recent years. They provide guidance for lending officers and there by establish a greater degree of uniformity in lending practices. Since lending is important both to the bank and to the community it serves, loan policies must be worked out carefully after considering many factors like:

- Capital position.
- Risk and profitability of various types of loans.
- Stability of deposits.
- Economic conditions.
- Influence of monetary and fiscal policy.
- Ability and experience of bank personnel.
- Credit needs of the area served"

Investment is concerned with the management of an investors wealth which are the sum of current income and the present value of all future income funds to be invested come from assets already owned, borrowed money and saving or forgone consumption by forgoing today and investing the saving, investors expects to enhance their future consumption possibilities i.e., they are invested to increase wealth. In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of others for their use, in return for a proper instrument entitling the holders to fixed income payments or the participation in expected profit. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment. For our purpose 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 &providing a significant further source of income. (Limbu R, 2008)

2.1.4 Features of a Sound Lending and Investment Policy

The income and profit of the bank depends upon its lending procedures, lending policy and investment of its funds in different securities. The greater the credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial savings of a backward country like Nepal.

Many authors have given some necessities or some of the main characteristics for sound lending and investment policies, which must be considered by the commercial banks:

(I) Safety and Security

The bank should never invest its funds in those securities, which are too volatile i.e., which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute also. Security means adequate collateral having good value, which can be easily sold off if required at any point of time. The bank should accept that type of securities, which are commercial, durable and marketable having fair market value. For this purpose 'MAST' should be applied while reaching an investment decision. (Unpublished Masters Degree Thesis, Kathmandu). Where MAST stands for,

M = Marketability,

A = Ascertainability,

S = Stability,

T = Transferability.

(II) Profitability

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

(III) Liquidity

Liquidity is the ability of a firm to satisfy its short-term obligations when they become due for payment. People deposit money at the bank in different account with confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities, so that it can meet current or short-term obligations when they become due for payment.

(IV) Purpose of loan

From the viewpoint of security, a banker should always be known that why a customer is in need of loan. If a borrower misuses the loan granted by the bank, it can never repay and bank will possess heavy bad debts. Therefore in order to avoid this situation each and every bank should demand and examine all the essential detailed information about the scheme of the project or activities, before lending.

(V) Diversification

"A bank should not lay all its eggs on the same basket". This saying is very important to the bank and it should always be careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way the loss can be minimized or recovered. (Wolf H. K., 2002)

(VII) Tangibility

Though it may be considered that tangible property does not yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. A commercial bank should prefer tangible security to intangible one.

(VIII) Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directives issued by the central bank (Nepal Rastra Bank), Ministry of finance, Ministry of law and other relevant authorities, while mobilizing its funds.

(IX) National Interest

In addition to its own profitability the Bank should also consider the national interest. Even though the Bank cannot get maximum return from such investment, it should carry out its obligation towards the society and the country. The Bank is required to invest on such sectors as per the Government and Nepal Rastra Bank's instruction. Investment on government bonds, priority and deprived sector lending are the examples of such investments.

2.2 Review of Related Studies

2.2.1 Review of Research Papers

Shrestha, S. (1993) studied on Investment planning of commercial banks in Nepal and made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study the researcher concludes that bank portfolio (loans and investment) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (Nepal Rastra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility. To overcome this problem, she has suggested, "commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects".

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

Out of the different commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit and also turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount, through traditional off-balance sheet operations. On the contrary, they have got heavy burden of personnel and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of loans and dividends to its employees and shareholders.

Shrestha, S. R. (1998) has given a short glimpse on the "Portfolio management in commercial banks; theory and practice". The researcher has highlighted following issues in the research.

The portfolio management becomes very important both for individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to the higher return; Good liquidity; Maximum tax concession; Economic, efficient and effective investment mix; Flexible investment and certain capital gains.

However, the researcher has also presented approaches to be adopted for designing a good portfolio and its management. Such as; To find out the investible assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability, etc as well the risk of the securities depending upon the attitude of investor toward it; To develop alternative investment strategies for selecting a better portfolio that will ensure a trade-off between risk and return and also To identify securities for investment to refuse volatility of return and risk.

The researcher has presented two types of investment analysis techniques ie; fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence. According to him, the portfolio management activities of Nepalese commercial banks at present are in nascent stage. However, on the other hand, most of the banks are not doing such activities so far because of Unawareness of the clients about the service available and Hesitation of taking risk by the clients to use such facility as well due to Lack of proper techniques to run such activities in the best and successful manner.

2.2.2 Review of Articles

In this section, effort has been made to examine and review of some related articles in different economic journals, World Bank discussion papers, magazines, newspapers and other related books and publications.

Morris, F. (1990) concluded in the discussion paper, "Latin America's Banking System in the 1980^{s}" that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio, operating efficiency and soundness of bank investment management has largely been overlooked. The huge losses now found in the bank's portfolio in many developing countries are testimony to the poor quality of this oversight investment function. He further adds that mismanagement in financial institutions has involved inadequate and overoptimistic loan appraisal, lower loan recovery, high risk diversification of lending and investments, high risk concentration, connected and insider lending, loan mismatching, etc. This has led many banks of developing countries to the failure in 1980^{s}.

Bajracharya, B. B. (1990) concluded in the article "Monetary policy and deposit mobilization in Nepal", that the mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Pradhan, S. B. (1996) has presented a short glimpse on investment in different sectors, its problem and prospects, through the article "Deposit mobilization, its problem and prospects". In the article he has expressed, "Deposit is the life blood of any financial institution, and be it commercial bank, finance company, co-operative or non-government organization". He also added, in consideration of 10 commercial banks and nearly three dozens of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks, other organizations rely heavily on the business deposit receiving and credit disbursement. Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession. He mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sector and the nation. Lower level of deposit raising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Kishi, D. L. (1996) concluded in the article, "The changing face of the banking sector and the HMG/N recent budgetary policy", 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 government controlled banks, Nepal Bank Limited and Rastriya Banijya Bank have also shown an improvement of non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice bringing an significant benefit to the poor are yet to be achieved as envisaged by the HMG/N.

Shrestha, A.M. (1997) pointed out some important activities and its present scenario in the article "Nepalma Banijya Bank Haruko Bhumika". Accordingly, these activities are to be studied and revised as soon as possible, otherwise these may be disaster for the sound and effective banking system. The article is written in Nepali language. Some of the main points of his article are given as:

- Possibility of capital flight: - which indicates the flow of capital outside the country due to the unstable political situation. In this controversial situation joint venture banks become the main source or medium of capital flight.
- Minimum Deposit amount: - Many commercial banks have increased the minimum deposit amount (threshold). This policy may harass the lower level depositors. It also affects the banking habits of lower level depositors negatively.
- Debt recovery and its effectiveness: - In these years, it can also be seen that effective debt recovery is also a great problem of banks due to the misinterpretation of use of loan more than this, a gap between banks and debtors (i.e.; effective supervision).

Shrestha, S. (1998) through the article, "Lending operation of commercial banks of Nepal and its impact on GDP", has presented the objectives to make an analysis of contribution of commercial bank's lending to the gross domestic product (GDP) of Nepal. The researcher has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service and general and social sectors as the independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple regression analysis has shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e.; there has been positive impact on GDP. She has accepted that there has been positive impact by the lending of commercial banks in various sectors of economy, except service sector investment.

Ghimire, P. (1999) has published an article in which it is mentioned that most of the commercial banks of Nepal are ready to pay the penalty in spite of investing on rural, priority sector, poverty stricken and deprived areas. In the directives of Nepal Rastra Bank it is clearly mentioned and directed that all the commercial banks (under NRB) should invest 12 % of its total investments to the priority sectors. However these commercial banks are unable to meet the requirements of NRB.

Bhattarai, k. D. (2003) has presented an article about the "Non Performing Assets (NPA) Management". According to The researcher, a loan is very easy term for a borrower when he has already taken and for a lender not availed. It is equally difficult for a borrower to avail and for lender to recover. From a banker’s view, it is just like a stone to roll down from the top of the hill while sanctioning, but too difficult to roll back the same stone to the top of the hill while recovering. A loan not recovered within the given time frame either in the form of interest servicing or principal repayment is called non-performing loan (NPL). There are other parameters as well to quantify an NPL. Security not to the extent of loan amount with specified safety margin, value of security not realizable, possession not as per the requirement of bank, conflict of charges are the other reason which causes difficulties while recovering the loan. According the loan for a bank is most important to generate revenue for operational expenses as well as to provide return to the shareholder.

A general survey reveals two major reasons why a good loan turns into bad. Firstly,
Situational Problem which indicates poor analysis of project and its capital requirement; Faulty evaluation of loan and security; Problem in managing the unit; Sudden change in internal and external environment and project not being run according to its plan; Mismatch in demand and supply; Delay in collection of receivables and secondly, Intentional Problems, which indicates intention to cheat the bank; Malicious act of both the bank-staff and borrower; Intention to auction the property, which is in least requirement, borrower and to

waive interest/ penal interest or avail discount on loan if paid in latter stage when bank offer such facilities.

The resarcher added that a formula Know Your Customer (KYC) is to be always taken into consideration. A bank must be clever and must collect information greater then a borrower require for commencement of business and to be more rigid to give the loan than to give his own money without any security. Therefore every possible measure is to be implemented to keep a loan portfolio intact.

2.2.3 Review of Dissertation

Dr. Shrestha, S. (1993) has conducted a study on "Investment planning of commercial banks in Nepal" with the objectives of:

- To evaluate the financial performance of commercial banks in Nepal.
- To examine the investment of commercial banks of Nepal with reference to securities, loans & advances.
- To establish the relationship of bank portfolio variables with the national income and interest rates.

The research was conducted on the basis of primary and secondary data of commercial banks. As per the research findings, the general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. Debt equity ratio is very high, greater than 100%. The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically same.The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities.Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.Investment in various sectors has a positive impact on the national income from their respective sectors. Lending in priority sector showed cottage and small industry sector sharing higher loans which showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increased with low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and treasury bill rate. The investment of commercial banks on government securities has been observed to be affected by total deposit, cash reserve requirements and treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition.

Bajracharya, P. (2000) conducted a study on "Investment of commercial Banks in priority sector" with the objective of:

- To analyse the trend of investments in Private sectors and the trend of repayment in private sectors for 10 years from 2047 B.S. to 2056 B.S.
- To measure the effectiveness of the program in terms of the investment and repayment in rural and urban sector.
- To evaluate the banking procedures and services in disbursing loan in this sector and provide package of suggestion based on this study.

The research was conducted through primary and secondary data. For the primary data, pre-structured questionnaire was distributed to entrepreneur. Secondary data from different sources like reports, books, bulletins, journals, magazine and other publications of Rastriya Banijya Bank, Nepal Rastra Bank, etc. are also collected.

The research findings of the study are as follows:

- The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by RBB. The trend analysis shows that the commercial banks are giving due consideration to increase investment in priority sector.
- Interest charged on the loan disbursed in this sector is fairly less than that of loans for other purposes. The Chi square test of effectiveness of program shows that the program is more effective in rural and semi rural areas as compared to the urban areas. Investment on agriculture is higher than investment on industry and service sector.
- The study revealed that the procedure of loan disbursing itself is complicated for the borrowers to understand it.

Tuladhar U. (2000) conducted a study on "A study on investment policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal" with the objective :

- To study the fund mobilization and investment policy with respect to fee-based off-balance sheet transaction and fund based on-balance sheet transactions.
- To study the liquidity, efficiency of assets management and profitability position and evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.
- To perform an empirical study of the customers' views and ideas regarding the existing services and adopted investment policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents. The research findings of the study are summarized as follows:

From the analysis of primary data concerning in which sector should JVBs invest; 28.37 % respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24 %), whereas industrial sector (18.44 %), tourism sector (16 %), agricultural sector (16 %), and construction sector (4.25 %) are given third, fourth, fifth and sixth priority respectively.

From the analysis of secondary data it was found that the Nepal Grindlays Bank Ltd. has maintained consistent and successful liquidity than NABIL Bank Ltd. and Himalayan Bank Ltd. Consequently the mean of total investment to total deposits ratio is higher than the other JVBs. The mean of the loan and advances to total deposits ratio is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd. Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on government securities to working fund ratio had the highest mean ratio than NABIL Bank Ltd. and Himalayan Bank Ltd. during the study period. It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd. and Himalayan Bank Ltd. The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd. The volume of growth ratio of loan and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. From the analysis of growth ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio.

Thapa, S. (2001) conducted a study on "Investment policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Banks (NABIL and Nepal Gridlays Bank Ltd.)" with the objective of:

- To examine the liquidity, asset management efficiency, profitability and risk position of NB Bank in comparison to NABIL and NGBL and analyse the relationship between loan & advances and total investment with other financial variables of NB Bank and compare them with NABIL and NGBL.
- To examine the fund mobilization of investment policy of NB Bank through off-balance sheet activities in comparison to the other two banks.
- To study the various risks in investment of NB Bank in comparison to NABIL and NGBL and also to analyse the deposit utilization trend and its projection for next five years of the NB Bank & compare it with that of NABIL and NGBL.

The study was conducted through secondary data. The researcher found that the liquidity position of NB Bank is comparatively better than that of NABIL and NGBL. NB Bank is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL. It does not seem to follow any definite policy regarding the management of its assets. Profitability position of NB Bank is comparatively worse than that of NABIL and NGBL. It has maintained high growth rates in comparison to other banks though it is not successful to make enough investment. The position of NB Bank with regards to utilization of the fund to earn profit is not better in compare to NABIL and NGBL.

Laudari, S. R. (2001) conducted a study on "A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd." with the objectives of: -

- 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 in comparison to Nepal SBI bank ltd.
- To analyse relationships between deposit and investments, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

The researcher found that the current ratios for both the Banks is satisfactory. Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased. Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd. Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning. The analysis of growth ratios shows that growth ratio of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank Ltd. is less than that of Nepal SBI Bank Ltd. The trend value of loan and advances to total deposit ratio and total investment to total deposits ratio is decreasing in case of both the banks.

Dhungana, P. (2002) conducted a study on "Investment policy of Nepal Bangladesh Bank Limited & other Joint Venture Banks (Himalayan Bank Limited & Nepal SBI Bank Limited)." with the following objectives:

- To study fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on balance sheet transaction and the liquidity efficiency of assets management and profitability position.
- To evaluate the trends of deposit utilization towards total investment and loan & advances, the growth ratios of loan & advances and total investment with respect to growth ratios of total deposit and net profit.
- To study the various risks in investment.

The research found out that the liquidity position of NB bank is not better than that of HBL and NSBL but it is in better position regarding its on balance sheet activities but not better regarding off-balance sheet transactions. The profitability position of NB bank is comparatively not better than that of HBL but better than that of NSBI. The credit risk ratios and interest rate risk ratios of NB Bank is higher than that of HBL and NSBI. It has not maintained adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate liabilities. NB Bank has maintained high growth rate and deposit collection position, lending position, investment position and net profit position is not better in comparison to HBL but better than NSBI. (The study was conducted on the basis of secondary data)

Ojha, L. P. (2002) conducted a study on "Lending practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd." with the objective of:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
- To measure the bank's lending strength.
- To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
- To measure the lending performances in quality, efficiency and its contribution in total income.

Based on the research, the measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. The total liability to total assets of SCBNL has the highest ratio. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit. SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loans and advances to total assets ratio whereas NABIL Bank Ltd. has highest due to steady and high volume of loans and advances throughout the years. The loans and advances and investment to deposits ratio has shown that NABIL Bank Ltd. has deployed the highest proportion of its total deposits in earning activities. The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is highest in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Ltd. is the least due to the low share capital, reserves and surplus in its capital mix. But the volume contributed by Himalayan Bank Ltd. in case of loans and advances is highly appreciable as compared to its net assets. The volume of loans and advances contributed by NABIL Bank Ltd. is the greatest in five years of study period. The mean investment of NABIL Bank Ltd. is the highest but the investment on government securities of SCBNL is the highest. The contribution made by Himalayan Bank Ltd. in industrial sector is the greatest and that of SCBNL is the least. The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. The loan loss provision to loans and advances analysis shows that NABIL Bank Ltd. has the highest mean ratio. It indicates that the volume of sub-standard loan in the loan mix of NABIL Bank Ltd. is higher and the volume of non-performing loan in the mix of NABIL Bank Ltd. is likely to increase in coming future. The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Ltd. and lower in case of SCBNL. The interest expenses to total deposits ratio indicates that the cost of fund in Himalayan Bank Ltd. is the highest and that of SCBNL is the least. The productivity of expenses in SCBNL is the best. Thus, the performance of SCBNL is significantly better than other two banks in case of profitability. EPS is highest in case of SCBNL.

Shahi, P. B. (2004) conducted a study on "Investment policy of commercial banks in Nepal" with the main objectives of:

- To evaluate the liquidity, profitability and risk position of Nepal bank limited to the Joint venture banks and to discuss investment policy of Nepal bank limited in comparison to the Joint venture banks.
- To find out the empirical relationship between different variables as deposits, loan and advances, investment, net profit, etc. and compare them with the Joint venture banks and to analyze the deposit utilization trend and compare it with that of the Joint venture banks.
- To provide a package of workable suggestions and possible guidelines to improve investment policy of Banks.

The researcher found that the the liquidity position of NBL is comparatively better than that of the JVBs. The mean ratio of loan and advances to total deposit of NBL is slightly lower than that of the JVBs. Likewise NBL's ratios seem to be more variable than that of the JVBs. The mean ratio of total investment to total deposit of NBL is lower than that of the JVBs. The mean ratio of investment on government securities to total working fund of NBL is slightly lower than that of the JVBs. The mean ratio of total off-balance sheet operation to loan and advances of NBL is found significantly lower than that of JVBs. Profitability position of NBL is comparatively not better than that of the JVBs. There is comparatively higher risk in NBL than that of the JVBs regarding various aspects of the banking function. From the analysis of different growth ratios it can be concluded that NBL has not been more successful to increase its sources of funds. Similarly it seems to have failed to maintain high growth rate of profit in comparison to that of other JVBs. It has been found that there is negative relationship between deposits and investment in case of NBL and positive in case of the JVBs. NBL has higher trend analysis values of loan and advances and deposit, but lower trend values of net profit and total investment in comparison to the JVBs for next 5 years.

High portion of cash and bank balance in NBL shows its negligence and inefficiency in its best utilization. Higher percentage of loan loss ratios shows that NBL is weak in credit collection. Poor quality of loan due to lack of necessary skills of project appraisal, improper collateral evaluation, irregular supervision, etc. is a severe problem for the bank's success.

Shrestha, D. G., (2004) on the thesis entitled **"**Role of Rastriya Banijya Bank in priority sector credit & its recovery**"** has tried to reveal the following objectives:

- To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
- To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
- To examine the situation of deprived sector credit (DSC) of RBB.
- To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher found that the Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC. RBB is very much success in complying the NRB policy. The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend. Loan repayment under DSC was more satisfactory from industry sector. The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Basnet, T. R. (2005) conducted a study on "A study on the investment policy of NABIL Bank Ltd. in comparison to other Joint venture Banks of Nepal" with the objective:

- To evaluate the liquidity and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other Joint venture Banks.
- To discuss fund mobilization and investment policy of NABIL Bank Ltd. in comparison to other JVBS.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit of NABIL Bank Ltd. in comparison to other JVBS.
- To find out the relationship between deposits and total investment, deposit and loan and advances, and net profit and outside assets of NABIL Bank Ltd. in comparison to other JVBS.

The research found that the liquidity position of NABIL Bank Ltd. is comparatively worse than that of other JVBS. It has more portions of current assets as loans and advances but less portion as investment on government securities. NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBS. Profitability position of the Bank is comparatively not better than that of other JVBS. The mean ratio of return on loan and advances of NABIL Bank Ltd. has been found slightly lower than that of other JVBS. Similarly the mean ratio of total interest earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBS.

Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBS. There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between deposit and total investment in case of both NABIL Bank Ltd. and other JVBS.

Gurung, A. K. (2006) explored in his research “lending policy and recovery management of Standard Chartered Bank Nepal ltd and Nabil bank ltd” has found out the following result.

- The deposit collection by the bank is increasing but in a fluctuating trend.

- Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%.
- This ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

While looking on the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at the future trend it shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem shows many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Pokharel, I. (2006) conducted a study on "Investment pattern and policy of Rastriya banijya bank" with the objective of:

- To review the present investment policy of RBB.
- To examine whether the bank has been fully utilizing the deposits mobilized or not.
- To establish the relationship between deposits, loans and advances and the effect on them by the change of interest rate.

The research was conducted mainly on the basis of secondary data. Interview technique has also been used to collect information on the investment policy of the bank.

The research findings of the study are concluded as:

- From the study of investment pattern of RBB, it is observed that the investment is mainly towards the security of gold and silver.

- From the study it has been revealed that there has never been any clear and specific investment policy. In fact the bank is running its business without having any definite direction, except to follow the directives issued by NRB.
- The deposits raised by the bank are not properly utilized. The effect of changes in interest rate has neither contributed to raise deposits nor has been favorable in investment extension.
- Time to time checking and supervision by the bank should be faithfully followed.

Silwal, U. B. (2007) has conducted a study on "Lending policy of commercial banks in Nepal" with the objective of:

- To analyze the role of commercial banks in its historical prospective.
- To show the relationship between deposits and loan & advances.
- To identify major weakness of lending policy of the commercial banks.

The research findings of the study are summarized as follows:
Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.

By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

Limbu, R. (2008) in the dissertation “Credit Management of NABIL Bank Limited” highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earnings per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The main objectives of the research study are as follow.

- To evaluate various financial ration of the Nabil Bank.
- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analyses for Total asset is calculate to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. It's all analysis indicates better future of concern bank.

Rawal, P. (2010) conducted a study on "Liquidity analysis of Nepal Investment Bank Limited" with the objective of:

- To check the liquidity position of the NIBL
- To analyze the financial performance
- To check the NIBL bank's profitability
- To suggest the amount of the optimum level of liquidity
- To suggest the liquidity management policies

The research was conducted mainly on the basis of secondary data. Interview technique has also been used to collect information on the liquidity position of the bank.

From the study researcher concluded that, the saving deposit account is nearly constant trend, but fixed deposit is somewhat fluctuating. So the bank should utilize the amount collected from the saving deposit account carefully. It should be invested in the higher yielding areas. Similarly Investment to deposit ratio is fluctuating adversely. It may harm the operation of the bank. So, the investment from the deposit source should always be aware of liquidity need and keep in mind to maintain the optimum liquidity. The liquid assets to total deposit ratio is fluctuating slightly. However the ratio is higher and somehow may be considered satisfactory.

Kawan, P. (2011) conducted a study on "Investment portfolio analysis of commercial Banks" with the objective of:

- To evaluate and analyze variation in investment Structure.
- To analyze risk and return on investment portfolio of different commercial Banks.
- To analyze the relationship of investment with other variables like deposit, loan and advance, net profit and size of the firm.
- To find out the proportion of commercial banks.

The research was conducted mainly on the basis of secondary data, which include annual report of concerned bank, related journals, newspaper, internet, official publications, related studies and thesis. Reference of five commercial banks namely Global Bank, Kumari Bank, Nepal Investment Bank, Himalayan Bank and Standar Chartered Bank was taken.

The major findings of the research were concluded as,

- Commercial Banks play very important role in economic life of nation.
- Standard Chartered Bank has high proportion of investment than other banks with less variation.
- There is positive relation with investment and size of the firm, net profit and deposit but statistically insignificant.
- There is negative relation of investment with loan and advances and is significant

Joshi, R. (2013) conducted a research on "working capital management of commercial banks in Nepal (with special reference NIBL, HBL, EBL and NABIL)" with the objective of:

- To examine the major factors affecting the management of working capital.
- To evaluate the working capital financing policy adopted by the banks.
- To analyze the liquidity maintenance and the efficiency in equity management to generate profit of the bank.
- To provide the appropriate solution..

The research was conducted through primary and secondary data. For the primary data, pre-structured questionnaire was distributed to entrepreneur. Secondary data from different sources like reports, books, bulletins, journals, magazine and other publications of the related banks.

The research findings of the study are as follows:

- Operating efficiency of bank, Dividend policy, working capital cycle, change in price level, nature and size of business, attitude towards risk and profit, level of taxes, NRB directives, economic policy of government etc are the major components affecting working capital management of banks.
- Most of the banks finance total assets by using extensively debt capital than equity capital.
- Long term debt has been used in paltry amount compared to short term debt.
- Each bank has extensively used short term debt to finance working capital, current assets. 92.74%, 92.86%, 92.72% and 90.99%, of the total working capital of NIBL, HBL, EBL and NABIL respectively has been financed through short term debt.

- The liquidity position of the bank is not so satisfactory; the bank is also adopting relaxed working capital investment policy. During the study period only NIBL and HBL have met the minimum cash reserve ratiodirected by NRB with in whole years.
- The relationship of return on equity and equity growth is in complete reverse order only in HBL first 3 years, which also indicates the adoption of perfect aggressive working capital policy by the bank.
- The net profit has positive relationship with net working capital and short term debt. On the other hand net profit has positive relationship with long term debt however it is negative with respect NABIL. The relationship between net profit & long term debt is statistically insignificant in NABIL.

2.3 Justification of the Study / Research Gap

Investment in different sectors is made on the basis of the directives and circulars of Nepal Rastra Bank as well as the investment guidelines and policy of the concerned commercial bank. The directives of NRB change over time. NRB makes necessary amendments in prevailing directives and circulars and communicates to commercial banks. Commercial banks should follow these directives and circulars. Furthermore, their own investment guidelines and policies should be in line with NRB directives and circulars. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data, NRB circulars and guidelines than that of studies previously conducted.

No research has yet been undertaken regarding the sector-wise loan and advances diversification of NSBL. Portfolio management is the major part of the bank's investment policy. The optimum diversification of loan and advances reduced the default risk of credit. It is the major concern of stakeholders to know the portfolio behavior of the bank. This study puts its effort to find out the proportion of total loan and advances of the bank disbursed to different sectors of economy and analyse the diversification of its investment.

No case study has yet been conducted about the investment policy of NSBL. Some comparative studies are previously done but in-depth study about the bank is not found. Investment function is the major function of the commercial bank. NSBL is one of a leading joint venture commercial bank of the country having huge market share and its investment activities has significant impact on the national economy. Hence, this study fulfills the prevailing research gap about the in depth analysis of the investment policy pursued by the organization, which is the major concern of public shareholders and other stakeholders.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem, with certain objectives in view. In other words, research methodology describes the methods and processes applied in the entire subject of the study. Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done significantly. It is necessary for the researcher to know not only the research methods/ techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the mean, the mode, the research techniques, but they also need to know which of these methods or techniques are relevant and which are not, and what would they mean and indicate and why.

The topic of the problem has been selected as "Investment Policy of Nepal SBI Bank Limited". The sole objective of this study is to evaluate the investment policy of Nepal SBI Bank Limited. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose the chapter aims to present and reflect the methods and techniques those are carried out and followed during the study period. The research methodology adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.1 Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. To achieve the objective of this study, descriptive research design has been used. This study depicts the financial situation of the bank at the present point portraying the aspects like Liquidity, profitability, growth etc. to open platform being based on the defined descriptive techniques.

3.2 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total Joint Venture Commercial Banks constitutes the population of the data and the bank under study constitutes the sample for the study. So, from the population of 7 Joint Venture Commercial Banks operating in Nepal, Nepal SBI Bank Limited has been selected as the sample for the study. Nepal SBI Bank is a joint venture with state bank of India and which opens up endless trade opportunities with our nearest and one of the vastest markets in the world. India as a country is the one with which our country does the largest number and volumes of Transaction. For this research purpose, Nepal SBI bank in particular is friendliest as it provides easier access for academic researches and data is made readily available as per request and classification.

3.3 Sources of Data

Data are collected from two sources. They are Primary sources and Secondary sources. The data presented in this study are of secondary type. The secondary sources of data are those that have been used from published sources or used by someone previously. The annual reports of the concerned Bank are the major sources of data for the study. However, besides the annual reports of the subjected bank, the following sources of data have also been used in the course of the study:

- NRB reports and bulletins.
- Various publications dealing in the subject matter of the study.
- Various articles published in the News Papers.
- Periodic returns submitted by the Bank's Head Office to NRB.
- The NEPSE reports, etc.

Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

3.4 Data Collection Techniques

This study is mainly based on secondary data obtained from various sources mentioned above. The annual reports of Nepal SBI Bank Limited for the period of five years from fiscal year 2008/09 to 2012/13 A.D were obtained from the field visit of its shares department at its corporate office located at Hattishar, Kathmandu. NRB publications such as Quarterly Economic Bulletins, Banking and Financial Statistics, Economic report, etc. have been collected by the personal visit of concerned departments of Nepal Rastra Bank at Baluwatar. The unpublished data of sector wise loans and advances has been collected from reporting department of NSBL. The data on some aspects of the bank has also been obtained from the publications and websites of Nepal Stock Exchange. The reference of NRB directives has been used from Butwal Branch of NSBL. Some supplementary data and information and literature review have been collected from the Shankar Dev Campus Library, Central Library T.U., NRB Library, different Journals, magazines and other published and unpublished reports documented by the concerned authorities.

3.5 Data Analysis Tools

Presentation and Analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and are then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The tools applied are:

3.5.1 Financial Tools

Financial tools basically help to analyze the financial strength and weakness of a firm. Ratio analysis is one of the important financial tools that have been used in the study. A ratio is simply one number expressed in term of another and such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. Logarithmic graph and break-even chart are the graphic forms of expressing a ratio. Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Even though there are many ratios to analyze and interpret the financial statement, only those ratios that are related to the investment operation of the bank are have been covered in this study. Different types of ratios have been used in this study.

3.5.1.1 Liquidity Ratios

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. As a financial analytical tool, following four liquidity ratios has been used to come into the facts and findings of the study.

(i) Current ratio

This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities.

Current assets includes cash (NRs), cash (foreign currency), balance with other banks, balance held aboard, inter-bank lending, bills purchased/discounted, investment on government securities, interest receivable, notes receivable, pre-paid expenses, staff loan and advances and so on. Similarly, current liabilities include accounts payable, expense Payable, Bonus Payable, Income Tax Payable, customer deposit, Proposed Dividend and so on.

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on the circumstances of the business and the nature of business.

(ii) Cash and bank balance to total deposit ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor.

This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as,

$$\frac{\text{Cash \& bank balance}}{\text{Total deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes current deposits, saving deposits, fixed deposits, call deposits and other deposits.

(iii) Cash and bank balance to current assets ratio

This ratio measures the proportion of most liquid assets i.e. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash.

The ratio is computed by dividing cash and bank balance by current assets, stated as under,

$$\frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

(iv) Investment on government securities to total current assets ratio

This ratio is calculated to find out the percentage of current assets invested in government securities i.e. treasury bills and development bonds. The ratio is computed as under,

$$\frac{\text{Investment on government securities}}{\text{Total current assets}}$$

3.5.1.2 Investment Management Ratios

Investment management ratios indicate how successfully a company is investing its assets to generate revenues. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. Asset and liability management ratio measures its efficiency by multiplying various liabilities into performing assets. The following are the various ratios relating to asset and liability management, which are used to determine the efficiency of the subjected bank in managing its assets and efficiency in portfolio management.

(i) Loan & Advances to total deposit ratio

This ratio is also called credit-deposit ratio (CD ratio). It is calculated to find out how successfully the banks are utilizing their total deposits on loan and advances for profit generating purpose. Greater ratio implies the better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under,

$$\frac{\text{Loan and advances}}{\text{Total deposits}}$$

(ii) Total investments to total deposit ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on investment on government securities, shares and debentures of other companies and bank. This ratio can be calculated by dividing total investment by total deposit, stated as under,

$$\frac{\text{Total investment}}{\text{Total deposits}}$$

The numerator includes investment on government securities, debenture and bond, shares in subsidiary companies, shares in other companies and other investment.

iii) Loan and advances to working fund ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to channelize 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, that is stated as under,

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

Here, the denominator includes all assets of on balance sheet items but excludes off balance sheet items like letter of credit, letter of guarantee etc.

iv) Investment on government securities to total working fund ratio

This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

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

v) Investment on shares and debenture to total working fund ratio

This ratio shows the bank's investment in shares and debenture of the subsidiary and other companies. This ratio can be derived by dividing investment on shares and debentures by total working fund mentioned as under,

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

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

(vi) Total outside asset to total deposit ratio

Loan & Advances and investment comprises the total outside assets of a bank. This ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits.

$$\frac{\text{Total outside asset}}{\text{Total deposit}}$$

(vii) Loan & Advances to total outside assets ratio

This ratio measures the contribution made by loans & advances in total amount of loans and advances and investments. The proportion between investment and loans and advances measures the management's attitude towards more risky assets and lower risky assets. Loans & Advances are more risky and also generate more returns in comparison to investments. This ratio is computed by dividing Loan & Advances by total outside assets as under,

$$\frac{\text{Loan and advances}}{\text{Total outside asset}}$$

(viii) Investment on government securities to total outside assets ratio

This ratio measures the proportion of the banks investment in risky area and risk free areas. This ratio is computed by dividing investment on government securities by total outside asset as under,

$$\frac{\text{Investment on government securities}}{\text{Total outside asset}}$$

(ix) Total outside assets to total assets ratio

Loans & Advances and investments are the outside assets of commercial banks. This ratio is calculated by dividing total outside assets by total assets

$$\frac{\text{Total outside asset}}{\text{Total asset}}$$

These are the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize its funds into income generating assets.

(x) Interest income to loan and advances ratio

This ratio measures the volume of interest income to loan and advances of the bank. The ratio denotes the amount of interest income used in loan and advances. This ratio can be computed by dividing interest income by loans and advances as under.

$$\frac{\text{Interest Income}}{\text{Loan and advances}}$$

3.5.1.3 Portfolio of investment and loan and advances

To analyze the portfolio behavior of investment and loans and advances of the bank for the study period, the ratios of investment and loans & advances granted to various sectors of economy and for various purposes to total volume of investment and loans and advances have been measured.

(i) Investment on different sectors

The Bank has segregated its investment portfolio into following three categories:

a) Held for trading
b) Held for maturity
c) Available for sale

At the present, investment under category "Held for Trade" is Nil and investments under other categories include:

1. Nepal Government Treasury Bills
2. Nepal Government Saving Bonds
3. Nepal Government Other securities
4. Nepal Rastra Bank Bonds
5. Foreign Securities
6. Local Licensed Institutions
7. Foreign Banks
8. Corporate Shares
9. Corporate Bonds and Debentures
10. Other Investments

(ii) Loans and advances to different sector

Loan and advances of NSBL are categorized under following heading:

a. Real Estate Loan
   1. Residential Real Estate Loan (Except Personal Home loan up to Rs. 80 Lacs)
   2. Business Complex & Residential Apartment Construction Loan
   3. Income generating Commercial Complex Loan
   4. Other Real Estate Loan (Including Land purchase & Plotting)

b. Personal Home Loan of Rs. 80 Lacs or Less

c. Margin Type Loan

d. Term Loan

e. Overdraft Loan / TR Loan / WC Loan

f. Others

3.5.1.4 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 firms should be higher. Under this topic the following profitability ratios of Nepal SBI Bank Ltd. have been studied.

(i) Net profit to gross income ratio

This ratio measures the volume of net profit to gross income of bank. This ratio helps to identify what percent of total income is the bank's net profit. This can be calculated by dividing net profit by gross income of bank as under.

$$\frac{\text{Net profit}}{\text{Gross income}}$$

(ii) 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 activities and vice versa. This ratio can be computed by dividing interest income to total income presented as under.

$$\frac{\text{Interest Income}}{\text{Total income}}$$

(iii) Total interest earned to total outside assets ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of out side assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as,

$$\frac{\text{Total interest earned}}{\text{Total outside assets}}$$

The denominator includes loan and advances, bills purchased and discounted and all types of investments. The numerator comprises total interest income from loans and advances and investments.

(iv) Interest expenses to total expenses ratio

This ratio measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operational expenses and vice versa. This ratio is computed by dividing interest expenses by total expenses, which is presented hereunder,

$$\frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

(v) Total interest earned to total working fund ratio

This ratio is calculated to find out the 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 fund. This ratio is calculated by dividing total interest earned by total working fund. This is stated as,

$$\frac{\text{Total interest earned}}{\text{Total working fund}}$$

(vi) Total interest paid to total working fund ratio

This ratio is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. This ratio can be calculated by dividing total interest paid by total working fund, which can be presented as,

$$\frac{\text{Total interest paid}}{\text{Total working fund}}$$

(vii) Total income to total expenses ratio

The comparison between total expenses and total income measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is indicative of higher productivity of expenses and vice versa. This ratio is calculated by dividing total income by total expenses.

$$\frac{\text{Total Income}}{\text{Total Expenses}}$$

(viii) Total income to total working fund ratio

This ratio measures how efficiently the asset of a business is utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets as stated hereunder,

$$\frac{\text{Total Income}}{\text{Total working fund}}$$

(ix) Return on loan and advances ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This also measures the earning capacity of its loan and advances. This ratio is computed by dividing net profit (loss) by loan and advances. This can be expressed as,

$$\frac{\text{Net Profit (Loss)}}{\text{Loans and advances}}$$

(x) Return on total working fund ratio (ROA)

This ratio measures the overall profitability of all working funds 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 fund. This can be mentioned as,

$$\frac{\text{Net Profit (Loss)}}{\text{Total working fund}}$$

The numerator indicates the portion of income left to the internal equities after deducting all costs, charges and expenses.

(xi) Return on equity ratio (ROE)

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the banks have used the funds of the owners. This ratio is calculated by dividing net profit by total equity capital (net worth). This can be stated as,

$$\frac{\text{Net Profit (Loss)}}{\text{Total equity capital}}$$

Here, total equity capital includes shareholder's reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share and preference share capital.

(xii) Earning Per Share (EPS)

EPS refers to net profit divided by total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is computed by dividing total net profit (loss) by total number of shares

$$\frac{\text{Net Profit (Loss)}}{\text{Total number of shares}}$$

(xiii) Net Interest Margin

Net interest margin in general term is the difference between the interests received from investment on loan and advances and interest paid on deposits collected by the bank. It shows the bank's efficiency to earn high profit to meet various costs. Higher ratio shows the higher profitability and vice versa. This ratio is computed by dividing the difference between interest revenues from earning assets less interest costs on borrowed funds by total earning assets.

$$\frac{\text{Interest revenues from earning assets-Interest costs on borrowed funds}}{\text{Total earning assets}}$$

Here, interest revenues from earning assets is the total interest income of the bank and interest costs on borrowed funds is the total interest expenses of the bank. Total loan and advances comprises the total earning assets of the bank.

3.5.1.5 Growth Ratios

To examine and analyze the expansion and growth of the banking business, following growth ratios are calculated in this part of the study.

(i) Growth ratio of total deposits
(ii) Growth ratio of loan and advances
(iii) Growth ratio of total investment
(iv) Growth ratio of net profit

3.5.2 Statistical Tools

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

3.5.2.1 Mean

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted and given by the formula:

$$\overline{X} = \frac{X}{N}$$

Where, $\overline{X}$ = Mean of the values.

N = Number of Pairs of Observations.

During the analysis of data, mean is calculated by using the statistical formula 'AVERAGE' on excel data sheet on computer.

3.5.2.2 Standard Deviation

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter **σ** (read as sigma).

The formulas to calculate the standard deviation are given below:

$$\pm \text{X}\sqrt{\frac{x^2}{N}}$$

Where, x = ($\overline{X}$ - X)

During the analysis of data, standard deviation is calculated by using the statistical formula 'STDEV' on excel data sheet on computer.

3.5.2.3 Coefficient of Variation

The standard deviation calculated in the above formulas gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability. The coefficient of variation (C.V.) is given by the following formula and this gives the percentage.

Coefficient of variation (C.V.) $= \frac{\pm}{\overline{X}}$ * 100

3.5.2.4 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 two 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 between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively. This tool analyzes the relationship between those variables of the bank which are helpful to make appropriate investment policy regarding deposit collection, fund mobilization and profit maximization. The Karl Pearson coefficient of correlation (r) is given by the following formula:

Coefficient of correlation (r) $= \frac{xy}{N \pm_x \pm_y}$

Where,

x = $(X - X^1)$,

y = $(Y - Y^1)$,

$\pm_x$ = Standard deviation of series X,

$\pm_y$ = Standard deviation of series Y.

N = Number of Pairs of Observations.

During the analysis of data, correlation coefficient is calculated by using the statistical formula 'CORREL' on excel data sheet on computer.

Probable Error of r (P.Er.) = $0.6745 \frac{1 Z r^2}{\sqrt{N}}$

The Karl Pearson coefficient of Correlation r always fall 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 coefficient reaches near to the value of zero, it is said that there is no significant relationship between the variables.

The coefficient of correlation has been interpreted based on probable error (P.Er.). If the value of correlation coefficient is greater than 6 times the value of probable error, the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

In this section of the study, Karl Pearson's coefficient of correlation has been used to find out the relationship between the following variables:

(i) Correlation between Deposits and Loans and Advances

(ii) Correlation between deposits and investments

(iii) Correlation between loan and advances and net profit

(iv) Correlation between investment and net profit

3.5.2.5 Trend Analysis

Among the various methods of determining trend of time series, the most popular and mathematical method is the lease square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trend line following formula has been used.

$$y = a + bx$$

Where,

y= Dependent variable

x= Independent variable

a= y intercept

b= slope of the trend line

By using this method, trend analysis of following variable is conducted

(i) Trend analysis of total deposit

(ii) Trend analysis of loan and advances

(iii) Trend analysis of investment

(iv) Trend analysis of net profit

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, the data collected from various sources have been presented and analyzed to measure the various dimensions of the problems of the study and in major findings of the study are presented systematically. While investing, any kind of financial institution base their decision on the criteria of security, liquidity, Profitability and return. So following criteria are considered for analysis of investment policy of NSBL.

4.1 Measuring the Liquidity Position of the Bank

Liquidity is a measure of the ability and ease with which assets can be converted to cash.

The main function of bank is to collect deposit from one group, which may include several individuals, institution, business etc and provide loan to the other groups. So commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawal which may occur at any time, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long-run profitability of the bank. To measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated and a brief analysis of the same has been done as below.

4.1.1 Current ratio:

This ratio indicates the ability of the bank to meet its current obligation. This is the broad measure of liquidity position of the bank. This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities. Current assets includes cash (NRs), cash (foreign currency), balance with other banks, balance held aboard, inter-bank lending, bills purchased/discounted, investment on government securities, interest receivable, notes receivable, pre-paid expenses, staff loan and advances and so on. Similarly, current liabilities include accounts payable, expense Payable, Bonus Payable, Income Tax Payable, customer deposit, Proposed Dividend and so on. It is derived by dividing total current assets by total current liabilities. (Detail in Appendix-III). The current ratios of NSBL are given in the following table 1.

Table 1

Current ratios (Times)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	1.19	1.06	1.23	1.36	1.24	1.22	0.1083	8.87

(Source: Appendix-III)

The above table 1 shows that the current assets of NSBL have exceeded current liabilities in average, in the study period from 2008/09 to 2012/13. The highest ratio is 1.36 in 2011/12 while the lowest ratio is 1.06 in the year 2009/10 with an average ratio of 1.22 during the study period. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V.) between the ratios for the study period is 8.87%, which shows that the current ratios during the study period are somewhat consistent. In general, the bank is able to meet its short-term obligations.

Though the optimal standard of current ratio should be 2:1, the conventional measure of liquidity is not applicable in banking business. Banking business holds big portion of deposits as a core deposit (the minimum level of deposits which the commercial banks hold at all the times) and this deposits remains all the time throughout the years. This core deposit forms the fixed liability of the bank though it is current in nature. So the ratio maintained by the commercial banks at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Therefore the above current ratio analysis of the bank over the five years period indicates that the bank has satisfactory liquidity position.

4.1.2 Cash and bank balance to total deposit ratio:

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposits. (Detail in Appendix-IV). Both higher and lower ratios are not desirable. The reason is that if a bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, it may fail to make payment for the demands of the depositors. So, sufficient and appropriate cash reserve should be maintained properly.

Table 2

Cash and bank balance to total deposit ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	6.81	9.86	11.52	10.33	13.09	10.32	2.326	22.54

(Source: Appendix-IV)

The above table 2 shows that the cash & bank balance to total deposit ratio of NSBL has fluctuating trend. The highest ratio is 13.09 % in 2012/13 and the lowest is 6.81 % in 2008/09. The mean of the ratios for the study period is 10.32 % and the C.V. between them is 22.54 %. On the basis of the C.V. it can be concluded that the ratios are variable and less consistent.

Though the ratios are not consistent, the cash & bank balance position of NSBL with respect to deposits is better to serve its customers deposit withdrawal demands. Commercial banks have to maintain its cash & bank balance in terms of total deposit as directed by NRB time to time. Otherwise they are imposed penalty. A high ratio of non-earning cash & bank balance may be unfit which indicates the banks inability to invest into short-term marketable security, treasury bills, etc ensuring enough liquidity which will help the bank to improve its profitability.

4.1.3 Cash and bank balance to current assets ratio:

This ratio shows the percentage of the banks most liquid fund over current assets of the bank. This ratio is computed by dividing cash and bank balance by current assets. (Detail in Appendix-V)

Table 3

Cash and bank balance to current assets ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	7.58	10.77	10.47	12.48	11.88	10.63	1.89	17.8

(Source: Appexdix-V)

The above table 3 shows that the cash & bank balance to current assets ratio of NSBL has fluctuating trend. The highest ratio is 12.48% in 2011/12 and the lowest is 7.58 % in 2008/09. The mean of the ratios for the study period is 10.63 % & the C.V. between them is 17.8 %. On the basis of C.V. the ratios are seemed to be variable and less consistent.

In conclusion it can be said that NSBL is in good position in terms of its cash & bank balance but it does not mean that it has mobilized its more funds in profitable sectors. It actually means that NSBL can meet its daily requirements to make the payments on customer deposit withdrawals.

4.1.4 Investment on government securities to current assets ratio:

This ratio examines the portion of a commercial banks current asset, which is invested on government securities. More or less, each commercial bank is interested to invest their collected fund on different securities issued by the government time to time to utilize their excess funds and/or for other purposes. Though government securities are not so liquid as cash & bank balance, they can easily be sold in the market or they can be easily converted into cash in other ways and they are risk free also. So these are additional source of liquidity for the bank to support cash and bank balance to meet unexpected liquidity needs on adverse situations. This ratio is calculated by dividing the amount invested on government securities by current ratio (detail in Appendix-VI).

Table 4

Investment on government securities to current assets ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	0.52	0.43	0.79	0.77	0.22	0.55	0.2416	43.93

(Source: Appexdix-VI)

The above table 4 shows that investment on government securities to current assets ratio of NSBL has fluctuating trend and from minimum of 0.22 % in 2013/2013 to the maximum of 0.79 % in the year 2010/11. In the year 2012/13, bank has invested its minimum fund in the government securities. The mean of the ratios for the study period is 0.55 % and the C.V. between them is 43.93 %. On the basis of the C.V. it can be concluded that the ratios are more volatile and inconsistent.

4.2 Investment Management Ratios:

This ratio measures the efficiency of a commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit maintaining the appropriate level of liquidity. Asset management ratio measures the efficiency of the bank to manage its assets in profitable way satisfactorily. By the help of following ratios, asset management ability of Nepal SBI Bank Limited has been analyzed.

4.2.1 Loan &Advances to total deposit ratio:

This ratio measures the extent to which the bank is successful to mobilize its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. This ratio is calculated by dividing loans and advances by total deposits (detail in Appendix-VII).

Table 5

Loan &Advances to total deposit ratio (%)

Bank	FY					Mean	S.D.	C.V.
	2008/09	2009/10	2010/11	2011/12	2012/13			(%)
NSBL	54.12	50.09	50.37	49.01	48.84	50.49	2.1377	4.23

(Source: Appexdix-VII)

The above table 5 shows that loan & advances to total deposit ratio of the bank is 54.12 % in 2008/09 which is highest of the study period. It is decreased up to 48.84 % in 2012/13. The mean of the ratios is 50.49 % with 4.23 % C.V. between them, which shows that the ratios are satisfactorily consistent over the study period.

This ratio is also called CD ratio i.e. Credit-Deposit ratio and around 70 % of CD ratio is taken as standard. From this point of view, the loan & advances to total deposit ratio of the bank is low.

4.2.2 Total Investments to total deposit ratio:

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial or non-financial organized institutions. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of portfolio management of bank assets, various factors such as excess availability of fund, liquidity requirement, central banks norms, etc, are to be considered in general.

This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success to mobilize deposits in securities and vice versa. This ratio is calculated by dividing total investment by total deposit (detail in appendix no.VIII).

Table 6

Total investment to total deposit ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	47.52	46.73	44.59	45.87	43.97	45.73	1.47	3.2

(Source: Appexdix-VIII)

The above table 6 shows that total investment to total deposit ratios of NSBL are in decreasing trend during the study period. The highest ratio is 47.52 % in 2008/09 and lowest is 43.97 % in 2012/13 with mean ratio of 45.73 %. The C.V. of 3.2 % between them shows that the ratios are satisfactorily consistent.

In the later period of the study, the bank is increasing its mobilization of resources on investment. It may be due to the slack in the different sectors of the economy due to which banks are unable to mobilize its fund in loan and advances. It can be justified by comparing CD ratios and investment to total deposit ratios. When CD ratios are in decreasing trend, investment to total deposit ratios are in increasing trend.

4.2.3 Loan and Advances to total working fund ratio:

Loan and advances of any commercial bank represent the major portion in the volume of total working fund. This ratio measures the volume of loans and advances in the structure of total assets. The high degree of this ratio indicates the good performance of the bank in mobilizing its funds by way of lending function. However, in its reverse side, the high degree of this ratio is representative of low liquidity ratio either. Granting the loans and advances always carries a certain degree of risk. Thus this asset of banking business is regarded as risky assets. This ratio measures the management attitude toward risk assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice versa. The interaction between risk and return determines this ratio. This ratio also shows the credit risk taken by the bank towards mobilizing its funds into different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loans and advances for the purpose of income generation. This ratio is computed by dividing loan and advances by total working fund i.e. total assets (detail in appendix no.IX).

Table 7

Loans & Advances to total working fund ratio (%)

Bank	FY					Mean	S.D.	C.V.
	2008/09	2009/10	2010/11	2011/12	2012/13			(%)
NSBL	376.67	977.00	240.00	223.59	226.52	410.6	322.1	78.67

(Source: Appexdix-IX)

Table 7 shows that the ratio ranges from the minimum of 223.59% in 2011/12to the maximum of 376.67% in 2008/09. The mean of the ratio is 410.6 % and the C.V. between them is 78.67 %, which shows the ratios are inconsistent over the study period.

4.2.4 Investment on government securities to total working fund ratio:

This ratio measures the contribution made by investment on government securities in total working fund of the bank. Besides mobilizing its major portion of funds in the form of loans and advances, banks invests their funds in purchasing different types government securities. They do so mainly to utilize the excess funds for income generation without taking more risk and to maintain the adequate level of liquidity since these securities are more liquid assets than loans and advances. A high ratio indicates better mobilization of fund as investments on government securities and vice versa. This ratio is calculated by dividing investment on government securities by total working fund (detail in appendix no.X).

Table 8

Investment on government securities to total working fund ratio (%)

Bank	FY					Mea n	S.D.	C.V.
	2008/09	2009/10	2010/11	2011/12	2012/13			(%)
NSBL	3.22	7.67	4.31	2.92	1.13	3.85	2.42	62.96

(Source: Appexdix-X)

Table 8 explains that the ratio has ranged from 7.67 % in 2009/10 to 1.13 % in 2012/13. The ratio has fluctuating trend in the study period. The mean of the ratio is found to be 3.85 % with 62.96 % C.V. between them, which indicates that the ratio is highly variable and less consistent over the study period.

4.2.5 Investment on shares & debentures to total working fund ratio:

This ratio measures the contribution made by investment on shares and debentures government securities in total working fund of the bank. Nowadays, commercial banks invest its fund not only on government securities, but also invest on the shares and debenture of other different types of companies. A high ratio indicates better mobilization of fund as investments on shares & debentures and vice versa. This ratio is calculated by dividing investment on shares & debentures by total working fund (detail in appendix no.XI).

Table 9

Investment on shares & debentures to total working fund ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	0.82	2.07	0.46	0.26	0.24	0.77	0.7619	98.1

(Source: Appexdix-XI)

Table 9 explains that the ratio has ranged from 0.24 % in 2012/13 to 2.07 % in 2009/10. The ratios have fluctuating trend in the study period. The mean of the ratio is found to be 0.77 % with 98.1 % C.V. between them, which indicates that the ratio is variable and less consistent over the study period.

4.2.6 Total outside assets to total deposits ratio:

Loan & Advances and investment comprises the total outside assets of a bank. They are the major area of fund mobilization of commercial banks for income generation. Loans & advances is the first type of application of funds, which has more risk as comparable to investment and gives more returns. Investment is cushion against the liquidity risk and at the same time it gives return. The investing activity of banks has low level of risk and low level of return. Loans & Advances and investment to total deposits ratio indicates the firms fund mobilizing power in gross. The main source of banks fund is its deposits. Thus, this ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits (details in appendix no.XII).

Table 10

Total outside assets to total deposits ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	101.65	96.82	94.96	94.88	92.81	96.22	3.35	3.48

(Source: Appexdix-XII)

Table 10 shows total outside assets to total deposits ratio of the bank is consistent over the study period. The maximum ratio is 101.65 % in 2008/09 and minimum ratio is 92.81 % in the year 2012/13. The mean of the ratios is 96.22 % and C.V. between them is 3.48%. On the basis of C.V. it can be concluded that the ratios are satisfactorily consistent during the study period.

4.2.7 Loan & advances to total outside assets ratio:

Loans and advances and investments made by the bank comprise the total outside asset of a commercial bank. This is the portion of assets employed by the bank for the purpose of income generation. This ratio measures the contribution made by loans & advances in total amount of loans and advances and investments. The proportion between investment and loans and advances measures the management's attitude towards more risky assets and lower risky assets. Loans & Advances are more risky and also generate more returns in comparison to investments. The total mobilized fund i.e., loans and advances and investments in whole don’t provide the quality of assets that a bank has created. Thus this ratio measures the risk of the banking business also. The high ratio indicates the mobilization of funds in more risky area and vice versa. This ratio is computed by dividing Loan & Advances by total outside Assets (detail in appendix no.XIII).

Table 11

Loan & advances to total outside assets ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	53.25	51.74	53.05	51.66	52.63	52.46	0.7341	1.4

(Source: Appexdix-XIII)

Table 11 shows that loan & advance to total outside assets ratio ranges from the minimum 51.74 % in 2009/10 to the maximum of 53.25 % in 2008/09. The mean of the ratios is 52.46 % and the C.V. between them is 1.4 %, which shows that the ratios are consistent over the study period.

4.2.8 Investment on government securities to total outside assets ratio:

This ratio measures the proportion of the banks investment in risky area and risk free areas. Total outside asset contains loans & advances and investments. This is the portion of total assets engaged in income generation. Loan and advances are major income generating assets of the bank. But there is high risk in advancing loan and advances. Investment activity involves the purchasing of securities issued by government and other institutions and purchasing of shares and debentures issued by other organized institutions. Though investment activities are safer than the loan and advances from risk point of view, their rate of return is lower than the return from loan and advances. From the risk point of view, investment activities are classified into two categories, investment on government securities and others. Investment on government securities is considered as risk free investment and other investments are considered as risky one. Thus this ratio measures the amount of risk free investment made by the bank while mobilizing its funds. This ratio is computed by dividing investment on government securities by total outside assets (detail in appendix no.XIV). This ratio measures the risk of the banking business also. This also reflects the management's attitude towards risky assets and risk free assets. The high ratio indicates the mobilization of funds in safer area and vice versa. The high ratio also indicates the lower rate of return and vice versa. However, safety doesn't provide with satisfactory return. So, a compromising ratio between risk and profit should be maintained.

Table 12

Investment on government securities to total outside assets ratio (%)

Bank	FY					Mea n	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	0.46	0.41	0.92	0.68	0.26	0.54	0.26	47.61

(Source: Appexdix-XIV)

Table 12 shows that the bank has invested minimum fund on government securities for the year 2012/13 and the ratio is 0.26 % for this year. Highest ratio is 0.92 % in 2010/11. The mean of the ratios is 0.54 % and C.V. between them is 47.61 %, which shows that the ratios are volatile and less consistent.

4.2.9 Total outside assets to total assets ratio:

Loans & Advances and investments are the outside assets of commercial banks. These are the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize its funds into income generating assets. A high ratio indicates better mobilization of funds in the form of income generating assets and vice versa. This ratio is calculated by dividing total outside assets by total assets (detail in appendix no.XV).

Table 13

Total outside assets to total assets ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	91.92	88.80	87.39	87.16	84.40	87.93	2.74	3.12

(Source: Appexdix-XV)

Table 13 explains that the ratios have ranged from 84.40 % in 2012/13 to 91.92 % in 2008/09. The ratios are in decreasing trend. The mean of the ratio is found to be 87.93 % with 3.12 % C.V. between them, which indicates that the ratios are consistent and less variable during the study period.

4.2.10 interest income to loan and advances ratio:

Interest income denotes the amount that is generated by interest the interest earned on cash temporarily held in saving accounts, certificates of deposits, or other investment. Because the interest wasn't part of the original investment, it is generally recorded separately, as interest income**.** This ratio provides the percentage of interest income to loan and advances and is calculated by dividing total interest income to loan and advances (detail in appendix no.XVI).

Table 14

Total interest income to Loan & Advances ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	9.65	12.98	14.51	14.42	14.28	13.17	2.0619	15.66

(Source: Appexdix-XVI)

Table 14 explains that the ratios has ranged from 9.65 % in 2008/09 to 14.51 % in 2010/11. The ratios are in fluctuating trend. The mean of the ratios is found to be 13.17 % with 15.66 % C.V. between them, which indicates that the ratios are somewhat consistent during the study period and has shown fluctuating trend.

4.3 Investment and Loans & Advances Portfolio:

In this chapter, we examine the portfolio management of loans and advances. Bank advances loan to various sector of economy and to various types of borrowers. Similarly, it invests fund in various types of securities and shares. In this chapter, to analyze the portfolio behavior of loans and advances of the bank for the study period, the ratios of loans & advances granted to various sectors of economy and for various purposes to total volume of loans and advances have been measured.

(i) Investment on different sectors

The table below shows the investment made by bank on the different sectors during the study period.

This ratio is computed by dividing sector wise investment by total investment (detail in appendix no.XVII).

Table 15

Sector wise investment of Nepal SBI Bank Limited

{investment on different sectors of the economy (In %)}

Particulars	Fiscal year					Mean	S.D.	C.V.
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**			
Nepal government treasury bills	22.08	22.82	24.76	13.97	10.59	18.84	6.19	32.85
Nepal government saving bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nepal government other securities	2.81	3.63	4.72	4.67	3.56	3.88	0.81	20.97
Nepal rastra bank bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
foreign securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
local licensed institutions	0.00	0.31	0.00	0.00	0.00	0.06	0.14	230.83
foreign banks	74.86	73.01	70.31	81.23	85.73	77.03	6.31	8.20
corporate shares	0.25	0.23	0.21	0.13	0.12	0.19	0.06	31.47
corporate bonds and debentures	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
other investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**			

(source appendix XVII**)**

The above table 15 explains NSBL's diversification of investing in different sectors. NSBL has mostly used its funds in foreign banks. In average about 77.03% of total investment is made on foreign banks. Similarly, in average 18.84% of total investment is made on Nepal government treasury bills. NSBL is investing very nominal amount in other sectors.

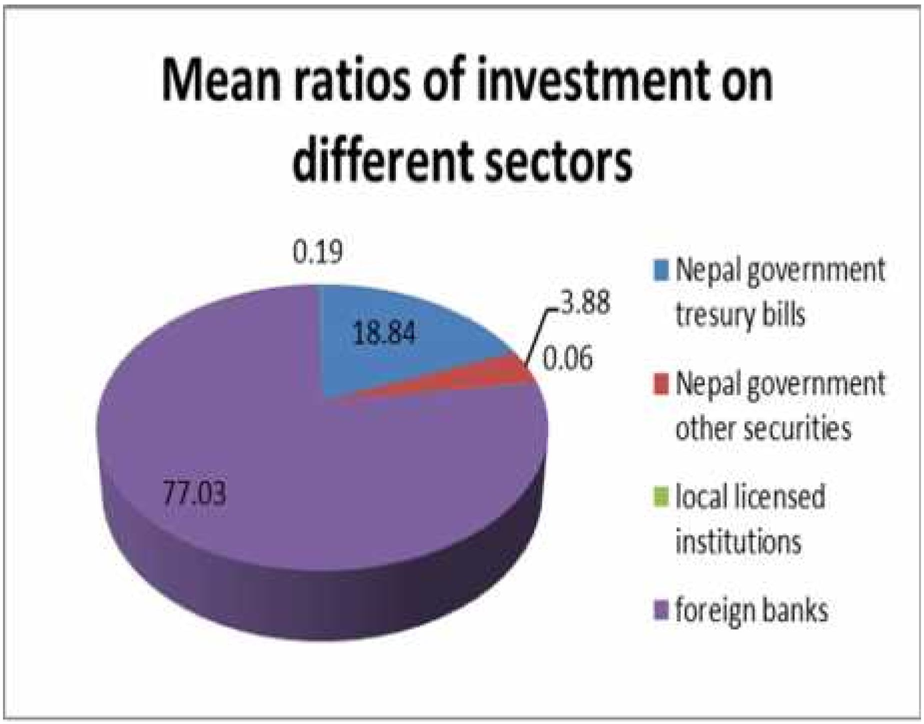

Figure 4.3.1: Mean ratios of investment on different sectors of NSBL.

(ii) Loan and advances to different sectors

Here, the total loans and advances disbursed to different sectors of the economy is calculated. Commercial banks should have to diversify its loans and advances to different sectors. They cannot pour all of its productive assets into a single sector, which eventually increases the risk factor.

This ratio is computed by dividing sector wise loan and advances by total loan and advances (detail in appendix no.XVIII).

Table 16

Sector wise loan and advances of Nepal SBI Bank Limited

{Loans and advances disbursed to different purposes sectors of the economy

(In %)}

loans and advances	**Fiscal year**					**Mean**	**S.D.**	**C.V.**
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**			
real estate loan	8.16	8.17	8.11	5.04	3.56	6.61	1.94	29.42
personal home loan of rs. 80 lakhs or less	12.18	11.34	9.87	8.81	7.99	10.04	1.55	15.45
margin type loan	0.00	0.08	0.01	0.00	0.00	0.02	0.03	165.57
term loan	5.57	5.20	4.96	4.32	5.53	5.12	0.46	8.92
overdraft loan/TR loan/WC loan	53.69	53.89	57.20	61.47	61.70	57.59	3.50	6.07
others	20.39	21.31	19.85	20.35	21.22	20.62	0.56	2.70
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**			

(Source: Appexdix-XVIII)

The above table 16 explains NSBL's diversification of lending in different sectors. The bank is mostly providing overdraft loan/TR loan/WC loan, which is in average 57.59% of total loan and advances. NSBL is also providing loans and advances to real estate and personal home loan, but it is in decreasing trend year by year.

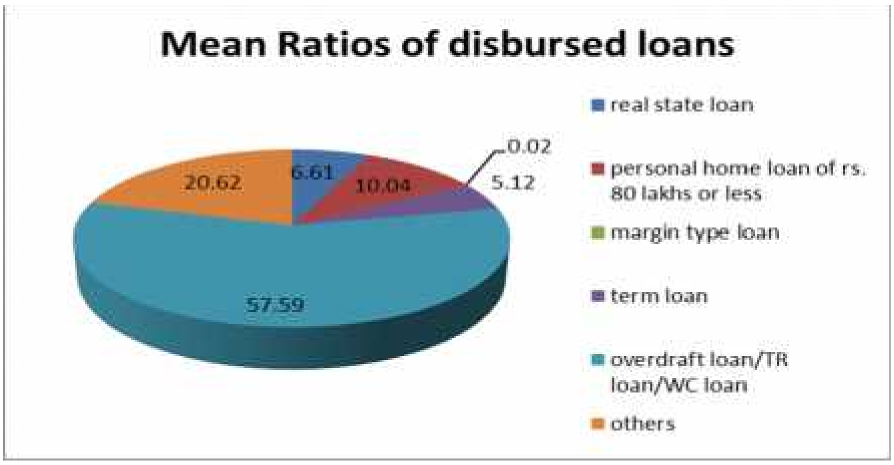

Figure 4.3.2: Mean Ratios of Loans disbursed of NSBL.

4.4 Profitability ratios:

The main objective of a commercial bank is to earn profit by providing different types of banking services to its customers. No bank can survive without profit. Profit is the indicator of efficient operation of a bank. Profitability ratios are the best indicators of overall efficiency. Higher profitability ratio shows the higher efficiency of a bank and vice versa. Through the following ratios, effort has been made to measure the profit earning capacity of Nepal SBI Bank Ltd.

4.4.1 Net profit to gross income ratio:

The ratio measures the volume of net interest to gross income of bank. This ratio helps to measure the banks performance on how much of the income is converted to net profit. Higher the ratio better the performance of the bank. The ratio can be calculated by dividing net profit with gross income (detail appendix XIX).

Table 17

Net profit to gross income ratio:

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	19.15	15.36	13.21	11.25	15.86	14.97	2.7924	19.86

(Source: Appexdix-XIX)

The above table 17 shows the ratios are fluctuating over the study period ranging from the minimum of 11.25 % in 2011/12 to the maximum of 19.15 % in 2008/09. The mean of the ratios is 14.97 % and the C.V. between them is 19.22 %, which shows somewhat consistency of the ratios over the study period.

4.4.2 Interest income to total income ratio:

This ratio measures the volume of interest income in total income of the bank. This ratio helps to measure the banks performance on how well they are mobilizing their fund for the purpose of income generation. This ratio also helps to measure the banks performance on other fee-based activities, since after investing functions fee based activities are the major source of banks income generation. The high ratio indicates the high contribution made by the lending and investing activities and vice versa. This ratio can be computed by dividing interest income to total income (detail in appendix no.XX).

Table 18

Interest income to total income ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	88.40	88.90	88.13	88.33	84.51	87.66	1.782	2.03

(Source: Appexdix-XX)

The above table 18 shows the ratios are consistent over the study period ranging from the minimum of 84.51 % in 2012/13 to the maximum of 88.90 % in 2009/10. The mean of the ratios is 87.66 % and the C.V. between them is 2.03 %, which shows the consistency of the ratios over the study period.

These ratios suggest that the large proportion of the income is generated from mobilizing the fund to loan and advances and investment activities.

4.4.3 Total interest earned to total outside assets ratio:

The main assets of a commercial bank are its outside assets in the form of loans and advances and investments employed for income generation purpose. This ratio reflects the extent to which the banks are successful to earn interest as major income from the outside assets. A high ratio indicates high earning power of total outside assets and vice versa. This ratio is computed by dividing total interest income by total outside assets (detail in appendix no.XXI).

Table 19

Total interest earned to total outside assets ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	5.14	6.72	7.70	7.45	7.52	6.90	1.057	15.29

(Source: Appexdix-XXI)

The above table 19 explains that the ratios are fluctuating over the period ranging from 5.14% in 2008/09 to 7.70% in 2010/11. The mean of the ratio is found to be 6.90% with 15.29% C.V. between them, which indicates that the ratios are satisfactorily consistent during the study period.

4.4.4 Interest expenses to total expenses ratio:

This ratio measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operational expenses and vice versa. Interpreting in other way the high ratio can be due to the costly sources of funds. This ratio is computed by dividing interest expenses by total expenses (detail in appendix no.XXII).

Table 20

Interest expenses to total expenses ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	61.74	66.81	68.67	73.16	60.77	66.23	5.104	7.71

(Source: Appexdix-XXII)

Table 20 shows the ratios are in increasing trend except for the last year 2012/13.The ratio range from 60.77 % in 2012/13to 73.16 % in 2011/12. The mean of the ratios is 66.23% with 7.71 % C.V., which shows the ratios are satisfactorily consistent over the study period.

4.4.5 Total interest earned to total working fund ratio:

This ratio reflects the extent to which the bank is successful in mobilizing its total assets to generate high income as interest. A high ratio is an indicator of high earning power of the banks total assets and vice versa. This ratio is calculated by dividing total interest income by total assets (detail in appendix no.XXIII).

Table 21

Total interest earned to total working fund ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	36.35	126.85	36.06	32.24	32.36	52.77	41.59	78.57

(Source: Appendix-XXIII)

The above table 21 shows that the ratios are consistent except for year 2009/10 where it has a high growth. The ratios are ranging between 32.24% in 2011/12 to 126.85% in 2009/10. The mean of the ratios is found to be 52.77% with 78.57% C.V. between them, which indicates that the ratios are not consistent over the study period.

4.4.6 Total interest paid to total working fund ratio:

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice versa. This ratio is calculated by dividing total interest expenses by total working fund (detail in appendix no.XXIV).

Table 22

Total interest paid to total working fund ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	20.53	80.69	24.38	23.70	19.58	33.77	26.30	77.89

(Source: Appendix-XXIV)

The above table 22 shows that the ratios are consistent except for year 2009/10 where it has a high growth. The ratios are ranging between 19.58% in 2012/13 to 80.69 in 2009/10. The mean of the ratios is found to be 33.77% with 77.89% C.V. between them, which indicates that the ratios are not consistent over the study period.

4.4.7 Total income to total expenses ratio:

The comparison between total expenses and total income measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is indicative of higher productivity of expenses and vice versa. This ratio is calculated by dividing total income by total expenses (detail in appendix no.XXV).

Table 23

Total income to total expenses ratio (Times)

Bank	FY					Mean	S.D.	C.V.
	2008/09	2009/10	2010/11	2011/12	2012/13			(%)
NSBL	1.24	1.18	1.15	1.13	1.19	1.18	0.0414	3.5

(Source: Appexdix-XXV)

Table 23 explains that the ratios are consistent during the study period ranging from the minimum 1.13 times for year2011/12 and 1.24 in year 2008/09. The mean of the ratios is found to be 1.18 times with 3.5% C.V., which shows that the ratios are consistent during the study period.

4.4.8 Total income to total working fund ratio:

This ratio measures how efficiently the asset of a business is utilized to generate income. It also measures the quality of assets in income generation.

This ratio is calculated by dividing total income by total assets (detail in appendix no.XXVI).

Table 24

Total income to total working fund ratios (%)

Bank	FY					Mean	S.D.	C.V.
	2008/09	2009/10	2010/11	2011/12	2012/13			(%)
NSBL	41.12	142.70	40.91	36.50	38.29	59.90	46.324	77.34

(Source: Appexdix-XXVI)

The above table 24 explains that the ratios are in fluctuating trend for the study period ranging from the minimum 36.50 % in 2011/12 to the maximum 142.70 % in 2009/10 where it has increased inconsistently. The mean of the ratios is found to be 59.90% with 77.34% C.V. between them, which indicates that the ratios over the study period are inconsistent.

4.4.9 Return on loan and advances ratio:

Return on loan & advances ratio measures the earning capacity of a commercial bank through its mobilized funds in the form of loans and advances. A high ratio indicates greater success to mobilize fund as loans & advances and vice versa. This ratio is calculated by dividing net profit by loan and advances (detail in appendix no.XXVII). Table 25 shows the return on loan and advances ratios of NSBL for the study period.

Table 25

Return on loan & advances ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	2.09	2.24	2.17	1.84	2.68	2.21	0.307	13.89

(Source: Appexdix-XXVII)

Table 25 explains that the ratios are fluctuating with overall increasing trend ranging between 1.84% in 2011/12 to 2.68% in 2012/13. The mean of the ratios is found to be 2.21% with 13.89% C.V. between them, which indicates that the ratios less variable during the period of study.

4.4.10 Return on working fund ratio (ROA):

Return is the result of investment and it measures the profit earning capacity of the investable resources into different types of assets. Total working fund of a bank means its total assets. If the banks total working fund is well managed and efficiently utilized, return on such assets will be higher and vice versa. This ratio is calculated by dividing net profit by total working fund (detail in appendix no.XXVIII). The following table 26 shows the profitability position of NSBL with respect to total assets for the study period.

Table 26

Return on total working fund ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	7.87	21.92	5.40	4.11	6.07	9.08	4.11	80

(Source: Appendix-XXVIII)

Table 26 explains that the ratios are fluctuating during the study period. The ratio ranges between 4.11% in 2011/12 to 21.92% in 2009/10. The mean of the ratios is found to be 9.08% with 80% C.V. between them, which indicates that the ratios are variable and less consistent during the study period.

4.4.11 Return on Equity (ROE):

This ratio measures the amount profit that a rupee of shareholders fund has generated. The high ratio is indicative of high return to shareholders equity and vice versa. This ratio is calculated by dividing net profit by total shareholders fund (detail in appendix no.XXIX).

Table 27

Return on equity (%)

Bank	FY					Mean	S.D.	C.V. (%)
	2008/09	2009/10	2010/11	2011/12	2012/13			
NSBL	25.84	21.07	22.09	20.38	29.11	23.70	3.687	15.56

(Source: Appendix-XXIX)

The above table 27 shows that the ratios are fluctuating during the study period with overall increasing trend. The ratio ranges between 21.07% in 2009/10 to 29.11% in 2012/13 with the mean ratio of 23.70%. C.V. between them is 15.56 %, which shows that the ratios are less variable and consistent during the study period.

4.4.12 Earning Per Share (EPS):

EPS refers to net profit divided by total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. The figure is the indicative of the overall good or bad performance of an organization. How far an organization is able to use its resources to generate profit is determined by the profit it has earned. This ratio is computed by dividing total net profit by total number of shares (detail in appendix no.XXX).

Table 28

Earning per share (in Rs.)

Bank	FY					Mean	S.D.	C.V.
	2008/09	2009/10	2010/11	2011/12	2012/13			(%)
NSBL	36.19	23.72	24.86	22.93	32.75	28.09	5.98	21

(Source: Appendix-XXX)

Table 28 shows that EPS are fluctuating over the years. It ranges between Rs.23.72 in 2009/10 to Rs.36.19 in 2008/09. The mean EPS during the study period is found to be Rs.28.09 with 21 % C.V. between them, which shows that the earning is less variable and a bit consistent over the period of study.

4.4.13 Net Interest Margin:

Net interest margin in general term is the difference between the interests received from investment on loan and advances and interest paid on deposits collected by the bank. In other words this is the gross income in percentage from the intermediation cost of any bank. It shows the bank's efficiency to earn high profit to meet various costs i.e. office expenses, staff expenses etc and to provide attractive return to the shareholders. Generally, net interest margin of 4% and above is considered better. This ratio is computed by dividing the difference between interest revenues from earning assets less interest costs on borrowed funds by total earning assets (detail in appendix no.XXXI).

Table 29

Net Interest Margin (%)

Bank	FY					Mean	S.D.	C.V.
	2008/09	2009/10	2010/11	2011/12	2012/13			(%)
NSBL	2.06	2.17	2.18	1.72	2.51	2.13	0.2822	13.25

(Source: Appexdix-XXXI)

Table 29 shows that Net Interest Margin ratios are fluctuating in increasing trend over the years in the study period. It ranges between 1.78% in 2011/12 to 2.18% in 2010/11. The mean NIM during the study period is found to be 2.13% with 13.25% C.V. between them, which shows that the net interest margin is less variable over the period of study.

4.5 Growth Ratios

To examine and analyze the expansion and growth of the banking business, following growth ratios are calculated in this part of the study. The higher ratios represent the better performance of the bank. Growth ratios are directly related to the fund mobilization and investments decision of the bank. This ratio represents how well the commercial banks are maintaining their economic and financial position. These ratios can be calculated by dividing the difference of last period figure and the first period by the first year figure (detail in appendix no.XXXII). Under these topic four types of growth ratios namely growth ratios of total deposits, Loan and advances, total investments, and net profit of Nepal SBI Bank Ltd. for the study period have been analyzed.

Table 30

Growth ratios (Rs. In Million)

Sectors	FY					Growth Ratio (%)
	2003/04	2004/05	2005/06	2006/07	2007/08	
Total Deposit	5572.5	6522.81	7198.32	8564.77	11002.04	97
total loan and advances	15131.75	17480.55	21365.79	26142.09	28778.15	13.72
Investment	13286.18	16306.05	18911.02	24463.45	25906.12	14.29
Net Profit	316.33	392.17	464.56	480.1	771.5	19.52

(Source: Appexdix-XXXII)

The above table 30 explains the growth ratios of total deposits, total loan & advances, total investments, and net profit of Nepal SBI Bank Limited during the study period. The analysis shows that total deposit of the bank is in increasing trend with the net growth rate of 16.08% during the study period. Similarly loan and advances of the bank is in also increasing trend with the net growth rate of 13.72% during the study period. The analysis shows that the total investments of the bank is in increasing trend over the years having net growth rate of 14.29% during the study period. The net profit of the bank is also in increasing trend with fluctuations over the years with the net growth rate of 19.52% during the study period.

4.6 Measuring Correlation Between Different Variables:

4.6.1 Correlation between Deposits and Loans and Advances:

The correlation between total deposits and loans and advances describes the degree of relationship between these two items. How a unit increases in deposits impact in the volume of loans and advances is measured by this correlation. Here, deposit is the independent variable and the loans and advances is the dependent variable (detail in appendix no.XXXIII).

Table 31

Correlation between deposits and loans & advances

Correlation Coefficient **(r)**	P.Er.	6* P.Er.	**Remarks**
0.9922	0.005	0.03	**r > 6*P.Er**.

(Source: Appexdix-XXXIII)

The above table 33 shows that the correlation coefficient (r) between deposits and loans & advances of the bank is 0.99 and probable error multiplied by six is found to be 0.03. Since r > 6*P.Er., and r is positive and nearby 1, it can be inferred that there is very strong positive correlation between deposits and loans & advances during study period.

4.6.2 Correlation between total deposits and total investment:

The correlation between total deposits and total investment describes the degree of relationship between these two items. How a unit increases in deposits impact in the volume of investment is measured by this correlation. Here, deposit is the independent variable and the investment is the dependent variable (detail in appendix no.XXXIV).

Table 32

Correlation between deposits and investment

Correlation Coefficient **(r)**	P.Er.	6* P.Er.	**Remarks**
0.99	0.008	0.048	**r > 6*P.Er**.

(Source: Appendix-XXXIV)

The above table 32 shows that the correlation coefficient (r) between total deposits and total investment of the bank is 0.99 and probable error multiplied by six is found to be 0.048. Since r > 6*P.Er., it is significant and there is positive correlation between total deposit and total investments during study period in Nepal SBI Bank Limited.

4.6.3 Correlation between total loan and advances and total net profit:

The correlation between total loan and advances and total net profit measures the degree of relationship between these two variables. The value of (r) explains whether a percentage change in loans and advances contribute to increase the same percentage of net profit. Loans and advances is independent variable and total net profit is dependent variables (detail in appendix no.XXXV).

Table 33

Correlation between loans & advances and total net profit

Correlation Coefficient **(r)**	P.Er.	6* P.Er.	**Remarks**
0.88	0.068	0.408	**r > 6*P.Er**.

(Source: Appendix-XXXV)

The above table 33 shows that the correlation coefficient (r) between loans & advances and total net profit of the bank is 0.88 i.e. positive and probable error multiplied by six is found to be 0.408. Since r > 6*P.Er, the relation is significant. That is the increase or decrease of total loan and advances affects to total net profit in Nepal SBI Bank Limited.

4.6.4 Correlation between total investment and total net profit:

The correlation between total investment and total net profit measures the degree of relationship between these two variables. The value of (r) explains whether a percentage changes in investment contribute to increase the same percentage of net profit. Investment is independent variable and total net profit is dependent variables (detail in appendix no.XXXVI).

Table 34

Correlation between investment and total net profit

Correlation Coefficient **(r)**	P.Er.	6* P.Er.	**Remarks**
0.86	0.08	0.48	**r** > **6*P.Er**.

(Source: Appexdix-XXXVI)

The above table 34 shows that the correlation coefficient (r) between total investment and total net profit of the bank is 0.86 i.e. positive and probable error multiplied by six is found to be 0.48. Since r > 6*P.Er., it is significant and there is correlation between total investment and total net profit in Nepal SBI Bank Limited.

4.7 Trend Analysis and Projection for Next Five Years:

The objective of this topic is to analyze trend of deposit collection, its utilization and net profit of Nepal SBI Bank Limited. Under this topic trend of deposit, total loan and advances and total net profit are forecasted for next five years.

4.7.1 Trend analysis of total deposit:

Table 35

Trend value of total deposit (Rs.)

Years	Trend Value
2009	27,957.22
2010	34,896.42
2011	42,415.44
2012	53,337.26
2013	58,920.45
2014	67,615.19
2015	75,651.92
2016	83,688.65
2017	91,725.38
2018	99,762.11

(Source: Appexdix-XXXVII)

Here, an effort has been made to analyze the trend values of total deposit of NSBL from 2009 to 2013 and forecasted for next 5 years till 2018. The following table 38 shows the trend values of NSBL for 10 years from 2009 to 2018 (detail in appendix-XXXVII)

From the above table 35, it is clear that the total deposit of NSBL is in increasing trend. Other things remaining the same, total deposit of NSBL in 2018 will be Rs. 99,762.11 million, which is the highest under the study period.

4.7.2 Trend analysis of total loan and advances:

Here, the trend values of total loan and advances from 2009 to 2013 is calculated and forecasted for next 5 years till 2018. The following table 39 shows the trend values of total loan and advances of NSBL for 10 years from 2009 to 2018 (detail in appendix-XXXVIII)

Table 36

Trend value of loan and advances (Rs.)

Years	Trend Value
2009	15,131.75
2010	17,480.55
2011	21,365.79
2012	26,142.09
2013	28,778.15
2014	32,566.20
2015	36,161.60
2016	39,757
2017	43,352.40
2018	46,947.80

(Source: Appexdix-XXXVIII)

From the above table 36, it is seen that the total loan and advances of NSBL is in increasing trend. Other things remaining the same, total loan and advances of NSBL in 2018 will be Rs. 46,974.80 million, which is the highest under the study period.

4.7.3 Trend analysis of total investment:

Here, an attempt has been made to analyze the trend values of total investment of NSBL for 5 years from 2009 to 2013 and forecasted the same for nest 5 years till 2018. The following table 41 shows the trend values of total investment of NSBL for 10 years from 2009 to 2018 (detail in appendix-XXXIX)

Table 37

Trend value of total investment (Rs.)

Years	Trend Value
2009	13,286.18
2010	16,306.05
2011	18,911.02
2012	24,463.45
2013	25,906.12
2014	29,794.18
2015	33,133.91
2016	36,473.64
2017	39,813.37
2018	43,153.10

(Source: Appexdix-XXXIX)

From the above table 37, it is clear that the total investment of NSBL is in increasing trend. Other things remaining the same, total investment of the bank in 2018 will be Rs. 43153.10 million, which is the highest under the study period.

4.7.4 Trend analysis of total net profit:

Here, an attempt has been made to analyze the trend values of total net profit of NSBL for 5 years from 2009 to 2013 and forecasted the same for nest 5 years till 2018. The following table 41 shows the trend values of total net profit of NSBL for 10 years from 2009 to 2018 (detail in appendix-XXXX)

Table 38

Trend value of total net profit (Rs.)

Years	Trend Value
2009	316.33
2010	392.17
2011	464.56
2012	480.10
2013	771.50
2014	784.45
2015	884.28
2016	984.11
2017	1,083.93
2018	1,183.76

(Source: Appexdix-XXXX)

From the above table 38, it is clear that the net profit of NSBL is in increasing trend. Other things remaining the same, net profit of the bank in 2018 will be Rs. 1,183.76 million, which is the highest under the study period.

Graphs realated to the Trend Analsis

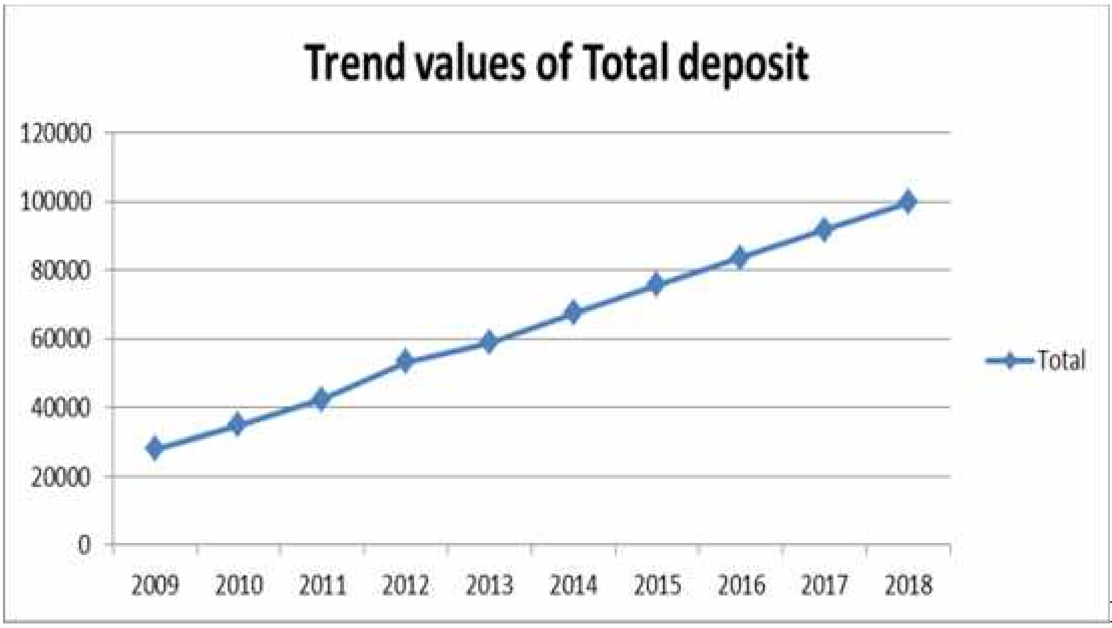

Figure 4.7.1: Trend Values of Total Deposit of NSBL

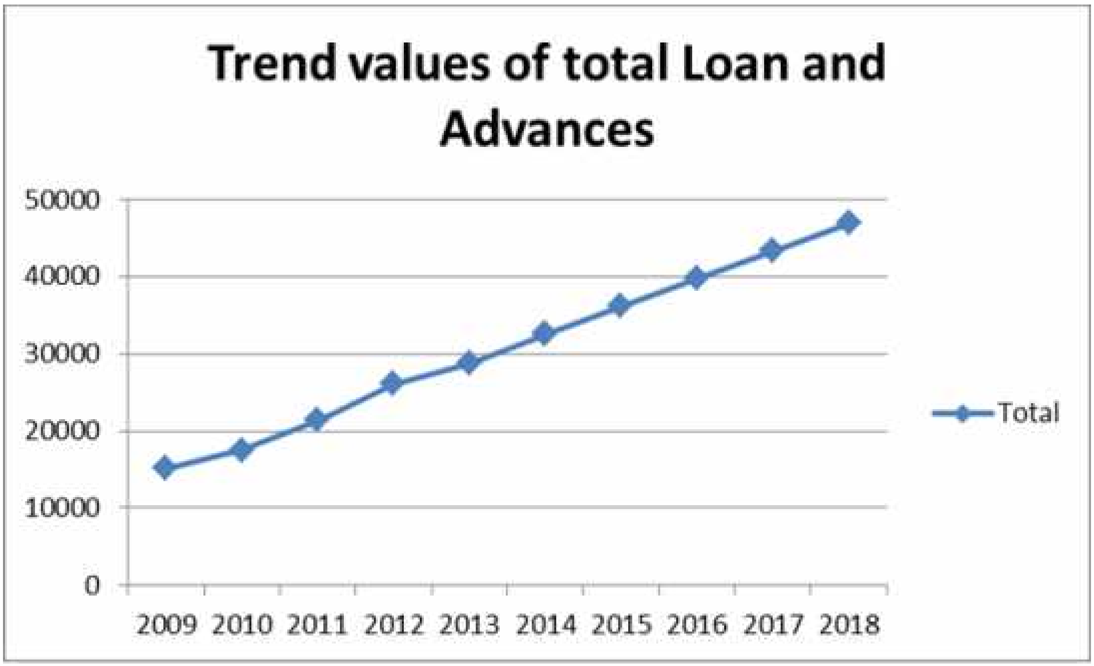

Figure 4.7.2: Trend Values of Total Loan and Advances of NSBL

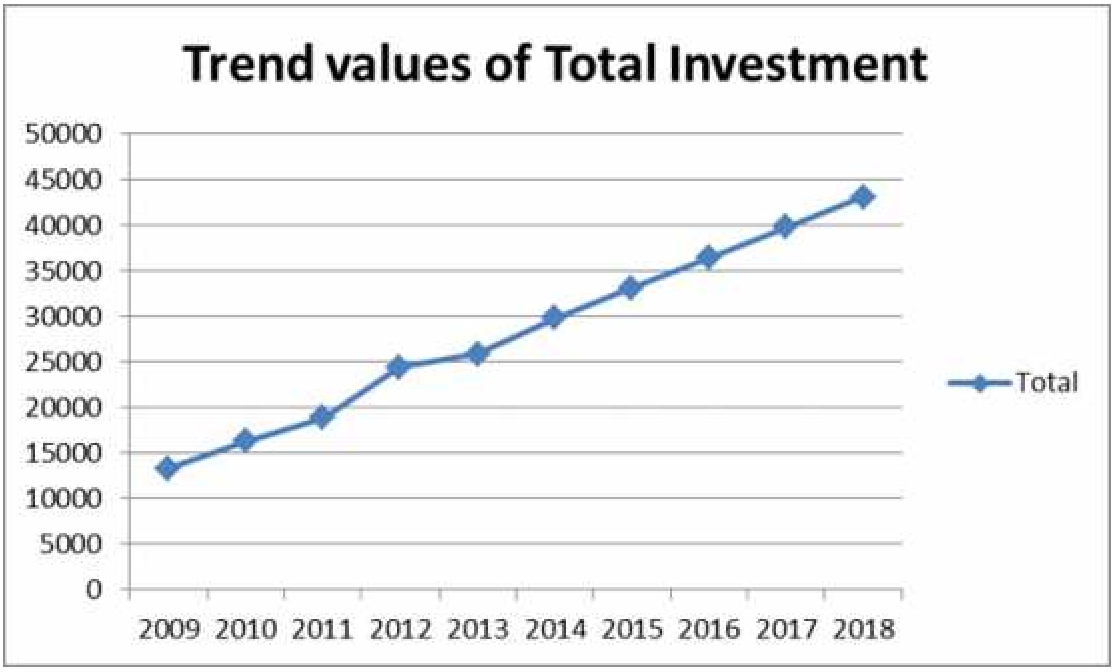

Figure 4.7.3: Trend Values of Total Investment of NSBL

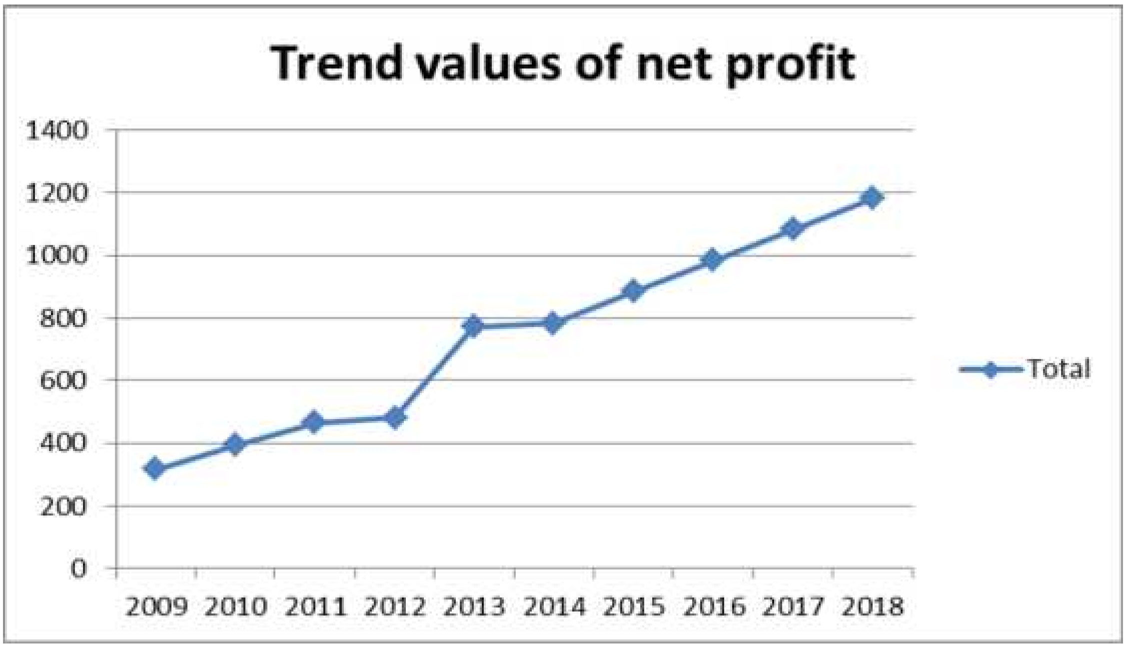

Figure 4.7.4: Trend Values of Total Net Profit of NSBL

4.8 Major Findings of the Study

The preceding chapter have discussed and explored the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, makes an analysis of various aspects of the investment policy of commercial banks by using some important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist findings issues and gaps of the study and give suggestions for further improvement. This would be meaningful to the top management of the bank to initiate action and achieve the desired result. The objective of the researcher is not only to point errors and mistakes but also to correct them and give directions for further growth and improvement.

The main findings of the study that are derived on the basis of financial data analysis of Nepal SBI Bank Limited are presented below.

4.8.1 Findings from the Liquidity Ratios Analysis:

1. From the analysis of the current ratio, current assets of NSBL have exceeded current Liabilities in average. The highest ratio is 1.36 in 2011/12 while the lowest ratio is 1.06 in the year 2009/10 with an average ratio of 1.22 during the study period. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V.) between the ratios for the study period is 8.87%, which shows that the current ratios during the study period are somewhat consistent. In general, the bank is able to meet its short-term obligations.

2. The cash & bank balance to total deposit ratio of NSBL has fluctuating trend. The highest ratio is 13.09 % in 2012/13 and the lowest is 6.81 % in 2008/09. The mean of the ratios for the study period is 10.32 % and the C.V. between them is 22.54 %. On the basis of the C.V. it can be concluded that the ratios are variable and less consistent.

This analysis indicates that the cash & bank balance position of NSBL with respect to deposits is better to serve its customers deposit withdrawal demands. It implies the satisfactory liquidity position of NSBL.

3 The cash & bank balance to current assets ratio of NSBL has fluctuating trend. The highest ratio is 12.48% in 2011/12 and the lowest is 7.58 % in 2008/09. The mean of the ratios for the study period is 10.63 % & the C.V. between them is 17.8 %. On the basis of C.V. the ratios are seemed to be variable and less consistent.

It indicates that NSBL is in better position in maintaining its cash & bank balance to meet its daily requirements to make the payments on customer deposit withdrawals.

4. The investment on government securities to current assets ratio of NSBL has fluctuating trend and from minimum of 0.22 % in 2012/2013 to the maximum of 0.79 % in the year 2010/11. In the year 2012/13, bank has invested its minimum fund in the government securities. The mean of the ratios for the study period is 0.55 % and the C.V. between them is 43.93 %. On the basis of the C.V. it can be concluded that the ratios are more volatile and inconsistent.

Investment on government securities is the secondary defense mechanism for commercial banks. It shows the proportion of additional source of liquidity in addition to cash and bank balance in total current assets.

4.8.2 Findings from the Investment Management Ratios Analysis

1. The loan & advances to total deposit ratio of the bank is 54.12 % in 2008/09 which is highest of the study period. It is decreased up to 48.84 % in 2012/13. The mean of the ratios is 50.49 % with 4.23 % C.V. between them, which shows that the ratios are satisfactorily consistent over the study period.

This ratio is also called CD ratio i.e. Credit-Deposit ratio and around 70 % of CD ratio is taken as standard. From this point of view, the loan & advances to total deposit ratio of the bank is average. Loan and advances is the proportion banks investment into most risky assets. High level of risk is not desirable for commercial banks as any default can create the liquidity problem.

2 Total investment to total deposit ratios of NSBL are in decreasing trend during the study period. The highest ratio is 47.52 % in 2008/09 and lowest is 43.97 % in 2012/13 with mean ratio of 45.73 %. The C.V. of 3.2 % between them shows that the ratios are satisfactorily consistent.

The figures suggest that the bank has not mobilized significant amount of fund on the government securities and shares and debentures of other companies. But for the investment on shares and debentures of other companies, the security market of the country is not so developed. There are limited companies listed in the stock exchange.

3 The loan and advances to total working fund ratio ranges from the minimum of 223.59% in 2011/12to the maximum of 376.67% in 2008/09. The mean of the ratio is 410.6 % and the C.V. between them is 78.67 %, which shows the ratios are inconsistent over the study period.

The study shows that about two-third of the asset of the bank comprises loan and advance i.e. risky asset. Loan and advances is the most risky and most productive asset of the bank. High ratio suggests high risk and eventually high return of the bank. So, NSBL has taken optimum risk towards the mobilization of its fund to risky assets.

4. Investment on government securities to total working fund ratio has ranged from 7.67 % in 2009/10 to 1.13 % in 2012/13. The ratio has fluctuating trend in the study period. The mean of the ratio is found to be 3.85 % with 62.96 % C.V. between them, which indicates that the ratio is highly variable and less consistent over the study period.

Investment on government securities is the risk free investment for the commercial banks. This ratio shows the proportion of risk free assets in the total asset of bank. Analysis shows that the bank has mobilized less amount of fund on government securities. This asset is less productive also. So, NSBL has invested less into low productive and risk free sector.

5. Investment on shares and debentures to total working fund ratio has ranged from 0.24 % in 2012/13 to 2.07 % in 2009/10. The ratios have fluctuating trend in the study period. The mean of the ratio is found to be 0.77 % with 98.1 % C.V. between them, which indicates that the ratio is variable and less consistent over the study period.
So, NSBL has invested very nominal percentage of total working fund into shares and debentures of other companies.

6. The total outside assets to total deposits ratio of the bank is consistent over the study period. The maximum ratio is 101.65 % in 2008/09 and minimum ratio is 92.81 % in the year 2012/13. The mean of the ratios is 96.22 % and C.V. between them is 3.48%. On the basis of C.V. it can be concluded that the ratios are satisfactorily consistent during the study period.
Outside asset i.e. loan and advances and investment is the major area of fund mobilization by the commercial banks. This is the most productive area for the fund mobilization. NSBL has consistently mobilized its funds in the productive area. So, the deposit mobilization of the bank for the income generation is satisfactory.

7. The loan & advance to total outside assets ratio ranges from the minimum 51.74 % in 2009/10 to the maximum of 53.25 % in 2008/09. The mean of the ratios is 52.46 % and the C.V. between them is 1.4 %, which shows that the ratios are consistent over the study period.
The study suggests that the more proportion of total outside asset is loan and advances. Loan and advances is the more risky asset and generates more income in comparison to investment. So NSBL has mobilized more proportion of its fund in risky area.

8. The Investment on government securities to total outside assets ratio shows that the bank has invested minimum fund on government securities for the year 2012/13 and the ratio is 0.26 % for this year. Highest ratio is 0.92 % in 2010/11. The mean of the ratios is 0.54 % and C.V. between them is 47.61 %, which shows that the ratios are volatile and less consistent.
The analysis of the ratios suggests that investment on government securities for NSBL is in fluctuating trend. It is the proportion of risk free asset on the total outside asset. This asset is less productive also. So, NSBL has low proportion of risk free assets on its overall activity.

9. The total outside assets to total assets ratios has ranged from 84.40 % in 2012/13 to 91.92 % in 2008/09. The ratios are in decreasing trend. The mean of the ratio is found to be 87.93

% with 3.12 % C.V. between them, which indicates that the ratios are consistent and less variable during the study period.

More proportion of the bank's asset is outside asset i.e. loan and advances and investment. So, the bank has consistently mobilized its fund into income generating assets.

10. The interest income to total loan and advances ratios has ranged from 9.65 % in 2008/09 to 14.51 % in 2010/11. The ratios are in fluctuating trend. The mean of the ratios is found to be 13.17 % with 15.66 % C.V. between them, which indicates that the ratios are somewhat consistent during the study period and has shown fluctuating trend.

4.8.3 Finding from Investment and Loans & Advances Portfolio:

1. NSBL has mostly used its funds in foreign banks. In average about 77.03% of total investment is made on foreign banks. Similarly, in average 18.84% of total investment is made on Nepal government treasury bills. NSBL is investing very nominal amount in other sectors.

2. The bank is mostly providing overdraft loan/TR loan/WC loan, which is in average 57.59% of total loan and advances. NSBL is also providing loans and advances to real estate and personal home loan, but it is in decreasing trend year by year.

The analysis shows that the lending portfolio of NSBL is not well managed and it is not properly diversified.

4.8.4 Findings from the Profitability Ratios Analysis

1. The net profit to gross income the ratios are fluctuating over the study period ranging from the minimum of 11.25 % in 2011/12 to the maximum of 19.15 % in 2008/09. The mean of the ratios is 14.97 % and the C.V. between them is 19.22 %, which shows somewhat consistency of the ratios over the study period.

The above ratios indicate that the net profit of bank is quite high and the bank is in good financial condition.

2. The Interest income to total income the ratios are consistent over the study period ranging from the minimum of 84.51 % in 2012/13 to the maximum of 88.90 % in 2009/10. The mean of the ratios is 87.66 % and the C.V. between them is 2.03 %, which shows the consistency of the ratios over the study period.

Income generated from loan and advances constitutes the major portion of total income of the bank consistently. So, loan and advances is consistently playing major role for the profitability of the bank.

3. Total interest earned to total outside asset ratios are fluctuating over the period ranging from 5.14% in 2008/09 to 7.70% in 2010/11. The mean of the ratio is found to be 6.90% with 15.29% C.V. between them, which indicates that the ratios are satisfactorily consistent during the study period.

The analysis shows that NSBL has average 6.90% income margin from outside assets. If this margin is higher than the cost of fund, the bank will be on profit.

4. Interest expenses to total expenses ratios are in increasing trend except for the last year 2012/13.The ratio range from 60.77 % in 2012/13to 73.16 % in 2011/12. The mean of the ratios is 66.23% with 7.71 % C.V., which shows the ratios are satisfactorily consistent over the study period.

Interest expenses paid to the depositors is the main expenses for the commercial banks. NSBL has more than half portion of interest expenses on total expenses. The increasing trend of the ratios suggests that the cost of fund of the bank is also increasing.

5. Total interest earned to total working fund ratios are consistent except for year 2009/10 where it has a high growth. The ratios are ranging between 32.24% in 2011/12 to 126.85% in 2009/10. The mean of the ratios is found to be 52.77% with 78.57% C.V. between them, which indicates that the ratios are not consistent over the study period.

6. Total interest paid to working ratios are consistent except for year 2009/10 where it has a high growth. The ratios are ranging between 19.58% in 2012/13 to 80.69 in 2009/10. The mean of the ratios is found to be 33.77% with 77.89% C.V. between them, which indicates that the ratios are not consistent over the study period.

The total interest paid to working fund ratios are less than the interest earned to total working fund ratio. This indicates that the bank is in profitable position as it is getting higher return than its interest cost.

7. Total income to total expenses ratios are consistent during the study period ranging from the minimum 1.13 times for year2011/12 and 1.24 in year 2008/09. The mean of the ratios is found to be 1.18 times with 3.5% C.V., which shows that the ratios are consistent during the study period.

The analysis suggests that one unit of expenses is generating 1.18 unit of income in average. The total income is consistently over the total expenses.

8. Total income to total working fund ratios are in fluctuating trend for the study period ranging from the minimum 36.50 % in 2011/12 to the maximum 142.70 % in 2009/10 where it has increased inconsistently. The mean of the ratios is found to be 59.90% with 77.34% C.V. between them, which indicates that the ratios over the study period are inconsistent.

So, the assets of NSBL are generating fluctuating range of income.

9. Return on loan and advances the ratios are fluctuating with overall increasing trend ranging between 1.84% in 2011/12 to 2.68% in 2012/13. The mean of the ratio is found to be 2.21% with 13.89% C.V. between them, which indicates that the ratios less variable during the period of study.

The earning capacity of the banks loan and advances is not satisfactorily consistent. The average ratio of 2.21% suggests that the earning capacity of the bank's loan and advances is satisfactory and the ratios are in increasing trend in overall.

10. Return on assets (ROA) The ratio ranges between 4.11% in 2011/12 to 21.92% in 2009/10. The mean of the ratios is found to be 9.08% with 80% C.V. between them, which indicates that the ratios are variable and less consistent during the study period.

The return on assets of the bank is good in average. It indicates the good earning capacity of the banks assets and good utilization of its assets and the ratios are in increasing trend.

11. Return on equity (ROE) ratios are fluctuating during the study period with overall increasing trend. The ratio ranges between 21.07% in 2009/10 to 29.11% in 2012/13 with the mean ratio of 23.70%. C.V. between them is 15.56 %, which shows that the ratios are less variable and consistent during the study period.

The average ratio of 23.70% suggests that the return on shareholders fund of NSBL is very good and the ratios are in increasing trend.

12. Earning per share (EPS) are fluctuating over the years. It ranges between Rs.23.72 in 2009/10 to Rs.36.19 in 2008/09. The mean EPS during the study period is found to be Rs.28.09 with 21 % C.V. between them, which shows that the earning is less variable and a bit consistent over the period of study.

The mean EPS of the bank is very good and the ratios are also satisfactorily consistent and less volatile. The earning is also in increasing trend.

13. Net Interest Margin ratios are fluctuating in increasing trend over the years in the study period. It ranges between 1.78% in 2011/12 to 2.18% in 2010/11. The mean NIM during the study period is found to be 2.13% with 13.25% C.V. between them, which shows that the net interest margin is less variable over the period of study.

The mean NIM of the bank is less than the international standard (i.e. 4%). This shows that the bank is trying to do better to recover the costs and to earn higher profit. The inconsistency of the ratios shows that bank has not specific policy to get the consistent net interest margin over the period.

4.8.5 Findings from the growth ratios analysis

The analysis of the growth ratios of total deposits, total loan & advances, total investments, and net profit of Nepal SBI Bank Limited during the study period shows that total deposits of the bank is in increasing trend with the net growth rate of 16.08%. Similarly loan and advances of the bank is in also increasing trend with the net growth rate of 13.72% during the study period. The analysis shows that the total investments of the bank is also in increasing trend with over the years having net growth rate of 14.29% during the study period. The net profit of the bank is also in increasing trend over the years with the net growth rate of 19.52% during the study period.

The major source of fund of the bank is deposit from its customers and it is in increasing trend with reasonable growth rate. Similarly the bank's utilization of its funds in the form of loan and advances and investment also are in increasing trend with satisfactory growth rate. The net profit of the bank, which actually shows the performance of the bank in its overall operation, has the positive growth rate with increasing trend.

4.8.6 Findings from the correlation analysis

1. The correlation analysis between total deposit and total loan and advances shows that the correlation coefficient (r) between deposits and loans & advances of the bank is 0.99 and probable error multiplied by six is found to be 0.03. Since r > 6*P.Er., and r is positive and nearby 1. So, it is inferred that there is very strong positive correlation between deposits and loans & advances during study period.

The increase and decrease of total deposit of the bank strongly affects the volume of loan and advances.

2. The correlation analysis between total investment and total deposit shows that the correlation coefficient (r) between total deposits and total investment of the bank is 0.99 and probable error multiplied by six is found to be 0.048. Since r > 6*P.Er., it is significant and there is correlation between total deposit and total investments during study period in Nepal SBI Bank Limited.

So, NSBBL invests its fund to government securities and shares and debentures of the other companies respective of the total deposit. The increase or decrease of total deposit does t affect to the banks investment.

3. The correlation analysis between total loan and advances and net profit shows that the correlation coefficient (r) between loans & advances and total net profit of the bank is 0.88 i.e. positive and probable error multiplied by six is found to be 0.408. Since r > 6*P.Er., the relation is significant. That is the increase or decrease of total loan and advances does affect to total net profit in Nepal SBI Bank Limited.

Loan and advances is the main earning asset of the bank and here the increase or decrease of loan and advances is significant to the net profit of NSBL.

4. The correlation analysis between total investment and total net profit shows that the correlation coefficient (r) between total investment and total net profit of the bank is 0.86 i.e. positive and probable error multiplied by six is found to be 0.48. Since r >6*P.Er., it is significant and there is correlation between total investment and total net profit in Nepal SBI Bank Limited. Total net profit of the bank is respective of the total investment for the study period.

4.8.7 Findings from the trend analysis:

Trend analysis of total deposit, total loan and advances, total investment and total net profit from 2009 to 2013 and projection for next 5 years till 2018 is conducted in this chapter of study and the findings are presented as under;

1. The trend analysis of total deposit of NSBL shows that the total deposit of the bank is in increasing trend. From the trend analysis it is forecasted that the total deposit of NSBL in 2018 will be Rs. 99762.11million.

2. From the trend analysis of total loan and advances, it is seen that the total loan and advances of NSBL is in increasing trend. Other things remaining the same, total loan and advances of NSBL in 2018 will be Rs. 46947.80 million.

3. The total investment of NSBL is also in increasing trend the total investment of the bank by the year 2018 is projected to be Rs. 43153.10 million, which is the highest under the study period.

4. The trend analysis of the net profit of NSBL suggests that is in increasing trend. Other things remaining the same, net profit of the bank in 2018 is projected to be Rs. 1183.76 million, which is the highest under the study period.

Since the earning assets of the bank, loan and advances and investment, are in increasing trend and the earning of the bank is also in increasing trend. This suggests that the quantity of the productive assets is increasing, in the same time the quality of the assets is also in increasing trend. Bank management not only should effort towards the increment of its total assets but also it should give due attention towards the increment of the quality of the assets for the better productivity.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter includes two aspects of the study. First aspect of the study focuses on summarizing the fact-findings of the study and making concluding remarks upon them, while the second aspect of the study focuses on making some useful suggestions and recommendations based on findings of the study to improve the investment policy of Nepal SBI Bank Limited.

5.1 Summary

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

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

Investment operation of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating Investment Policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment.

The major source of income of a bank is interest income from loans and investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loans and advances. Hence loan is known as risky asset and investment operation of commercial banks is very risky one. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society by helping for the growth of economy while non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

Though several commercial banks have been established in our country within short period of time, stable, strong and appropriate investment policy has not been followed by the commercial banks to earn sufficient return. They have not been able to utilize their funds more efficiently and productively. Thus proper utilization of the resources has become relevant and current issue for the banks. The directions and guidance provided by Nepal Rastra Bank are the major policy statements for Nepalese commercial banks. However, a long term and published policy about their operation is not found even in the joint venture banks.

The main objective of the study is to evaluate the investment policy of Nepal SBI Bank Ltd and to suggest measures to improve the investment policy of the bank. The study has been constrained by various common limitations.

The study is based on secondary data from F/Y 2008/09 to 2012/13. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank personnel have also been made.
Financial as well as statistical tools have been deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, investment management ratio, investment and loan and advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some relevant statistical tools i.e. co-

efficient of correlation and trend analysis have been used. This analysis gives clear picture of the performance of the bank with regard to its investment operation.

From the study following facts can be summarized.

Liquidity

The current ratio of the bank over the five years is 1.22 times on an average. Although the current ratio of 2:1 is considered as standard, acceptability of the value depends on the industry. For the banks a current ratio of 1:1 or above would be considered acceptable. Therefore the liquidity position of NSBL is normal from the viewpoint of current ratio.

The cash and bank balance to total deposit ratio is also sufficient to meet the short-term obligation of the bank. The mean cash and bank balance to total deposits ratio of 10.32% shows that the bank has enough liquidity. But the ratios are less consistent over the study period.

Similarly 10.63% of mean cash and bank balance to current assets ratio shows that one-fifth of the current asset is very liquid. 17.79% C.V. shows that the ratios are somewhat consistent.

The investment on government securities to current assets ratio is 0.55% on an average during the study period, which indicates that the bank has not maintained sufficient amount of adequate liquid assets to meet the unexpected future liquidity needs. But the ratios over the study period are volatile.

Hence, the above results show that the liquidity position of NSBL is good enough to meet the short-term obligations. The maintenance of the liquidity also depends on the past withdrawal trend of the bank. The inconsistency of the ratios shows the lack of specific corporate policy about the maintenance of liquidity. The proportion of cash and bank balance to current assets is little bit high, which shows that the bank is maintaining more idle cash that can be invested to government securities to get return.

Investment Management

The mean CD ratio of the bank is 50.49%, which is slightly low. It shows that the bank is not aggressive in lending. The ratios are satisfactorily consistent over the study period.

The mean Investment to total deposits ratio is 45.73% and the ratios are consistent. The increasing trend of the ratio suggests that the bank is increasing its investment on government securities and shares and debentures of other companies.

The loan and advances to working fund ratio is 410.46% in average and the ratios are highly consistent also. This shows that NSBL has satisfactorily utilized its total assets for the purpose of income generation.

NSBL has invested 3.85% of fund from total asset on government securities in average. The ratios are inconsistent also. So the bank has less investment on risk-free area, which has less return also. The inconsistency of the ratios shows that the bank has not specific policy for the investment on government securities.

The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.77% on study period and the ratios are inconsistent.

The mean total outside assets to total deposits ratio is 96.22% and the ratios are less variable during the study period. It shows that out of total deposits liability, the bank has utilized about 96.22% of it in income generating assets.

The loan & advances to total outside assets ratio of the bank is 52.46% on an average during the study period and the ratios are consistent during the period. It shows that the bank has given priority to invest in more income generating assets as loan and advances.

Investment on government securities to total outside assets ratio is 0.54% on an average during the study period but the ratios are not consistent and more variable during the period. It indicates that the bank does not have any specific and stable policy regarding how much to invest in risk free assets and how much in more risky assets for the purpose of income generation. The bank has more aggressive risk taking approach.

Total outside assets to total assets ratio is found to be 87.93% on average during the study period and the ratios are consistent. It shows that bank is utilizing more proportion of its assets for income generating purpose.

Total interest income to loans and advances ratio is found to be 13.17% on an average during the study period and the ratios are in somewhat consistent trend with consistency between them during the period. It shows that the bank is focusing well on
interest income and loan and advances.

Hence, the above results show the asset management efficiency of the bank, which is directly related to the investment policy of the bank. The bank has utilized about 90% of its deposits liability into income generating assets and most of them in the form of loans and advances. The bank has given priority to invest in risky assets than in risk free assets and the policy seems to be consistent because of the consistency of the ratios of risk free assets to total outside assets. The bank has been utilizing about 80% of its total assets for income generating purposes, which shows the aggressive risk taking policy of the bank. About 50.49% of CD ratio suggests the bank has not adopt the aggressive lending policy, because the average percentage is less than the standard, that is 70%

Investment and Loans & Advances Portfolio

NSBL has mostly used its funds in foreign banks. In average about 77.03% of total investment is made on foreign banks. Similarly, in average 18.84% of total investment is made on Nepal government treasury bills. NSBL is investing very nominal amount in other sectors.

The bank is mostly providing overdraft loan/TR loan/WC loan, which is in average 57.59% of total loan and advances. NSBL is also providing loans and advances to real estate and personal home loan, but it is in decreasing trend year by year.

The analysis shows that the lending portfolio of NSBL is not well managed and it is not properly diversified. The bank is also not fulfilling the NRB requirement for priority sector lending of 12%.

Profitability

The net profit to gross income the ratios are fluctuating over the study period. The mean of the ratios is 14.97 %. The ratio is somewhat consistence over the study period

The above ratios indicate that the net profit of bank is quite high and the bank is in good financial condition

Interest income to total income ratio of the bank is 87.66% on an average during the study period and the ratios are consistent. The average interest income to total outside asset is 6.90% during the study period and the ratios are consistent.

Interest expenses to total expenses ratio is 66.23% on average and the ratios are in fluctuating trend. This shows that the bank is decreasing its cost of fund over the year. This also shows that bank has high proportion of operating and overhead expenses.

There is 52.77% of interest income on total working fund on average. The ratios are satisfactorily consistent except for the year 2009/10 where it reached 126.85%. So, the interest earning capacity of total asset is consistent.

The mean interest paid to total working fund ratio is 33.77% and the ratios are inconsistent. This shows that the cost of funds utilizing in the form of different assets to generate income has been inconsistent during the study period.

Total income to total expenses ratio is found to be 1.18 times on an average during the study period and the ratios are highly consistent over the years. So the total income is consistently over the total expenses.

Total income to total assets ratio is found to be 59.90% on an average during the study period and the ratios are consistent except for the year 2009/10 where it reached 142.70. This shows that the earning power of the assets is consistent and it is generating income at the consistent rate.

Return on loan & advances ratio is 2.21% on an average during the study period and the ratios are in fluctuating trend. This shows that the bank has not been able to formulate and adopt the appropriate policy to increase the profitability although loan and advances has been increasing continuously.

Return on total assets ratio is 23.70% on an average during the study period and the ratios are variable between them. This shows that the bank has not been able to achieve stable rate of return on its assets.

Return on equity ratio is 9.08% on an average during the study period and the ratios are in increasing trend with fluctuations over the years and the ratios are satisfactorily consistent and less variable. This shows that the mean ratio of ROE is satisfactory and it is increasing during the recent years.

Earning per share is Rs.28.09 on an average during the study period and the ratios are satisfactorily consistent and in increasing trend. The mean ratio is satisfactory and the increasing trend of the ratios suggests that the bank has stable policy to get the consistent earning per share.

Net Interest Margin is 2.13% on average during the study period and the ratios are little bit inconsistent. This shows that the bank has satisfactory net interest margin and is doing better to recover the costs and to earn higher profit. The inconsistency of the ratios shows that bank has not specific policy to get the consistent net interest margin over the period.

Hence, the above result shows that the bank does have specific policy to increase the profitability of the bank. The interest earning capacity of total loan and advances, total outside asset and total working fund are consistent. Net interest margin of the bank is also satisfactory. The profitability ratios like return on loan and advances, return on assets, return on equity, earning per share etc are also in satisfactory level over the year. This shows that the non-operating expenses of the bank like provision for loan loss is decreasing, which is increasing the profitability of the bank. Interest income has high contribution to the total income of the bank. This shows that the bank has less proportion of income from fee based transactions. Interest expenses contribute about 50% of the total expenses of the bank, which shows that the bank has high proportion overhead expenses. In overall, investment policy adopted by the bank is satisfactory appropriate from the profitability point of view.

Growth

The growth ratio of total deposits during the study period is 16.08% and the amount of deposits is in increasing trend every year. The growth ratio of total loan and advances during the study period is found to be 13.72% and is in increasing trend every year. So, the total deposit and loan and advances are increasing with almost equal proportion. The growth ratio of investments during the study period is 14.29% with increasing trend. The net profit of the bank is also in increasing trend with net growth rate of 19.52%.

Hence, the above result shows that the bank has been collecting the deposits funds in increasing trend and it has been increasing its loans and advances and investments with the almost same rate. So, both the sources and uses of fund is in increasing trend. At the same time net profit of the bank has also positive growth and it is increasing over the year. It shows that the bank has been successful to adopt the appropriate investment policy to increase the profitability of the bank with positive growth rate of deposit and loans and advances.

Correlation

The correlation analysis shows that the correlation coefficient r between deposits and loans & advances of the bank is 0.99 and is more than six times the probable error, which infers that there is very strong positive correlation between deposits and loans & advances during study period. The analysis shows that there is significant correlation between total deposit and total investment. Similarly, there is positive correlation between total loan & advances and total net profit and it is greater than six times the probable error. So, the total loan and advances and total net profit are also correlated during the study period. The same is for total investment and total net profit and they are also correlated during the study period. This analysis shows that the increase of deposit, loan and advances and investment is contributing to increase the net profit of the bank. The net profit of the bank may decrease if total loan and advances and investment of the bank are decreased.

Trend analysis

From the trend analysis of total deposit, loan and advances, investment and net profit shows that total deposit, loan and advances and investment are in increasing trend. Total value projected for total deposit, loan and advances and investment are Rs. 99762.11 million, 46947.80 million and 43153.10 million respectively for year 2018.The net profit is in increasing trend and total net profit projected till 2018 is Rs. 1183.76 million.

Hence the NSBL is able to increase the profitability of the bank due to its fund collection and its utilization is increasing. Bank is adopting the proper policy to increase the profit of the organization. If the net profit moves in this trend, bank will be surely in good position after some years. So the investment policy of the bank in terms of optimum utilization of its resources to generate optimum return is well managed.

5.2 CONCLUSION

Hence from the overall analysis of investment policy of NSBL with the help of financial, mathematical and statistical tools, the following facts can be concluded.

1. The proportion total loan and advances to total deposit of the bank is less than standard i.e. 70% to be graded as internationally for A grade commercial bank. This shows that bank is not using aggressive lending policy. Bank should take proper attention in utilizing their deposit in interest bearing sector.

2. The loan and advances portfolio of the bank is not satisfactory. The lending is not properly diversified. Bank is unable to explore the new and profitable sectors for the lending purpose. So, the bank has very risky portfolio of loan and advances. The bank is also not fulfilling the NRB requirement for priority sector lending of 12%.

3. Bank is investing less on government sector; bank should increase its investment on government sector because it is the most risk free sector.

4. The relation of total deposit is positive to total investment i.e. if total deposit increases, bank's loan and advances, investment on government securities, shares and debentures of other companies also increases. The bank's investment, in the form of loan and advances and other investments, has positive relation to total net profit of the bank. Bank's total profit is respective to its total investment.

5.3 Recommendations

On the basis of analysis and findings of the study, following recommendations can be made as suggestions to overcome the weakness and less effectiveness in the existing investment policy of Nepal SBI Bank Limited.

- Before mobilizing fund well, NSBL is recommended to increase its deposit to lower the credit/deposit ratio in certain extent. The bank has to collect a large variety of deposit schemes. The bank should explore the new deposit products to attract the deposit considerably. For this bank should lunch the new schemes like prize scheme, gift schemes, child deposit schemes, recurring deposit schemes etc. As the competition on the banking sector is increasing, bank should follow the innovative approach to bank marketing.

- As the amount of investments made by the bank is found very little and also inconsistent during the period, the bank is recommended to increase the investment which helps to utilize the idle funds into income generation as well as minimizes risk and also helps to maintain optimal level of liquidity. Increasing the amount of investment in government securities also helps the bank to maintain an equilibrium level of risk free and risky assets.
- The bank is advised to examine carefully the portfolio management strategies to maintain equilibrium in the portfolio of loans and investment and make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize the return. The bank is advised to be more focused on increasing its volume of credit to other sectors, specially to retail financing. Banking sector is going in consumer credit all over the world by financing the consumer goods. So, NSBL is recommended to focus the fixed income generating people and lunch new credit products like housing loan, education loan, car loan etc on larger scale. The bank has to concentrate on customer oriented lending policy to sustain in the competitive banking business.

- The bank should be careful in increasing net profit in a real sense to maintain the confidence of shareholders, depositors, its customers and the general public. The overall profitability of the bank has been increasing during the period resulting the sharp increase in the return to the shareholders. The return on loan and advances, return on total assets, return on equity, earning per share all is increasing. The sources of fund and its utilization have been increasing and also the total income of the bank has been increasing due to which the bank has been able to increase the profitability. One of the reasons for this is more increase in the operating income of the bank.

Therefore the bank is recommended to decrease the expenses of the bank by controlling the operating expenses as well as by collecting the interest free deposits.

The bank is recommended to adopt innovative and aggressive approach to marketing and investing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore the new market areas. For these purpose, the bank is recommended to form a strong marketing department in its central level, which deals with the banking products, places, price and promotion.

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