

# **A STUDY ON INVESTMENT POLICY OF JOINT VENTURE BANKS**

**[Comparative study of Nepal SBI Bank and NABIL Bank Limited]**

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## **DECLARATION**

I hereby declare the thesis entitled “A Study on Investment Policy of Joint Venture Banks (Comparative Study of Nepal SBI Bank and NABIL Bank Limited)”Submitted to Siddhanath Multiple Campus; Tribhuvan University is my Original Work. It is done in the form of partial fulfillment of the requirement for the Master of Business Studies (M.B.S) under the Supervision of Mr. Yagya Raj Pathak, Siddhanath Multiple Campus.

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## **ABBREVIATIONS**

B.S	:	Bikram Sambat
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
L&A	:	Loan & advances
CB:	:	Commercial Banks
Cov.	:	Covariance
CS	:	Common Stock
CV	:	Coefficient of Variation
d.f.	:	Degree of Freedom
e.g.	:	Example
fig.	:	Figure
NSBIL	:	Nepal State Bank of India Limited
NABIL	:	Nepal Arab Bank Limited
NEPSE	:	Nepal Stock Exchange
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
i.e.	:	That is
JVBs	:	Joint Venture Banks
No.	:	Number
NRB	:	Nepal Rastra Bank
P. Er.	:	Probable Error
r	:	Coefficient of correlation
R&D	:	Research and Development

$r^2$  : Coefficient of Determination  
S.D. : Standard Deviation  
SEBO : Security Board  
TU : Tribhuvan University  
LTD : Limited

# CHAPTER-I

## INTRODUCTION

### **1.1 Background of the study**

A financial institution is the lifeblood of economic development of the country. A bank is a financial institution, which can play a significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue economic growth rapidly, developing the banking habit among the people by collecting the small-scattered resources in one bulk, using them in the further productive purposes and rendering other valuable service to the country. Thus this gives the individual an opportunity to borrow funds against future income, which may improve the economic wellbeing of the borrower. Bank deals with the offer of collected deposits and provides the loan for commercial purpose.

Talking about the history of the bank, an institutional banking system came into existence in Nepal only in the 19<sup>th</sup> century. Nepal Bank Limited was the first financial institution of Nepal established on 30<sup>th</sup> Kartik 1994 B.S. Being only one commercial bank it was not sufficient to look all the sector of the country. So in 14<sup>th</sup> Baishak 2013 B.S. another bank named “Nepal Rastra Bank” was established as the central bank of Nepal under Nepal Rastra bank act, 2012. Similarly the second commercial bank Rastriya Banijya Bank was established on 10<sup>th</sup> Magh 2022 B.S. under Rastriya Banijya Bank act 2021. The main motto of commercial bank is to accepting deposits, granting loan and performing commercial banking functions.

The government of Nepal observed the necessities of rapid development of industry, commerce and trade. NIDC was established under industrial development corporation act 2016.B.S.for the development of agricultural section, agricultural development bank was established on 7<sup>th</sup> Magh 2024.B.S.under the agriculture bank act 2024.B.S.The government adopted ‘liberalized economic policy’ laissez fair economy

and encouraged foreign investment and technology act 1981.A.D.which was later revised as act 1992.A.D.

There are 31 commercial banks existing in Nepal. Out of these seven are joint venture banks. The first joint venture bank was introduced in Nepal in 29<sup>th</sup> Ashad 2041.B.S.with the establishment of Nabil Bank Limited, 'Nepal Arab Bank'. Partnership with Dubai Bank Limited. Other joint venture banks are Standard chartered bank limited, Himalayan Bank Limited, Nepal S.B.I. Bank Limited, Nepal Bangladesh Bank Limited, Everest Bank Limited, and NMB Bank Limited.

Joint venture banks play an important role for economic development of nation. They have been adopted new banking technique which includes Atm, credit cards, master cards, internet banking, traveler's cheque, world renowned software and tale-banking system. Joint venture banks are operating in Nepal in an act as commercial banks are operating and performing their work under the direction of Nepal Rastra Bank. Earlier foreign banks could hold only 50 percent of the share in domestic banks but at present it increased to two third (2/3) of the share to encourage foreign banks to operate in Nepal.

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

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

## **1.2 Origins and Development of Bank**

The earliest evidence of banking is found in Mesopotamia between 3000 & 2000 B.C. when temples were used to store gain and other valuable used in trade. Babylon is credited with the birth of banking and finance at the level of sophistication that rivals our own, with the expectation of the timing advantages that modern communication has allowed.

The word bank is derived from the Italian word 'banco' meaning the portable benches or counters over which the moneychanger comes from. A bank is an Institution, which deals with money and credit. Broadly speaking, banks draw surplus money from the people who are not using it at the time, and lend to those who are in a position to use it for productive purposes. Thus, the bank accepts deposits from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another. In general, a bank is an institution with the following features.

- ) It deals with money, it accepts deposits and advances loan.
- ) It also deals with credit; it has the ability to create.
- ) It is a commercial institution, it aims at earning profit.

The origin of commercial banking can be traced back to the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purposes on interest was prevalent. In England, banking had its origin with the London goldsmiths who in the 17<sup>th</sup> century began to accept deposits from merchant and others for safekeeping of the money and other valuables. As public enterprise, banking made its first appearance Italy in 1157 AD when the Bank of Venice was founded. Crowther observed that the modern banking has three ancestors who are the merchant, the goldsmith, and the moneylender. The merchant banker forms the earliest stage in the evolution of modern banking. Merchants in those days required remittances of money from one place to another while trading which is an important function of a bank. This gave rise to the institution of 'hundi' or the letter of transfer, which these days are done through drafts, cheques, travelers' cheque etc. to remit money to different places. The goldsmith ancestry of the modern banks is purely an English affair.

In England, the goldsmiths were the original representatives of private bank. They charge for safekeeping the money consisting of gold and silver. The bank of England was established in 1694 AD. The next stage in the development of banking arises when the goldsmith becomes a moneylender. The goldsmith realizes that only a contingency reserve was required for the period when withdrawals exceeded deposits. Thus, goldsmith became a banker; he started performing the two major functions of a bank. Napoleon founded the Bank of France in 1800 AD. The 19<sup>th</sup> century comes with the vast scope of development of commercial banking. It with ended not only the phenomenal development of modern problems enabling banks to turn their attention away from old money changing business to many new important jobs that comes in the wake of industrial progress. The 20<sup>th</sup> century observed the development of various banking institutions highly specialized and sophisticated particularly in advanced countries like USA, UK, and others. Today various international organization like IMF, IBRD (now popularly known as the World Bank), ADB etc. have been developed which are influencing the whole business of the modern world.

Commercial banking in India began in 1770 AD with establishment of the first joint stock bank, named the Bank of Hindustan' by an English Agency in Calcutta, lots of developments in the banking sector have occurred after the independence.

Nepal being a developing country is trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy. Even though, the process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economic development.

The network of well organized financial system of the country has great bearing in these regards. It collects scattered financial resources from the masses and invests them among those engaged in commercial and economic activities of the country. In this way the financial institutions provide savers highly liquid divisible assets at a lower risk while the investors receive a large pool of resources. Integrated and speedy development of the country is possible only when competitive financial service reaches nook and corner of the country. It has been well established that the economic activities of any country can hardly be carried forward without the existence and support of financial institutions. Financial institution have catalytic role in the process of economic development.

Banking plays a significant role in the development of nations. Economy bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions Therefore it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word 'Bank' in different ways. A commercial bank is declared in money and its substitutes for money such as cheques or a bill of exchanges, it also provides a variety of financial sectors.

Commercial bank mainly undertakes measure such as organizational reforms of banks, maximum utilization of resources and increase in non-cash reserve transaction to reduce the spread between interest rates on deposits and credit. They deploy funds raised from different sources into different assets with a primary objective of profit generation. They also play an important role for the economic development and poverty alleviation of the country through providing credit facilities, quality banking services to a people both business community as well as common man. Concerted efforts of all type of banks and financial institution support by a dynamic policy of central bank are needed to achieve the desired economic growth”

“Economic growth can be compared with the construction of good house which can only be erected on a solid foundation however it is not sufficient, they must further initiate and activate the necessary resources needed to be acquired to complete the buildings. We, bankers therefore have a key responsibility in the building task for economic growth.” Policy is an important ingredient of overall national economic development because it ensure efficient also allocation of fund to achieve the material and economic well being of the society as a whole. In this regard, joint venture bank investment policy push drives to achieve priority of commercial sector in the context of Nepal's economic development. Investment is defined simply to be the sacrifice of current consumption for future consumption takes place at present with certainty and the invest or accepts desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to investment now is a must crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternatives fall into two categories: real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds, and debenture. Financial assets are bought and sold in organized security markets. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate savings. If all the income and savings are consumed

to solve the problem hand to mouth and to the other basic needs then there is no existence of investment. Therefore, both saving and investment are interrelated.

"A distinction is often made between investment and savings. Saving is defined as foregone consumption investment is restricted to real investment of the sort that increases national output in the future."

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most important one. Credit being the most important function of commercial banks, affects overall development of the country. In consideration of economic development, it is directly related to the quality and quantity of the credit, which is carried out from different financial institutions, especially commercial banks.

The 'American Institute of Banking' has laid down the four major functions of the commercial banks as receiving and handling deposits, handling payments for its clients. Making loans and investments and creating money by extension of credit.'<sup>3</sup>

Nepal Commercial Bank Act 2031 B.S. has defined commercial bank as stated earlier and it has also emphasized on their functions. Majors of them are as follows. They accept custody of funds with or without interest and open fixed accounts, current accounts and saving accounts in the name of depositors. They supply loan / short term as well as long term depts. whatever necessary for trade and commerce or make investment. They help to issue shares and debentures of any company or any other corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent. Conduct transaction in bonds, provisionary notes or bills of exchange, foreign exchange relating to commerce or corporation as are redeemable with in the Kingdom. They grant overdraft. They issue letter of credit, drafts, and traveler's checks. They remit or transmit fund to different place within or outside the Kingdom. They purchase, sell, or accept the securities of HMG. Nepal Rastra Bank (NRB) the central bank of the Kingdom of Nepal, was

established in 1956 to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Since then, there has been a huge growth in both the number and the activities of the domestic financial institutions. To reflect this dynamic environment, the functions and objectives of the bank have been recast by the new NRB Act of 2005, the preamble of which lays down the primary functions of the Bank as: to formulate necessary monetary and foreign exchange policies to maintain the stability in price and consolidate the balance of payments for sustainable development of the economy of the Kingdom of Nepal; to develop a secure, healthy and efficient system of payments to make appropriate supervision of the banking and financial system in order to maintain its stability and foster its healthy development, and to further enhance the public confidence in Nepal's entire banking and financial system.

The bank is eminently aware that, for the achievement of the above objectives in the present dynamic environment, sustained progress and continued reform of the financial sector is of utmost importance. Continuously aware of this great responsibility, NRB is seriously pursuing Various policies, strategies and actions, all of which are conveyed in the annual report on monetary policy which provides a comprehensive review and evaluation of the previous monetary policy and justification and the analysis of the following year's monetary policy. The reengineering of the NRB itself is one of the critical components of the reform agenda. To improve the financial sector legislative framework, some new acts have already come out and there have been amendments to some existing Acts. Enactments of the draft legislation on bank and financial institutions, secured transactions, insolvency, Assets. Management company and anti money laundering are expected to be soon materialized, all with the goal of strengthening the financial sector through building on its healthy development and improved stability. These activities convey the commitment of the NRB for addressing the present and future challenges of the financial system, especially with its increasing openness and competitive process in the context of growing global financial environment should ensure sustained progress and stability of the financial system under NRB's guidance and leadership. For

contributing substantially to the sustained development of the economy of Nepal. Every commercial bank should consider Government and central bank's i.e., 'Nepal Rastra Bank's instructions and their own interest as well before preparing the investment policies. Nepalese commercial bank however lags behind in consideration of good investment opportunities. They are more insecure and do not want to take risk by investing in crucial sectors. But formulation of good investment policy may boost their interest on different investment opportunities that may lead for the enlistment of the economy.

The main function of the commercial bank is to accumulation of the temporality idle money of general public for trade and commerce. Its main function are accepts deposits and grants loan, exchange, purchase and discount bill for promissory notes, exchange foreign currency, to provide loan, agency function overseas trading function, information and other services. Commercial bank earns profit by proper mobilization of their resources. Many commercial banks have been established to provide a suitable service, according to the customers.

### **1.3 History of Selected Banks**

#### **Background**

##### **Nabil Bank Limited**

The first joint venture bank 'Nepal Arab bank limited' established in Nepal, partnership with Dubai bank limited of 'Dubai'. It was established on 29<sup>th</sup> Ashad 2041.B.S. The bank has initiated its business with authorized capital of RS.60 million and paid up capital of Rs.30 million. National bank international [foreign partner] holds 50 percent, NIDC holds 10 percent, Nepal stock exchange holds 0.33 percent, Rastriya bema sansthan holds 9.67 percent and the general public holds 30 percent. As on the record of Nepal Rastra bank on July 2009, the paid up share capital is 689.2 million. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Highly qualified and experienced management team manages operations of the bank including day today operations and risk management.

Authorized Nabil Bank Limited, the first joint venture bank of Nepal, started operations in shrawan, 2041. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 50 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

#### **Share Capital of Nabil Bank as on 2065/66 B.S**

Authorized Capital	NPR 1,600,000,000
Issued Capital	NPR 965,747,000
Paid-Up Capital	NPR 965,747,000

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. ([www.nabilbank.com.np](http://www.nabilbank.com.np))

Highly qualified and experienced management team manages operations of the bank, including day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATM's, credit cards, state-of-art world-renowned software from Infosys Technologies System, Bangalore, India, and Internet banking system and Tele-banking system.

#### **Nepal SBI Bank Limited.**

The first indo Nepal joint venture 'Nepal SBI Bank limited' established in Nepal on 7<sup>th</sup> July 1993.A.D.(23<sup>rd</sup> Ashad 2050.B.S.).It was sponsored by three institutional promoters, namely state bank of India, employees provident fund And Agriculture development bank of Nepal, through a memorandum of understanding signed on 17<sup>th</sup> July 1992.A.D.with an authorized capital of Rs.120 Million. Nepal Rastra bank granted fresh license to NSBI classifying it as an 'A' class licensed institution under

the bank and financial institutional act 2063. The Agriculture development bank divested its stake in the bank by selling its entire 5 percent promoter share to SBI on 14<sup>th</sup> June 2009. As on the record of Nepal Rastra bank on July 2009 the paid of share capital is 877.4 million. Consequently, the banks status has change from previous, presently 55 percent of share capital of bank is held by SBI, 15 percent is held by Employees provident fund and 30 percent by General public. Presently SBI Provides a full range of commercial banking service through 59 Physical outlets including 50 branches, 6 extension counters and 3 administrative offices across the kingdom. Nepal SBI Aspires to be outstanding and unique in its field by working together with all its stake holders and creating values for them. it enjoys the backing of state bank of India and expertise in banking. It also take diverse social responsibility initiatives which are beyond their regular banking business seriously, to establish them as admirable corporate citizen of this great nation. These initiatives are at the core of Nepal SBI banks corporate mission and values. In Addition it serve customer through e-delivery points like mobile banking, Automated Teller Machines (ATMs) and Online Banking Service for both corporate and retail clients.

#### **1.4 Statement of the problem**

In developing countries, the contribution on industrial sector is also very low in the output and the employment. In Nepal the commercial bank has played a catalytic role in the economic growth. Its investment range from small-scale cottage industries to large industries making investment in loans and government securities also. It can be hypothesized that bank portfolio variables like loans, investment, cash, reserve, deposit and borrowing affects the national income and also how the government policy affects these variables, such as the effect of an interest rate on the bank portfolio variables, therefore when monitoring money and credit conditions, The central bank has to keep an eye on the bank portfolio behavior.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly depend upon the instructions and guidelines of central

banks ( Nepal Rastra bank). They do not have clear view towards investment policy. Further more the implementation of policy is not in an effective way.

Thus the present study has made a modest attempt to analyze investment policy of Nepal SBI bank and Nabil bank Ltd. In this study, Nepal SBI bank investment policy has been analyzed comparing it with Nabil bank Ltd.

Following are the major problems that have been identified for the purpose of this study.

- ) Do the Nabil bank and SBI utilize their available fund fully?
- ) Whether both the commercial banks are able to meet their obligations or not?
- ) Whether Nabil bank fund mobilization and investment policy more effective and efficient than SBI bank or not or vice versa?
- ) Whether they are maintaining sufficient liquidity position or not?

### **1.5 Objective of Study**

Main objective of this study is to examine investment policy of Nabil bank limited and Nepal SBI bank limited. The specific objectives of the study are as follows:-

1. To evaluate the liquidity, efficiency and profitability and risk position.
2. To evaluate the growth ratios of loan and advances, total investment with other financial variables.
3. To examine fund mobilization and investment policy of Nabil bank and Nepal SBI bank ltd.
4. To analyze the trends of deposits utilization towards total investment and loans and advances.
5. To provide suggestion to the banks on the basis of finding of this study.

### **1.6 Significance of the study**

This study is to find out the existing situation as well as future prospectus of marketing and financial returns. The collected fund is utilized in a good manner as investment then only good return and sustainability are possible. Return on investment first sustains the institution and provides handful income to the investors. The better

the investment policy, the more valuable to the company, the higher return to shareholders etc and vice versa. Since the different parties, shareholders, general public and government are directly affected by the investment policy of the financial institutions. The researcher feels the needs to study this policy effects on following stated parties.

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

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly depend upon the instructions and guidelines of Nepal Rastra bank. They do not have clear view towards investment policy. Further, more, the implementation of policy is not in an effective way. Thus, the present study will make a modest attempt to analyze investment policy of Nepal SBI Bank and Nabil Bank Ltd. This study will provide a useful feedback for academic institution, bank employees, trainees, investors, for financial persons, policy making bodies and other concerned people with bank.

### **1.7 Limitation of the study.**

The following are limitation of the study:-

1. Most of the data used in the research are of secondary nature, therefore there may be reporting errors.
2. This study covers only a five year period, i.e. .from 2005/2006 to 2009/2010. .The two banks Nepal SBI and Nabil bank Ltd are taken as joint venture banks for this study.
3. This study is concerned only investment policy of the bank but not the overall performance of the bank.

## **1.8 Organization of the study**

The study has been divided into five chapters:-

### **Chapter one:-Introduction**

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

### **Chapter Two:-Review of literature**

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

### **Chapter Three:-Research methodology**

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

### **Chapter four:-Data presentation and analysis**

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

### **Chapter five:-Summary, Conclusion and Recommendations**

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

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

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

#### **2.1 Conceptual Frame Work**

The concept of central banking is of recent origin. Prior to the commencement of 20<sup>th</sup> century, there had been clearly defined concept of central banking. However, as the time changed, there is no country in the world, which does not have a central bank. The bank works as the leader of the money market. The bank works as the leader of the money market. It is the chief of all banks operating in a country. It supervises, regulates & controls the functions of commercial banks & other financial institutions. The central bank also works as the banker to the government & advises the government on several matters. It is the only organization, who monitors the whole economy of the country.

Therefore, central bank is an important financial institution in every sovereign independent country in modern times. It is an apex of economy is banking system. Central bank is the central arch of the monetary & fiscal framework in every country of the world & its functions are indispensable for proper functioning of the economy & fiscal operations of the government. The objective of the central bank is also to control monetary circulation, manage debt, etc.

The history of central banks is very old. In 12<sup>th</sup> century, most of the banks in England, France, Sweden, etc. were assuming more power but not considered them central banks. They were enjoying the right of note issue & were acting as the banker for the

government & sometimes work as an agent for the government & sometimes work as an agent for the government as well in the financial matters. However, they were not known as central banks but referred as the banks of note or national banks. The oldest central banks in the world are Riksbank of Sweden, which was established in 1656. The Bank of England came in 1694. Being originated from Europe, International Conference held in Brussels during 1920 agreed with common agenda of establishing central bank in most of the European countries. Likewise, European central bank has been developed. In the political business cycle, the independent central bank is proving very important but questionable & doubtful. (*Shrestha & et al., 2007:85*)

The Bank of England is the first bank to work as the position of central bank and to develop all the fundamental of central banking which are under operation. The fundamentals, principles & tools & instruments developed by the Bank of England were universally accepted by all the banks all over the country. The successful functioning of Bank of England forced other countries to think about the concepts & principles of the central banks. The Bank of England is the United Kingdom's central bank, & has broad responsibilities for the organization & operation of government monetary & financial policies. The bank was formed with the purpose of raising funds for the British Government, but it only came into public ownership in 1946. Nevertheless, since the middle of the 19<sup>th</sup> century the bank has been undertaking the majority of functions, which are normally associated with a central bank. According to the provision of the Bank of England Act 1946, the bank has a legal duty to carry the wishes of the Treasury (Finance Ministry) in respect of the implementation of the government's policies on financial, monetary & related matters. (*Acharya, 2055: 132*)

As the British ruled India as a colony, the ruling company, East India Company established three banks: The Bank of Bengal in 1809, The Bank of Bombay in 1840 & The Bank of Madras in 1843. These banks were known as Presidency Banks. After the independency of the India, several banks established & collapsed. However, the Reserve Bank of India as a central bank of India was originally constituted as a

shareholders' bank in 1935 under the Reserve Bank of India Act, 1934, to regulate the issue of bank notes & the keeping of reserves with a view to securing monetary stability in India & generally to operate the currency & credit system of the country to its advantage. The Banking Companies Act, 1949 of India, the bank is vested with large powers of supervision, control, direction & inspection of scheduled & non-scheduled banks of India. (*Acharya, 2055: 137*)

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

“Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash properly and fully. The banker cannot afford to keep a large possession of his assets in the form of cash. Cash brings in no incomes to the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity.” ” (Thapa and Neupane, 2008:24)

Commercial bank act, 2031 BS of Nepal has defined that “A commercial bank is one which exchanges money ,accepts 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 must mobilize its deposits and other funds

to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when it will be able to repay the loan. 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.

Review of literature comprises of previous research study articles concerned with this study and other study with a view for supplement the present research and such review adds to the dimension of the study. In this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. Every possible effort has been made to grasp knowledge and information that is available from the 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 my study. Conceptual framework has given by different authors, research scholars and articles etc, which are arranged into the following order. This chapter deals with the following:

- ) Review of Articles
- ) Review of Thesis

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

V.K. Bhalla says, "Banks are those institutions which accepts deposits from the public and in turn provide credit to trade, business and industry that directly makes a

remarkable impact on the economic development of a country. To collect the fund as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.” (Bhalla, 1983:2)

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

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

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

According William F. Sharpe, Gordon J. Alexander and Jefery V. Baily “Investment in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain” (Sharpe, Alexander and Baily,1995:1).

Mrs. Sunity Shrestha has expressed similar view on investment. She stresses on the fulfillment of credit needs of various sectors, which ensure investments. She expressed in her books ‘Portfolio Behaviors of commercial banks in Nepal’s “The commercial banks fulfill the credit needs of various economic sectors including policy of

commercial banks is based on the profit maximization of the institute as well as the economic enhancement of the country” (Shrestha, 1995:51-52).

Jerome B. Chone Edward, D. zinbarg an Arthur Zeiped, define that, “Investment has factors. It may involve putting money into bond, treasury bills, or notes or common stock, or painting of real estate, or mortgages or oil ventures, or cattle or the theater. It may involve specially in bull markets or selling short in bear markets. It may involve options, straddles, tights, warrants, convertibles, margin, gold-silver, mutual funds, money market funds, index funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or licky, the rewards may be substantial, for the uniformed results can be disastrous” (Edward, 1997:1).

According to Shakespeare Baidhya on sound investment policy: “A sound investment policy of a bank is such that its funds are distributed in different types of assets with good profitability on the one hand provide maximum safety and security to the depositors and banks on the other hand; moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets a serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal, manipulation of loan, misguided leading policy or unexpected economic downturn. Therefore the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds” (Baidhya, 1997:46-47).

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

According to I.M. Pandey, in investment decision, expenditures and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out that investments are profitable and add to the shareholder's wealth. Thus, investments should be evaluated on the basis of a criterion which is compatible with the objective of the shareholder's fund maximization. An investment will add to the shareholder's wealth if it yields benefit in excess of the minimum benefit as per the opportunity cost of capital" (Pandey, 1999:407).

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

Commercial Bank Act 1975 A.D (2031 BS) of the Nepal has defined that "A commercial banks one which exchange money, deposits money, accepts deposits,

grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries for such specific purpose.”

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

## **2.2 Features of a Sound Lending Policy**

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

### **A. Safety and Security**

Financial institutions should inlets their deposit in profitable and secured sectors. they should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors it must not invest its fund into speculative businessman, who may be bankrupt at once and who may earn millions in a minute also. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable.

### **B. Liquidity**

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

### **C. Purpose of loan**

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

### **D. Profitability**

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

### **E. Diversification**

Diversification of loan helps to sustain loss according to the law of average; if a security of a company is divided, there may be an appreciation in the securities of other companies. A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversity their fund or make portfolio investment. In this way, the loss can be recovered.

### **F. Legality**

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

### **G. Political Situation**

Political situation, especially political instability is also one of the major causes of low volume of credit. In such a case, none would like to risk his capital in new ventures. The present condition of the country is the glaring example of this.

In addition to aforementioned point, other factors like trade condition currently conditions are also the factors affecting the volume of credit. Increment in individual prices. Inflation is not a temporary fluctuation in price but it is a sustained and appreciable increase in price. Due to the increase in general level in price, the value of purchasing power of money declines as there is an inverse relationship between the general level of price and value of money according to economic couter "Inflation means a state in which the value of money is falling i.e. prices are increasing." Inflation is a general a rise in the price of a particular god of service. Individual prices rise and fall all the time in a particular good or service. Individual prices rise and fall the time in a market economy. Reflecting consumer choices and preferences and changing costs. If the price of one item say particular model of car-increases because demand for it is high, we do not think of this as inflation occurs when most prices are raising increase smoothly in the range of some degree across the whole economy.

During inflation, the cost of living increases rapidly, so inflation severally hurts the people who depend on the income from fixed income securities like bonds and preferred stock. Similarly as purchasing power of money falls as well as the debtors gain and the creditors loses.

### **The National Real Interest Rates**

Before expanding the relationship between inflation and interest rates, several key terms must be understood. In this connection one should be familiar with nominal rate and real rate of interest. The nominal rate is published or gesture interest rate an a security or loan. These rate are actual rates that are used to transact with the customers. For example an announcement in the financial press the major commercial banks have raised their prime lending rate to percent per annum indicates what nominal interest rate is now being quoted by banks to their best customers. Similarly the real interest rate is the return to the lender or investor measured in terms of its actual purchasing power. In a period of inflation, of course, the real rate will be lower than the nominal rate. An

investment's real rate of interest during some period is calculated by removing the rate of inflation from the nominal return.

### **The Fisher Effect**

Economic theory tells us that interest rates. In countries where inflation is expected to be high, interest rate also will be high, because investors want compensation for the decline in the value of money. This relationship was first formalized by economist Irvin Fisher and is referred to as the Fisher effect. According to Fisher effect, nominal interest rate is related to the real rate by the following equation.

Nominal interest rate = expected real rate + inflation premium + (expected real rate X inflation premium)

According to Fisher, the cross, product term in the above equation (i.e. expected real rate X inflation premium) is often eliminated because it is usually quite small. In countries where inflation is expected to be high, the expected real rate X inflation premium can be written as.

Nominal interest rate = expected real rate + inflation premium rate

Clearly if the expected real interest rate is held fixed, changes in nominal rate will reflect shifting inflation premium. It means that if inflation premium increases then nominal rate also increases.

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

securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. It must not invest its fund into speculative businessman, who may be bankrupt at once and who may earn millions in a minute also. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. Liquidity. It is the position of the firm to meet current or short-term obligations. General public or customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customers, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund. Purpose of Loan. This is very important question for any banker is that, is a customer need of loan? If borrower misuses the loan granted by the bank, there will be heavy bad debts. Detailed information about the scheme of the project or activities would be examined before lending. Profitability. To maximize the return on investment and lending position, financial institutions must invest their collection in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors. Diversification. Diversification of loan helps to sustain loss according to the law of average, if a security of a company is divided, there may be an appreciation in the securities of other companies. A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. In this way, the loss can be recovered. Legality. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of Law and other while mobilizing its funds. Legal securities will bring out my problems to the investors.

## **2.3 Review of Related Studies**

### **2.3.1 Review of Articles**

It review some of the related articles published in different economic journals, bulletin of World Bank, dissertation papers, magazines, newspapers and other related books.

**Bodhi B. Bajracharaya( 2047 B.S.:93).** in his article has concluded “Mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary for generating resource in the form of deposit of private sector and providing credit to the investor in different sectors of the economy” (Bajarchaya 2047 B.S.:93).

**Dev Lal Kishi, in his article, concludes that** “ following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Ltd and Rastriya Banijya Bank has also shown an improvement of non-performing loans and is taking steps to adopt improved technology. However, higher economic growth with social justice bringing a significant benefit to the poor is yet to the activated as envisaged by the HMG/N” (Kishi, 1996 A.D.:21).

**Bishowambhar Pyakuryal in his article writes, (1996 A.D.:21)** “The present changing context of the economy calls for a sustained revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore, the task of utilization of resources is as much crucial as the mobilizations. The under utilization of resource not only results in loss of income but also goes further to discourage the collection of deposits”.

**Madhu Ram Neupane,(2007 A.D.), carried out a study entitled “ *Interest Rate Structure and Its Influence on Deposit and Lending of Joint Venture Banks in Nepal*”,** He has shown the influence of interest rate on deposit and lending in Nepalese Joint Venture Banks. The conclusion drawn by Mr.Neupane is:

- The interest rate of all sample banks are found to be in decreasing trends
- Analysis of sample banks shows that interest rates on lending are far higher than deposit rates.

- Analysis of samples banks concludes that interest rate on deposit is to be found so low which does not attract the depositor.
- Lending interest rate of sample banks have decreased every year which provide better opportunities for the borrower's investor.
- Sample Banks under study show weak on mobilization of collected deposit rate on productive and small scale industries.

**Shekhar Bahadur Pradhan, in his article (2008 A.D.)** “ Deposit mobilization, its problem and prospects” has presented that deposit is the life-blood of every financial institutions, commercial banks, financial company, and co-operative or non government organization. He further adds in consideration of most of banks and financial company, the latest figure does produce a strong feeling that a serious review must be made of problem and prospects of deposit sectors. Leaving few joint venture banks, other organization relies heavily on the business deposit and credit disbursement (Pradhan,2053:9).

### **2.3.2 Review of Thesies**

Some students regarding the accepts of commercial banks such as lending policy, interest rate structure, capital structure and investment policy have been conducted, which are relevant for this study.

**Upendra Tuladhar(2001 A.D.)** in his studies. “*A study on the investment policy on Nepal Grindlays Bank Ltd. in comparison to other joint venture banks of Nepal.*” on the basis of primary data concludes that we know fact that most of part of nation is surrounded by the rears areas; it is quite hard to think about the development of the country without speeding, banking facilities among these areas. Further, on the basis of secondary data, the liquidity ratio of NGBL has maintained and managed its assets towards different income generating activities he further explain, in the case of profitability ratio NGBL is higher profitability position than NABIL and HBL as well as it use to provide interest to the customers for different activities is highly consistent whether may be the volume. Tuladhar further found that in the case of significant

difference on loan and advances, cash and bank balance to current ratio and to total deposit ratio, mean of total off balance sheet operation to loan and advance ratio, mean of investment on govt. securities to current ratio in between NGBL with NABIL and HBL respectively. But there is no significant of correlation, there is negative correlation between NGBL and NABIL, but positive correlation between NGBL and HBL in respect to deposit and total investment. In the case of loan advances to total deposit ratios increasing trends are found for NGBL and NABIL. But in the case of HBL it is in decreasing trend and in the case of total investment to total deposit both NGBL and NBIL total investment as trended seemed to be decreasing. To perform an empirical study of the customer's view and ideas regarding the existing services and adopted investment policy of the joint venture banks.

**Shiba Raj (2002 A.D.)** Laundari in his thesis study entitled, "*A study on investment policy of Nepal Indosuez Bank Ltd. in comparisons to Nepal SBI Bank Ltd.*" that interest earned ratio to total working fund of NIBL can not be considered satisfactory. So, it has to manage just required working fund so as it is completely in effect. This helps the bank to manage the best possible working fund. The NIBL bank is not in better position regarding its on balance as well as off balance activities in compare to SBI. It does not deem to follow any definite policy regarding the management of its assets. He further found that the profitability position of NIBL bank is comparatively worse than that of SBI. The bank must maintain its high profit margin for the well being in future. NIBL bank has maintained high growth rate in comparison to SBI bank though it is not successful to make enough investment. And can say that the bank is successful in increasing its sources of found and its mobilization. Finally he concluded that there is significant different between return on loan and advance ratio of NIBL and SBI. But there is no significant relationship between return on loan and advance ratio. The calculated value is less than tabulated value. The position of NIBL bank in regard to utilization of the fund to earn profit is not better in compare to SBI. Commercial Banks should be able to generate capital. Otherwise lower capital formation hampers economic development of the people.

**Dipak Pandit, (2004 A.D.)** in his thesis work entitled, “*Investment policy analysis of joint Venture Bank*” (has made an attempt to examine and interpret the investment policies adopted of Joint Venture Banks of Nepal. He has mainly found out the liquidity position of NABIL and SBI have not satisfactory. SBI’s loan and advance to total deposit ratio is lower at all. The profitability position of all banks is not satisfactory. In case of growth ratio SBI has failure to maintain its positive growth ratio of total investment of NABIL and SBI But there is no significant relationship between deposits and total investment of SBI only.

He has recommended that SBI, and NABIL have to improve present fund mobilization and investment. They have to increased cash and bank balance to meet current obligations and loan demand. They have to follow the liberal lending policy. They have to try for the collection of the fund at cheaper rate.

Many theses were reviewed in course of preparation of this thesis. Among them, some were relevant and some were not. Here the researcher has tried to include only the relevant theses that are significant for this research. Every research thesis has a long list of its findings, summary, conclusion and recommendations. However, the researcher has tried to edit them for brevity.

**Kishor Khatri Chettri's (2005 A.D.)** had conducted a thesis titled “*Interest Rate structure and its relation with deposits inflation and credit in Nepal.*” The objective of his study was to show the relationship between interest rate and other economic variables like deposit, inflation and credit flow. His study concludes the following, according that thesis, the objectives were.

- a. To present a concrete picture of the interest rate structure in Nepal.
- b. To predict the relationship between interest rate and other economic variables like deposit, inflation and credit flow in Nepal.
- c. To analyze the impact and implementation of the policy of interest rate of Nepal Rastra Bank.

By this study, he found that rate of interest is directly affected by the rate of inflation. He found that the price level of Nepal is liked with Indian prices and also found very high inflation during his study period. His suggestion to commercial banks is to fix the confessional interest rate in order to promote, the cottage and small scale industries and to monetarists to consider the rate of inflation while determining to consider the rate of inflation while determining the interest rate on deposit.

**Prem Bahadur Shahi (2008 A.D.)** conducted a study on “*Investment Policy of Commercial Bank in Nepal*” with the main objectives,

) To evaluate the liquidity, assets management efficiency and the profitability and risk position of Nepal Bank Ltd. To discussion fund mobilization & investment policy of Nepal Bank Ltd. In respect to its fee based off balance sheet transaction and fund based on balance sheet transaction in comparison to joint venture bank. To find out the empirical relationship between various important variables i.e. deposits loans and advances, investment, net profit, etc and compare them with the joint venture bank. To analyze the deposit utilization and its projection for next five years of the Nepal Bank Ltd. And compare it with other joint venture bank. To provide a package of workable suggestions and possible guidelines to improve investments policy of Nepal Bank Ltd. And joint venture banks based on the findings of the analysis, for the improvement of financial performance of Nepal Bank ltd. In future.

The research was conducted mainly on the basis of secondary data.

The findings of the study were as follows.

) The liquidity position of NABIL is comparatively better than that of joint venture banks. Highly fluctuating liquidity position shows that the bank has not formulated any stable policy. It can also be concluded that NABIL has more portion of current assets as loan and advances but less portion or investment on government securities.

- ) The mean ratio of total investment to total deposit of NABIL is lower than that of the joint venture banks. The mean ratio of total off balance sheet operation to loan and advances of NBL is found significantly lower than that of joint venture banks. So it is concluded that NBL is comparatively less successful in on balance sheet as well as off balance sheet operations than that of the joint venture banks. It hasn't followed by any definite policy with regard to the management of its assets.
- ) There is comparatively higher risk in NABIL than that of the joint venture banks regarding various aspects of banking function. It has been found that there is significant relationship between deposits and loans and advances. There is negative relationship between deposits and investment in case of NABIL and positive in case of the joint venture banks.

**Dillip Roy (2009 A.D.)** has conducted a thesis research on “*An investment analysis of Rastriya Banijya Bank (in comparison with NABIL)*” with the main objectives.

- ) To evaluate liquidity, activity & profitability ratio of RBB in comparison with Nabil & industry average.
- ) To use trend analysis to compare loan and advances, total investment, total deposits and net profit of RBB and compare the same with others two.
- ) To analysis relationship of loan and advances and total investment with total deposits and net profit of RBB and to compare it with that of NABIL and industry average. To examine the loan loss provision of RBB Bank & Nabil .To provide suggestion and recommendation on the basis of findings.

The findings of the researcher were as follows:

- ) RBB has good deposit collection enough loan and advances and small investment in government securities.
- ) The assets management ratio of RBB is not better than that of NABIL.
- ) The profitability position of RBB is worse in comparison with NABIL due to low return on working fund, loans and advances and outside assets.

- ) The fund collection of mobilization position of RBB is satisfactory in comparison to NABIL while considering growing rate.
- ) In relation to fund flow analysis; the RBB has poor loan and advance issued.
- ) RBB has better positive relationship between net profit, return on loan and advances and return on investment but RBB has worse performance in income as commission and discount and exchange income.
- ) There is significant relationship between deposit and loan and advances, where there is no significant relation between deposit and investment of both banks RBB and NBL. And this is no relationship between outside assets and net profit.

**Rabindra Joshi (2009 A.D.)** in his research work, ” *Comparative study on Investment Policy of Standard Chartered Bank Nepal Limited and Everest Bank Limited*” has highlighted the main Objectives:

- ) To compare investment policy of concern banks and discusses the fund mobilization of the sample bank.
- ) To find out empirical relationship between total investment, deposit and loan & advance, and net profit and outside assets and compare them.
- ) To analyze the deposit utilization and its projection for next five years of SCBNL and EBL.
- ) To evaluate comparatively the profitability and risk position, liquidity asset management efficiency of SCBNL & EBL.
- ) To provide a package of possible guidelines to improve investment policy, it’s problems and way to solve some problems and provide suggestions and recommendation on the basis of the study.

The findings of the researcher were as follows:

- ) It can be concluded that both have good deposit collection. EBL has the highest cash and bank balance to total deposit, cash and bank balance to current ratio; this may make the bank to be in good position to meet the daily cash requirement.

- ) SCBNL has successfully maintained and managed its assets towards different income generation activities. SCBNL has made high portion of total working fund in investment on government on share and debentures of other companies.
- ) The profitability procession of SCBNL is comparatively better than EBL. It indicate that SCBNL has maintain its high profit margin regarding profitability position and EBL does not have a better position in comparision. It must maintain high profit margin for the well being in future. The finding shows EBL even though paying high interest to the customers for different activities.
- ) There is comparatively lower risk in SCBNL than EBL regarding various aspects of banking function.
- ) The SCBNL has not been more successful to increase in source of funds i.e. deposit and mobilization of i.e. loan and advances and total investment.

# **CHAPTER-III**

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

Research methodology refers to the various sequential steps (along with the rationale of each step) to be adopted by a researcher in studying a problem with certain objective in view. It is a way to systematically solve the research problem; it may be understood as a science of studying how research is done scientifically. Includes the various steps that are generally adopted by a researcher studying his/her research problem along with the logic behind them, it would be appropriate to mention here that research projects are not meaningful to any one unless they are in sequential order which will be determined by the particular problem at hand. Therefore, this study aims at analyzing and interpreting the purpose of comparative financial performance or appraisal of two banks. This chapter focuses and deals with the following aspects or methodology.

- Research design
- Population and Sample
- Source of data
- Data collection procedure
- Method of Data analysis

### **3.2 Research Design**

Research design is the task of defining the research problem. In other words, "A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which the research is conducted.

General objective; of this research study is to examine and evaluate the financial performance of commercial banks especially that of NABIL & NSBIBL in order to

achieve the objective, both descriptive and analytical research design has been followed. The study focuses on the examination of relationship between those variables that influence- financial decisions of the sampled banks hence; it is an ex-post factor research.

### **3.3 Populations and Sample**

The population for this study comprises 31 commercial banks currently rating in the country. All the commercial banks perform the functions under rules, regulations and directives of Nepal Rastra Bank. The sample consists of two judgmentally selected banks- Nabil Bank Limited and Nepal SBI Bank Limited. These units represent 6.45 % of the total population and are comparable to each other in various aspects.

### **3.4 Sources of Data**

Although present study is based on secondary data, However, necessary suggestions are also taken form various experts both inside the bank whenever required the necessary data are obtained from the head office of the concerned bank such as, published balance sheet, profit and loss account and other related statement of accounts as well as the annual reports of the respective banks. Likewise, other related necessary information are also obtained from the publication of Nepal Stock Exchange, Nepal Rasta Bank and other publications used for the purpose are book & booklets, magazines, journals, newspapers, school of thought etc.

### **3.5 Data Collection Procedure**

The problem of the study lies on the issues related to the comparative strengths and weaknesses of the banks. Because of liberal policy adopted by the government, financial institution has been emerging in the country. The sampled banks have been facing threats from such institutions. Therefore, the study has been conducted to examine and evaluate the financial performance of the sampled units. This study is also intended to fine the weaknesses and strengths so that appropriate suggestion can be provided to enhance the performance of the banks in coming days.

For the purpose, various data are required. With the view of obtaining the data, researcher made several visits of the sampled banks, in first visit, the researcher consulted the concerned authority of the bank and explained about the above stated problems and objectives of the study. Researcher also explained why she is interested in these two banks and what she wishes to analyze after keeping forth the view of researcher. The authorities got convinced and assured to help as far as possible. Regarding the information needed, they said that they would make them available up to the extent that does not affect the privacy and secrecy of the bank. Researcher got pleased with the response shown by them and started the work.

In next visit, she approached share department and asked for the profit and loss account and balance sheet of the bank of last five years. In the department, after explaining the need of such information, the related staff then provided the necessary statement.

To acquire the primary data, researcher made some other visit in the bank due to the increasing transactions and business of the employees in the bank; they could not afford time to the researcher whenever needed. After some efforts, they could manage some time and hence, the researcher got the information through direct interview with them.

Similarly, the researcher obtained economic surveys, annual and periodic reports and banking directive from Nepal Rastra Bank. There, the researcher visited library and banking operation department. In the department, she explained why he needed such reports and hence, he became able to get those reports.

### **3.6 Data Processing**

Data obtained from the, various sources cannot be directly used in there original form further they need to be verified and simplified for the purpose of analysis. Data information, figure and facts so obtained need to be checked, rechecked edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, Homogenous data have been sorted in one table and similarly various tables have been prepared in understandable manner odd data excluded form the table. Using financial and statistical tools data have been analyzed and interpreted.

### **3.7 Method of Data analysis**

Financial statement can provide information useful for the parties directly or indirectly involved in the business. For the purpose of study, the data collected and obtained are scanner and tabulated under various heads. The researcher has used two sorts of tools has been used to achieve the results. Here is the brief discussion of both the tools, which are used to analyze and interpret the financial performance of two Banks.

- ) Financial tools
- ) Statistical tools

#### **3.7.1 Financial tools**

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, winch in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. For the sake of analysis, following various financial tools have been used in order to meet the purpose of the study:

##### **3.7.1.1 Ratio analysis**

Ratio analysis helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance. Ratio is the expression of one figure in terms of another. It is the expression of relationship between the mutually independent figures, in financial analysis; ratio is use to as an index of yardstick for evaluating the financial position and performance of firm. Ratio analysis is very much powerful & widely used tool of financial analysis. It is define as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition

can be determined. It helps the analysis to make qualitative judgment in about the financial position and performance of the firm. Therefore, it is helps to establish relationship among various ratios and interpret there on specially, based on comparison between two or more firms or inters firm comparison and comparison between present and past ratios for the same firm give enormous and fruitful results to examine the financial performance.

The obsolete accounting figure reported in the financial statement does not provide a meaningful understanding of the performance and financial position of the firm. An accounting figure conveys meaning when it is related to some other relevant information. Therefore, the ratio is the relationship between two accounting figures expressed mathematically. It helps to summarize large quantitative relationship helps to form a quality judgment. However, " A single ratio itself does not is indicate favorable or unfavorable conditions. It should be compared with some standard.

A ratio is simply a number expressed in terms of another number and it expresses the quantitative relation between any two variables.

Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there are the numbers of items. However, under the ratio analysis technique, it is not practical to work out all the ratios. Hence, only the required ratios have been worked out.

There are numerous ratios to analyze and interpret the financial performance of the enterprise or firm. However, for our purpose, only important and relevant ratios are used to check the financial health of two Banks in Nepal, which are as below;

#### **3.7.1.1.1 Profitability Ratio**

Profitability ratios are designed to highlight the end-result of the business activities, which in the imperfect world of ours, is the sole criterion of cover all efficiency of business unit.

A company should earn profit to survive and grow over a long period. It is a fact that sufficient profit must be earned to sustain the operations of the business, to able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment.

#### **3.7.1.1.2 Liquidity Ratios:**

Liquidity ratios are used to judge the firm's ability to moot short-term obligation. These ratios give insights into the present cash solvency of the firms and its ability to remain solvent in the event of adversities. It is the comparison between short-term obligation and the short –term resources available to meet these obligations. These ratios are calculated to find the ability of banks to meet their short-term obligation, which are likely to mature in the short period. The following ratios are developed and used for our purpose to find the liquidity positions of the two joint venture banks.

#### **3.7.1.1.3 Turnover Ratio**

Turnover ratios, also known as utilization ratios or activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses investment and economic resources at its command. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loans, advance and other innovation. So it sells the same High ratio depicts the managerial efficiency in utilizing the resources they show the sound profitability position off the bank low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity.

#### **3.7.1.1.4 Risk Ratios**

Risk taking is the prime business of bank's investment management. The proper risk management increase effectiveness and profitability of the bank. These ratios inductee the amount of risk associated with the various banking operations, which ultimately influences the bank's investment policy.

The following ratios are taken into account under this heading.

##### **i) Liquidity Risk Ratio**

The liquidity risk ratio measure the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the depositors demand for cash. Higher the ratio, lower is the liquidity rise. This ratio is computed by dividing cash & bank by total deposits.

This can be mentioned as

$$\text{Liquidity Risk Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total deposit}}$$

##### **ii) Credit Risk Ratio**

Credit risk ratios measure the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan & advances by total assets.

This can be mentioned as,

$$\text{Credit Risk Ratio} = \frac{\text{Total Non-Performing Assets}}{\text{Total Loans and Advances}}$$

#### **3.7.1.1.5 Growth Ratios**

Growth ratios measure how well the firm is maintaining its economic position in its industry. It is directly related to the fund mobilization and investment management of a commercial bank.

The following growth ratios are calculated in this study.

i. Growth ratio of total deposit

- ii. Growth ratio of loan & advances
- iii. Growth ratio of total investment
- iv. Growth ratio of net profit.

### **3.7.2 Statistical Tools**

Various statistical tools can be used to analyze the data available to the researcher. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data.

#### **A. Trend Analysis:**

This type of statistical analyzes the trend of deposits, loan and advances, investment and net profit of NSBI and NABIL. From 2005/2006 to 2009/2010 and makes the forecast for the next five years. The following trend value analysis has been used in this study.

Trend analysis of total deposits.

Trend analysis of loan and advances.

Trend analysis of total investment.

#### **B. Coefficient of Correlation and Regression Analysis:**

The coefficient of correlation measures the degree of relationship of between two sets of figures. This tool analyzes the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. Regression is the estimation of unknown values or prediction of one variable from known values of other variables. It is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data. The known value which is used for prediction is called independent variables and the unknown value that we are going to predict is called dependent variable.

### C. Test of Hypothesis:

This test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been Conducted on the various ratios related to the banking business. Test of hypothesis on loan and advances to total deposit ratio of NSBI and NABIL, Test of hypothesis on total investment to total deposit ratio of sample banks.

Null Hypothesis ( $H_0$ ) :  $\hat{\mu}_x = \hat{\mu}_y$  i.e. there is no significance difference between mean ratio of loan & advances to total investment and total deposit.

Alt. Hypothesis ( $H_1$ )  $\hat{\mu}_x \neq \hat{\mu}_y$  there is significance difference between mean ratio of loan & advances to total investment and total deposit.

Following tools are used for the purpose of data analysis using MS excel 2007.

Arithmetic mean

Coefficient of variation

Standard Deviation

Regression Analysis

T-test Analysis

Least-square line trend

## **CHAPTER–IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter deals with presentation and analysis of data collected. The raw data collected has been organized and processed using various financial and statistical.

#### **4.1. Analysis of Overall Performance of Companies**

Performance of companies is a broad subject, which can be examined in various ways. The owners of the company, the potential investors, employees, creditors, government, customers etc. analyze the performance in their own interest. Although it is not possible to fulfill the interest of all the stakeholders about the performance of the companies, this study tries to help more or less all of them by examining the performance of the sample banks.

##### **4.1.1 Liquidity Ratio**

Liquidity ratios measure the firm's ability to meet current obligations. The failure of a company to meet its obligations due to the lack of sufficient liquidity may result in bad credit image and loss of creditors. An improved liquidity position is an indicator of better performance. Firm should always maintain an appropriate level of liquidity. The most common ratios, which indicate the extent of liquidity or lack of it, are current ratio.

These ratios are presented in the table and graph as follows:

##### **4.1.1.1 Cash and Bank to Total deposit Ratio:**

Cash and Bank balance to total ratio is calculated by dividing cash and bank balance by total deposits. Total deposits consist of current deposit, saving deposit, fixed deposit, money at call and short notice and other liabilities. This ratio shows the proportion of total deposit held as compared to the most liquid assets. High ratio

shows the strong liquidity position of the bank but very high ratio is not favorable for the bank's because it does not procedure appropriate profit to bear the high interest.

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

**Table No. : 4.1**

**Cash and Bank to Total deposit Ratio**

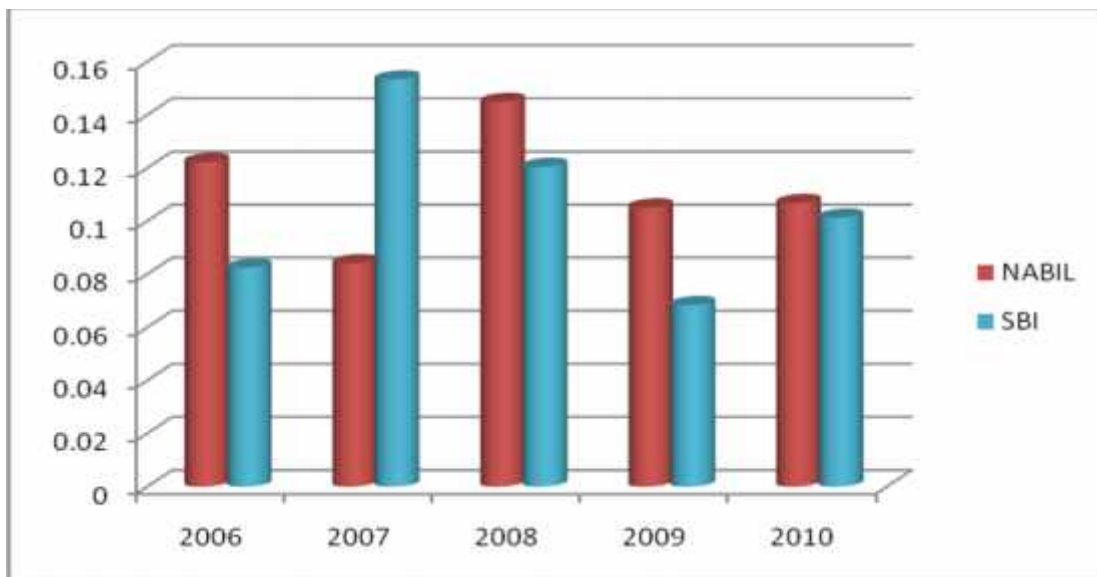
**Rs. in Million**

Year	NABIL	Cash & Bank	Total Depsoit	SBI	Cash & Bank	Total Deposit
2006	0.122243	2365.2	19,348	0.082422	894.5	10,853
2007	0.0841	1963.1	23342.4	0.153296	1754.5	11445.2
2008	0.144869	4623.5	31915.0	0.120419	1651.6	13715.4
2009	0.105103	3925.4	37348.3	0.068351	1910.9	27957.2
2010	0.106789	4701.2	44023.2	0.101265	2924.8	28882.5
<b>Mean</b>	<b>0.11262</b>			<b>0.10515</b>		
<b>SD</b>	<b>0.02256</b>			<b>0.03331</b>		
<b>CV</b>	<b>0.20035</b>			<b>0.31674</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.1**

**Cash and Bank to Total deposit Ratio**



Above table and figure show the fluctuation on cash and bank balance to total deposit ratio of all sample banks. During the study period, the ratio of NABIL is ranged between 0.1222 in 2006 to 0.1067 in 2010; NSBIBL is ranged between 0.0824 in 2006 and 0.1012 in 2010.

It is found that NABIL has maintained the highest mean ratio which is 0.11262 than NSBIBL. Even though NSBIBL maintain a low cash balance which is shown by low mean ratio 0.10515.

This consistency is measured by lowest C .V. (20.03) in NABIL which is lowest among the sample banks in comparison NSBIBL C.V. is 31.67 which Indicate the lower cash balance and higher.

#### **4.1.1.2 Current Ratio**

Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicated the current short-term solvency position of the bank. The current ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position. In other words, current represents a margin of safety.

The higher the current ratio, the greater the margin of safety, and the larger the amount of current assets in relationship to current liabilities, the more the bank's ability to meet its current obligations, although there is no hard and fast rule, conventionally a current ratio of 2:1 (current assets twice of current liabilities) is conducted satisfactory. Current assets are cash in hand, cash and bank, accrued income, prepaid expenses, bill receivable, debtors, stock etc. current liabilities are bills payable, account payable, outstanding expenses, bank overdraft, short term loan etc.

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

**Table No. 4.2**  
**Current Ratio**

**Rs. in Million**

Year	NABIL	Current Assets	Current Liabilities	SBI	Current Assets	Current Liabilities
2006	6.570607	45692.0	6,954	2.2058	17608.78	7,983
2007	7.145575	54828.0	7673.0	0.572	8391	14669.0
2008	2.060391	42306.0	<b>20533.0</b>	1.3073	17122.0	13097.0
2009	1.396781	3992.0	<b>2858.0</b>	1.7545	32568.0	18563.0
2010	0.851758	4022.0	<b>4722.0</b>	1.9245	<b>47206.5</b>	<b>24528.9</b>
<b>Mean</b>	<b>3.60502</b>			<b>1.553</b>		
<b>SD</b>	<b>3.0072</b>			<b>0.638</b>		
<b>CV</b>	<b>0.83417</b>			<b>0.411</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.2**  
**Current Ratio**

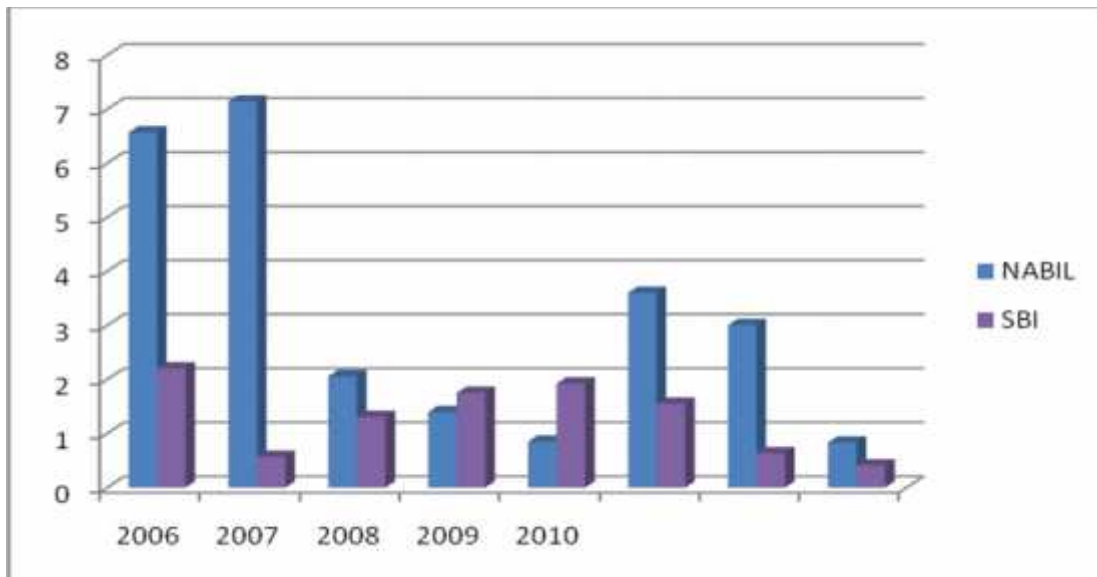


Table & figure show that current ratio of NABIL for the study period. Mean of the ratios appeared 3.60:1 and CV appeared 0.83417. Similarly the ratios of NSBIBL for

the corresponding period remained 2.20:1, 0.57:1, 1.30:1, 1.75:1 and 1.92:1 means of the ratios came 1.55:1 whereas CV came 0.411.

The ratio of both the banks showed slightly decreasing trend. In NABIL the ratio fall below 1:1 in the year 2010 whereas with respect to NSBIBL, it inclined in the final year with respect to the lowest ratio in the year 2007 which is remarkable at 0.57:1. Mean of the ratios in NSBIBL was less than that of NABIL which depicts that both of the banks maintain the conventional standard of 2:1. However, NABIL has the highest level of liquidity. Having a glance at the nature of assets and liabilities of the commercial banks, the ratio below the stated standard may be accepted as satisfactory.

#### **4.1.1.3 Fixed Deposit to Total Deposit Ratio:**

Fixed deposit is a long term and high interest charge bearing deposit. Although a high cost liability, increasing fixed deposit is subject to an additional advantage if utilized properly. Sufficient fixed deposit enables banks to grant long-term loan to their clients at higher interest rate. This ratio is calculated in order to find out the proportion of total deposit that has higher interest charge bearing. The higher the ratio, the more the interest bearing deposits as well as better liquidity and lower proportion of current to short-term deposit. It is computed by dividing the amount of fixed deposit by the total deposit amount, which is expressed as follows:

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

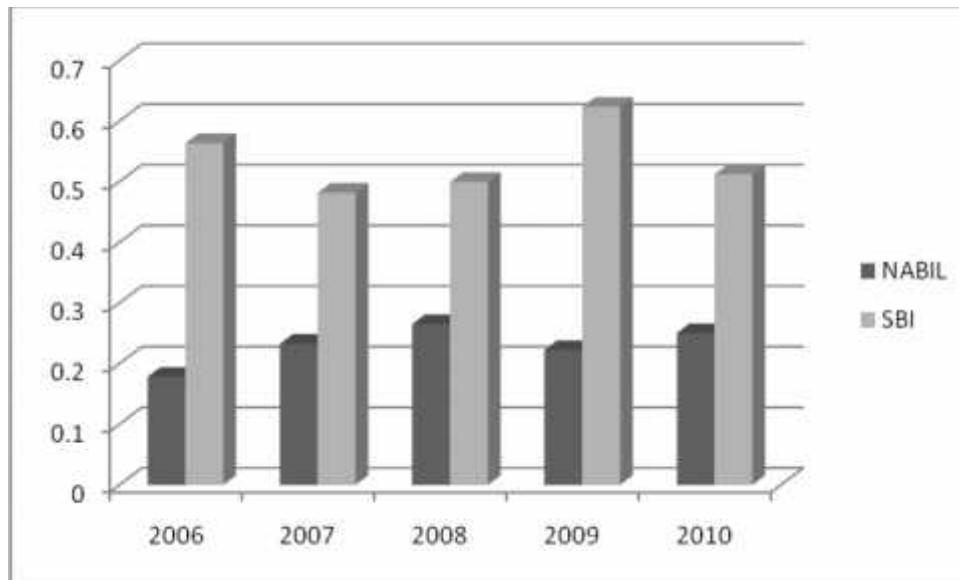
**Table No. 4.3**  
**Fixed Deposit to Total Deposit Ratio:**

**Rs. in Million**

Year	NABIL	Fixed Deposit	Total deposit	SBI	Fixed Deposit	Total Deposit
2006	0.17832	3,450	19,348	0.5636	6116.2	10,853
2007	0.23285	5435.2	23342.4	0.4821	5517.3	<b>11445.2</b>
2008	0.26521	<b>8464.1</b>	<b>31915.0</b>	0.4998	6854.9	<b>13715.4</b>
2009	0.22252	<b>8310.7</b>	<b>37348.3</b>	0.6238	17438.4	<b>27957.2</b>
2010	0.25047	<b>11026.7</b>	<b>44023.2</b>	0.5123	14797.8	<b>28882.5</b>
<b>Mean</b>	<b>0.2299</b>			<b>0.536</b>		
<b>SD</b>	<b>0.0331</b>			<b>0.058</b>		
<b>CV</b>	<b>0.1442</b>			<b>0.107</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.3**  
**Fixed Deposit to Total Deposit Ratio:**



The Table & figure highlight that the ratios of NABIL remained from 017832 to 0.25047 in the respective years of study period. Mean and CV of the ratios were

0.2299 and 0.0331 respectively. Similarly the ratios of NSBIBL were range from 0.5636 to 0.5123 in the respective years of study period.

The ratio of NABIL fluctuated every year during the study period it was highest in the year 2008 but the lowest in the year 2006. The ratio in NSBIBL was least in the year 2007. It abundantly rose in the last year. Mean ratio of NSBIBL came higher than that of NABIL. It suggests that greater portion of total deposit in NSBIBL has been occupied by fixed deposit in contrast to NABIL. It can grasp the opportunity of investing the fund in more profitable loans. On the other hand, NABIL has the opportunity to invest in current assets so as to strengthen its liquidity position. Overall liquidity position of the sampled banks appeared almost similar. In comparison, NSBIBL seemed slightly stronger than NABIL. But the mean ratio of the banks did not differ significantly.

#### **4.1.1.4 Saving Deposit to Total Deposit Ratio**

Saving deposit is an interest bearing short-term deposit. The ratio is developed in order to find out proportion of saving deposit which is interest bearing and short term in nature. It is calculated by dividing the total amount of saving deposit by the amount of total deposit, which can be expressed as follows:

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

**Table No. 4.4**  
**Saving Deposit to Total Deposit Ratio**

**Rs. in Million**

<b>Year</b>	<b>NABIL</b>	<b>Saving Deposit</b>	<b>Total deposit</b>	<b>SBI</b>	<b>Saving Deposit</b>	<b>Total Deposit</b>
2006	0.45331	8770.8	19,348	0.261	2832.7	10,853
2007	0.43643	10187.4	23342.4	0.2861	3274.7	<b>11445.2</b>
2008	0.38101	12160.0	<b>31915.0</b>	0.3041	4171.2	<b>13715.4</b>
2009	0.39146	14620.4	<b>37348.3</b>	0.2083	5822.3	<b>27957.2</b>
2010	0.3781	16645.2	<b>44023.2</b>	0.2531	7308.8	<b>28882.5</b>
<b>Mean</b>	<b>0.4081</b>			<b>0.263</b>		
<b>SD</b>	<b>0.0345</b>			<b>0.036</b>		
<b>CV</b>	<b>0.0845</b>			<b>0.139</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.4**  
**Saving Deposit to Total Deposit Ratio**

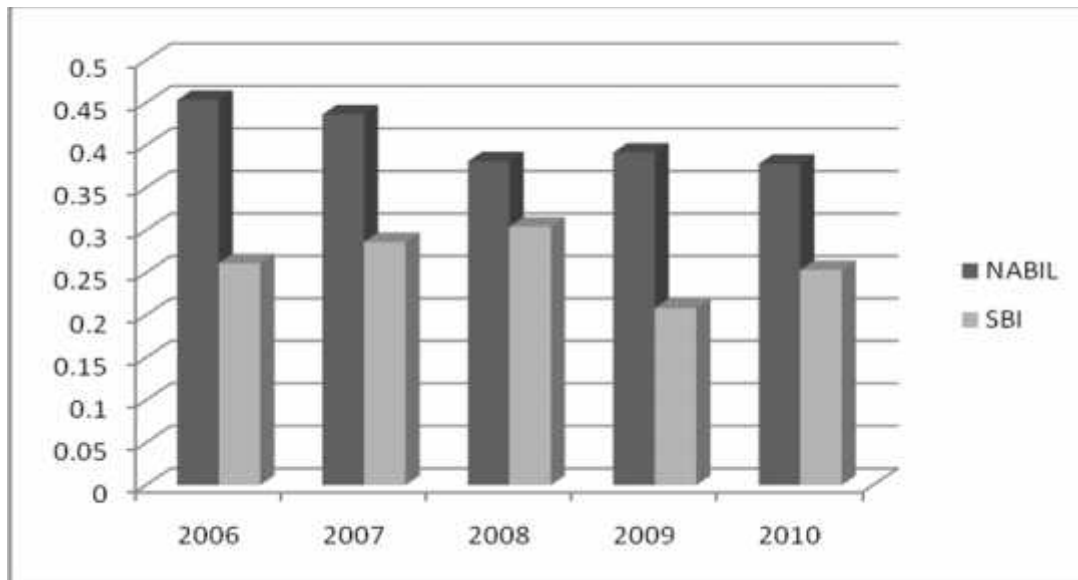


Table & figure show that, the ratio ranges from 0.45331 to 0.3781 in NABIL in the respective years of the period. Mean and CV of the ratios were 0.4081 and 0.0845 respectively. Similarly, the ratio remained from 0.261 to 0.2531 in corresponding

years of study period in NSBIBL. Mean of the ratios appeared 0.263 whereas CV appeared 0.139.

The ratios of both the banks revealed fluctuation trend over the period, of NABIL remained highest in the year 2006 and then it declined in consecutive years, the ratio appeared in fluctuating trend, it remained highest in NSBIBL in the year 2008 (0.0.3041). The means ratio of NSBIBL appeared less than that of NABIL, which indicates that the NABIL is more efficient in paying the immediate obligation. Higher CV of ratio in NSBIBL as compared to NABIL signifies less variation in the ratios.

#### 4.1.1.5 Cash and Bank Balance to Current Liabilities (CL) Ratio

This ratio obtained by dividing total cash and bank balance by total current liabilities. This ratio indicates how much cash is available to meet the current liabilities. Especially this ratio is useful to lenders.

$$\text{Cash and Bank Balance to Current Liabilities Ratio} = \frac{\text{Total Cash and Bank Balance}}{\text{Current Liabilities}}$$

**Table No. 4.5**

#### **Cash and Bank Balance to Current Liabilities (CL) Ratio**

**Rs. in Million**

<b>Year</b>	<b>NABIL</b>	<b>Cash &amp; Bank</b>	<b>CL</b>	<b>SBI</b>	<b>Cash &amp; Bank</b>	<b>CL</b>
2006	0.340121	2365.2	6,954	0.112049906	894.5	7,983
2007	0.255845	1963.1	7673.0	0.119605972	1754.5	14669.0
2008	0.225174	4623.5	<b>20533.0</b>	0.126105215	<b>1651.6</b>	13097.0
2009	1.373478	3925.4	<b>2858.0</b>	0.102941335	<b>1910.9</b>	18563.0
2010	0.995595	<b>4701.2</b>	<b>4722.0</b>	0.119238939	<b>2924.8</b>	<b>24528.9</b>
<b>Mean</b>	<b>0.63804</b>			<b>0.1159883</b>		
<b>SD</b>	<b>0.51817</b>			<b>0.0088281</b>		
<b>CV</b>	<b>0.81212</b>			<b>0.0761119</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.5**

**Cash and Bank Balance to Current Liabilities (CL) Ratio**

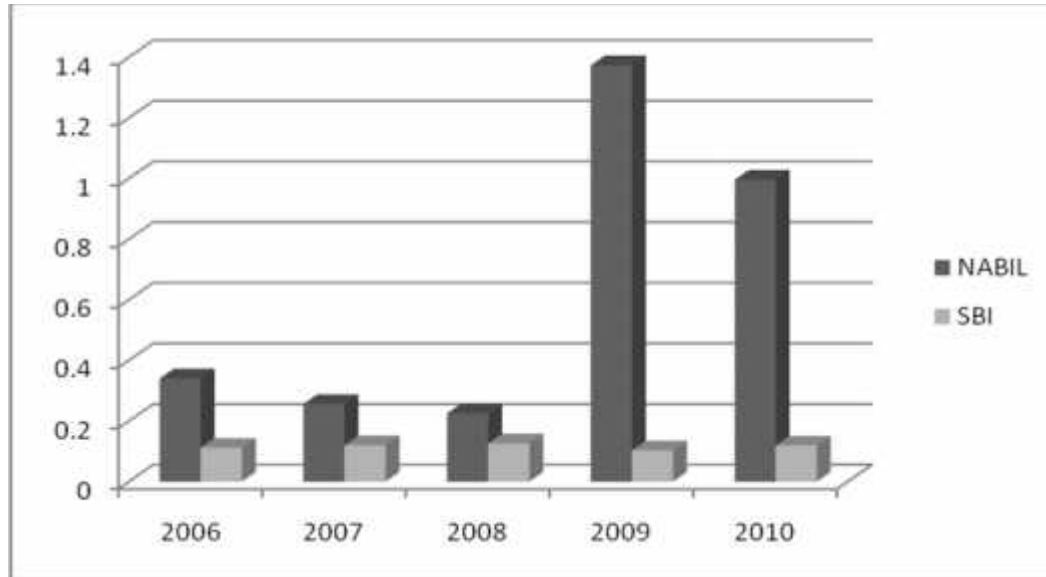


Table & figure show that, the ratio ranges from 0.3401 to 0.9955 in NABIL in the respective years of the period. Mean and CV of the ratios were 0.6380 and 0.81212 respectively. Similarly, the ratio remained from 0.1120 to 0.1192 in corresponding years of study period in NSBIBL. Mean of the ratios appeared 0.1159 whereas CV appeared 0.0761.

The ratios of both the banks revealed fluctuation trend over the period, of NABIL remained highest in the year 2009 and then it declined in consecutive years, the ratio appeared in fluctuating trend, it remained highest in NSBIBL in the year 2007 (0.1196). The means ratio of NABIL appeared greater than that of NSBIBL, which indicates that the NABIL is more efficient in paying the current liabilities. Higher CV of ratio in NABIL as compared to NSBIBL signifies more variation in the ratios.

**4.1.1.6 NRB Balance to Total Deposit Ratio:**

This ratio is obtained dividing NRB balance by total deposits. Bank has to hold a balance of certain percentages of total deposits. The amount should be deposited in Nepal Rastra Bank in order to satisfy legal requirements.

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

**Table No. 4.6**  
**NRB Balance to Total Deposit Ratio:**

**In Thousand**

Year	NABIL	NRB Balance	Total deposit	SBI	NRB Balance	Total Deposit
2006	0.01645	318358771.0	19,348,400,000	0.058	629900000	10,852,700,000
2007	0.0477	1113415436.0	23342400000.0	0.0486	556700000	<b>11445200000.0</b>
2008	0.05732	1829470769.0	<b>31915000000.0</b>	0.0294	403800000.0	<b>13715400000.0</b>
2009	0.07092	2648596348.0	<b>37348300000.0</b>	0.0159	444138596.0	<b>27957200000.0</b>
2010	0.01186	549454618.0	46,340,700,628	0.0528	<b>1842802239.0</b>	<b>34896424201.0</b>
<b>Mean</b>	<b>0.0408</b>			<b>0.041</b>		
<b>SD</b>	<b>0.0258</b>			<b>0.018</b>		
<b>CV</b>	<b>0.631</b>			<b>0.432</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.6**  
**NRB Balance to Total Deposit Ratio**

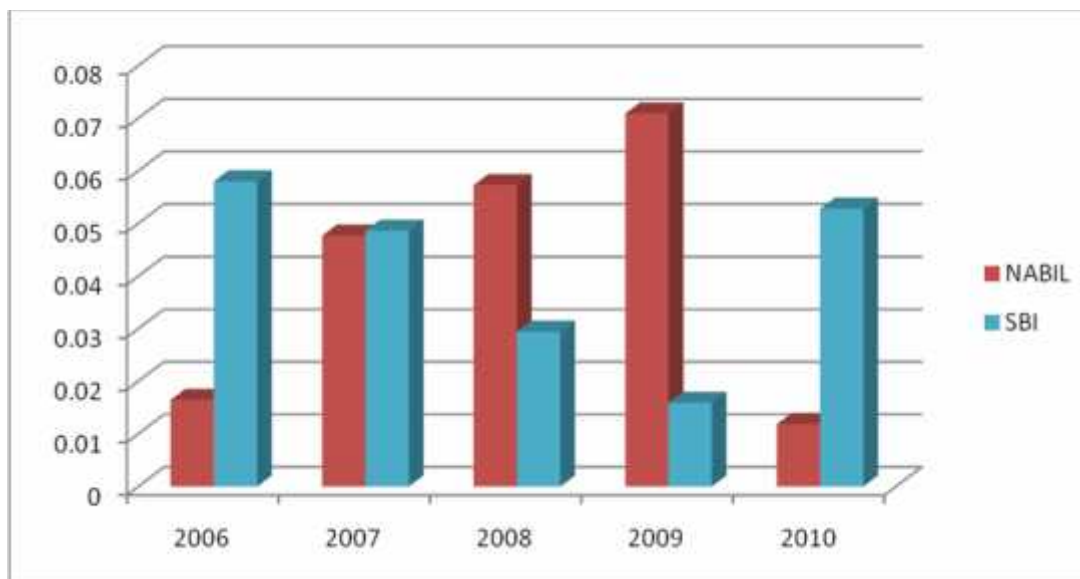


Table & figure Highlight that the ratios of NABIL ranges from 0.01645 to 0.01186 in the respective years of study period. Mean and CV of the ratios were 0.0408 and 0.631

respectively. Similarly the ratios of NSBIBL were range from 0.058 to 0.0528 in the respective years of study period.

The ratio of NABIL fluctuated every year during the study period it was highest in the year 2009 but the lowest in the year 2010. The ratio in NSBIBL was least in the year 2009. It abundantly rose in the last year by reaching 0.0528. Mean ratio of NSBIBL came higher than that of NABIL. It suggests that greater portion of total deposit in NSBIBL has been occupied by NRB Balance in contrast to NABIL. On the other hand, NABIL has the opportunity to invest in current assets so as to strengthen its liquidity position. The mean ratio of the banks differs significantly. In comparison, NSBIBL seemed stronger than NABIL.

#### **4.1.2 Profitability Ratio**

Profitability ratio rated is designed to provide answer to questions such as: Does the firm adequate earn the profit? What rate of return does it represent? What is firm? What is the rate? Return to equity holders?

The profitability of the bank was also be evaluated in term of its investment in assets and in term of capital contributed by creditors.

##### **4.1.2.1 Return on Total Assets Ratio**

It is shows that the relationship of company is net profit and assets. This ratio indicated that of the bank RTAR is higher bank could well manage their operations.

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

**Table No. 4.7**  
**Return on Total Assets Ratio**

**In Thousand**

<b>Year</b>	<b>NABIL</b>	<b>NPAT</b>	<b>Total assets</b>	<b>SBI</b>	<b>NPAT</b>	<b>Total Assets</b>
2006	0.02845	635262349.0	22,329,971,078	0.009	117,000,000	13,035,839,124
2007	0.02473	673959698.0	27253393008.0	0.0183	254910000.0	13901200559.0
2008	0.0201	746468394.0	<b>37132759149.0</b>	0.0144	247770758.0	17187446174.0
2009	0.0235	1031053098.0	<b>43867397504.0</b>	0.0105	316373495.0	30166439549.0
2010	0.02187	1139099399.0	<b>52079725697.0</b>	0.0103	<b>391742119.0</b>	<b>38047679465.0</b>
<b>Mean</b>	<b>0.0237</b>			<b>0.013</b>		
<b>SD</b>	<b>0.0032</b>			<b>0.004</b>		
<b>CV</b>	<b>0.1331</b>			<b>0.307</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.7**  
**Return on Total Assets Ratio**

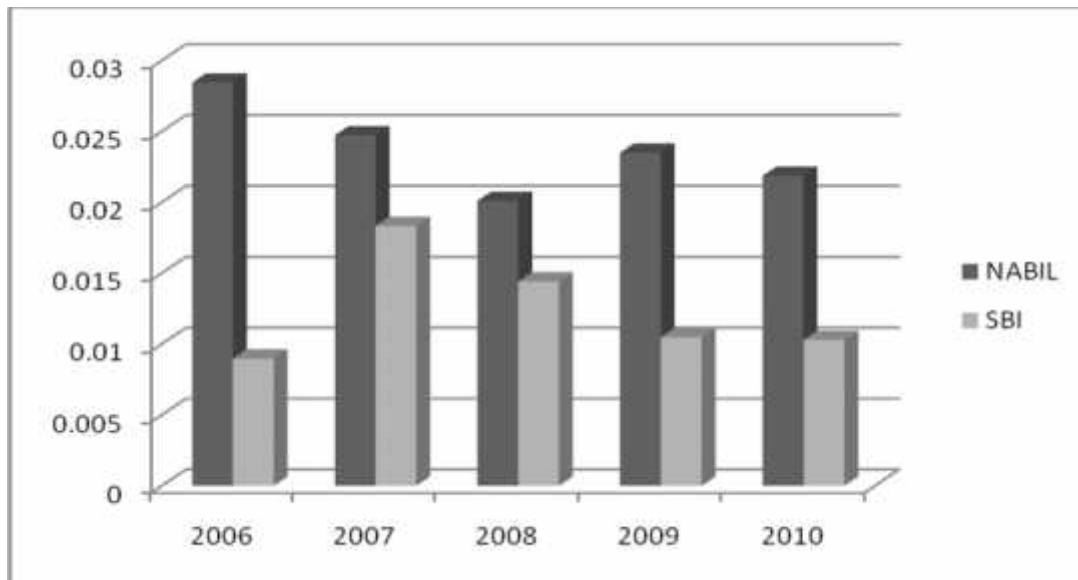


Table & figure demonstrates that the ratio in NABIL ranges from 0.02845 to 0.02187 in the respective years of review period. Mean and CV of the ratios appeared 0.0237 and 0.1331 respectively. Accordingly, the ratios of NSBIBL in the corresponding years ranged from 0.009 to 0.103. Mean of the ratios came 0.013 and CV came 0.307.

In NABIL, the ratio showed fluctuating trend. It rose astonishingly in the final year of the review period. It means profitability position of NABIL remained poor in the last year. Mean ratio was considerably higher in NABIL, which signifies that the profitability position of the bank in relation to this ratio is far better than that of NSBIBL. CV of the ratios in NSBIBL exceeded the same in NABIL by a small amount, which indicates that the variability of the ratios in NSBIBL was less high.

#### 4.1.2.2 Return on shareholders' equity (net worth)

This ratio also represents the relationship of book value per share for equity share holders. Net worth is calculated by deducting intangible assets from total liabilities.

$$\text{Return on shareholders' equity} = \frac{\text{NPAT}}{\text{Net Worth}}$$

**Table No. 4.8**  
**Return on shareholders' equity (net worth)**

<b>InThousand</b>						
<b>Year</b>	<b>NABIL</b>	<b>NPAT</b>	<b>Net Worth</b>	<b>SBI</b>	<b>NPAT</b>	<b>Net Worth</b>
2006	0.33881	635262349.0	1,874,994,417	0.1191	117,000,000	982,373,728
2007	0.32763	673959698.0	2057049715.0	0.2191	254910000.0	1163290851.0
2008	0.30628	746468394.0	<b>2437198989.0</b>	0.1751	247770758.0	1414644812.0
2009	0.32938	1031053098.0	<b>3130240637.0</b>	0.1847	316373495.0	1712607195.0
2010	0.29709	1139099399.0	<b>3834225929.0</b>	0.1599	<b>391742119.0</b>	2450554070.0
<b>Mean</b>	<b>0.3198</b>			<b>0.172</b>		
<b>SD</b>	<b>0.0174</b>			<b>0.037</b>		
<b>CV</b>	<b>0.0544</b>			<b>0.213</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.8**  
**Return on shareholders' equity (net worth)**

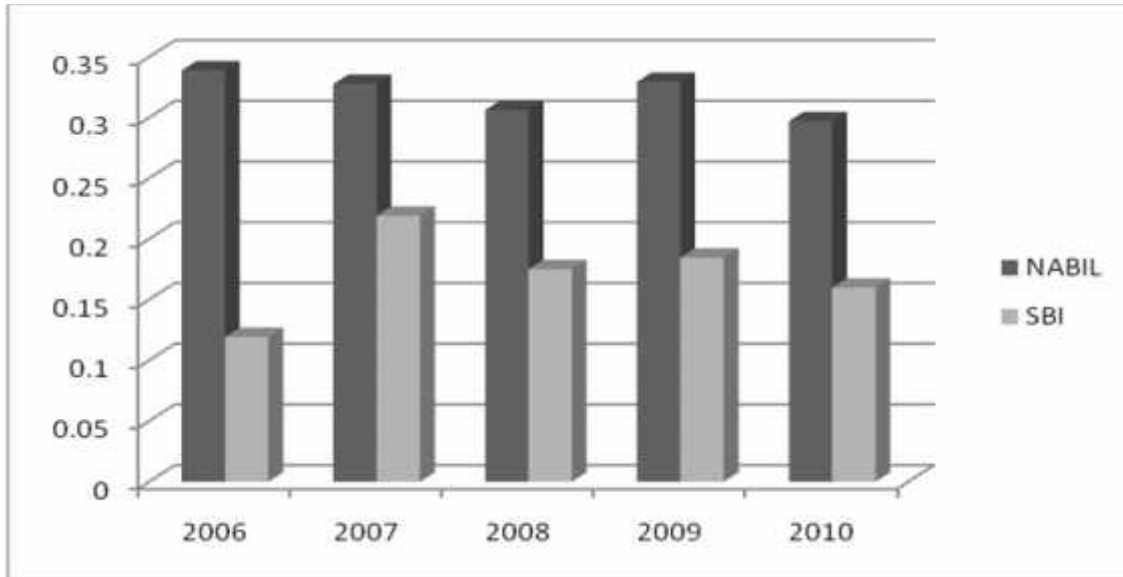


Table & figure depicts that the ratios in NABIL for the respective years of the study period. Mean ratio appeared 0.3198 and CV appeared 0.0544. On the similar way, the ratios of NSBIBL remained 0.1191 in 2006 and 0.1599 in the last year of the study period. Mean and CV of the ratios seemed 0.172 and 0.213 respectively.

The ratio in NABIL ascended in the last year as compared to that in the first year. In NSBIBL, it remained least in the year 2006 and increases satisfactorily in the last year. Mean ratio of NABIL appeared little more than that of NSBIBL. Higher CV of the ratios in NSBIBL signifies that lesser uniformity in the ratio.

#### **4.1.2.3 Return on Total Deposit Ratio**

This ratio is computed by net profit after tax dividing by total deposits. This ratio indicated the relation and net profit earned by bank with the total deposits accumulated.

$$\text{Return on shareholders' equity (net worth)} = \frac{\text{NPAT}}{\text{Total Deposit}}$$

**Table No. 4.9**  
**Return on Total Deposit Ratio**

**In Thousand**

Year	NABIL	NPAT	Total Deposit	SBI	NPAT	Total Deposit
2006	0.03283	635262349.0	19,348,400,000	0.0108	117,000,000	10,852,700,000
2007	0.02887	673959698.0	23342400000.0	0.0223	254910000.0	<b>11445200000.0</b>
2008	0.02339	746468394.0	<b>31915000000.0</b>	0.0181	247770758.0	<b>13715400000.0</b>
2009	0.02761	1031053098.0	<b>37348300000.0</b>	0.0113	316373495.0	<b>27957200000.0</b>
2010	0.02458	1139099399.0	46,340,700,628	0.0112	<b>391742119.0</b>	<b>34896424201.0</b>
<b>Mean</b>	<b>0.0275</b>			<b>0.015</b>		
<b>SD</b>	<b>0.0037</b>			<b>0.005</b>		
<b>CV</b>	<b>0.136</b>			<b>0.352</b>		

Source: Annual Report NABIL and NSBIBL

**Figure No. 4.9**  
**Return on Total Deposit Ratio**

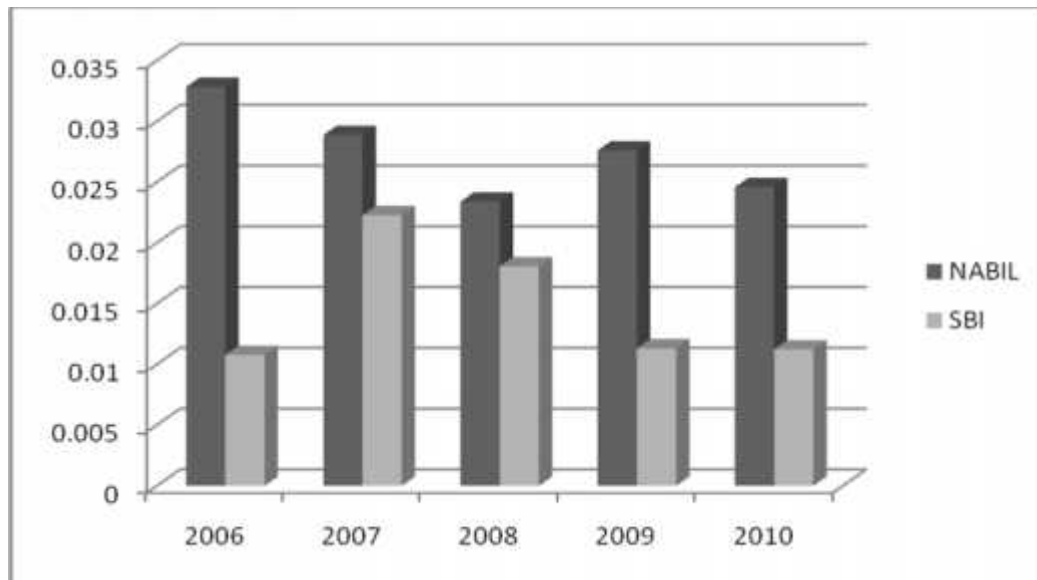


Table & figure exhibits that the ratios in NABIL ranges from 0.03253 to 0.02458 for the years of research period. Mean and CV of the ratios appeared 0.0275 and 0.136 respectively. In NSBIBL, the ratios ranges from 0.0108 to 0.0112. Mean of the ratios came 0.015 and CV came 0.352.

The ratios in NABIL followed fluctuating trend. In NSBIBL, it remained with little fluctuation up to the last year. Mean of the ratio was higher in NABIL than in NSBIBL. It signifies that the profitability of NSBIBL is unsatisfactory with respect to NABIL the ratio is seems better. Future more, NABIL has made noticeable improvement in its position in the last year. As depicted by CV analysis, the ratios are not widely varied in NSBIBL than NABIL.

#### **4.1.3 Turnover Ratio**

Turnover ratios, also known as utilization ratios or activity ratios or efficiency ratio are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses investment and economic resources at its command. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loans, advance and other innovation. So it sells the same High ratio depicts the managerial efficiency in utilizing the resources they show the sound profitability position off the bank low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity.

##### **4.1.3.1 Loan and advanced to total deposit ratio**

The ratio is computed by dividing total loans and advances by total deposit liabilities.

$$\frac{\text{Loan \& Advance}}{\text{Total Deposit}}$$

Loan and advanced consist of loans, advances, cash credit overdraft, foreign bills purchased and discounted.

**Table No. 4.10**

**Loan and advanced to total deposit ratio**

**Rs. in Million**

<b>Year</b>	<b>NABIL</b>	<b>Loan &amp; Advance</b>	<b>Total Deposit</b>	<b>SBI</b>	<b>Loan &amp; Advance</b>	<b>Total Deposit</b>
2006	0.667859	12922.0	19,348	1.3492	14642.0	10,853
2007	0.665956	15545.0	23342.4	1.4851	16997.0	<b>11445.2</b>
2008	0.669434	21365.0	<b>31915.0</b>	1.4215	19497.0	<b>13715.4</b>
2009	0.738695	27589.0	<b>37348.3</b>	0.8868	24793.0	<b>27957.2</b>
2010	0.732977	32268.0	<b>44023.2</b>	0.9688	27980.0	<b>28882.5</b>
<b>Mean</b>	<b>0.69498</b>			<b>1.222</b>		
<b>SD</b>	<b>0.03737</b>			<b>0.275</b>		
<b>CV</b>	<b>0.05377</b>			<b>0.225</b>		

Source: Annual Report NSBIBL and NABIL

The above table 4.10 showed the loan and advance to total deposit ratio of NABIL and NSBIBL for the five year. The ratio ranged from 0.6678 to 0.7329 during the study period for NABIL, Highest ratios in F/Y 2009 i.e 73.86% and lowest in F/Y 2007 i.e 66.59%. Similarly The ratio of NSBIBL ranged from 1.3492 to 0.9688 in 2006 to 2010, Highest ratios in F/Y 2007 i.e 148.51% and lowest in F/Y 2009 i.e 88.68% .In average , the mean ratio of NSBI has maintained i.e 1.222. which is higher then NABIL i.e  $0.69498 < 1.222$  and co-efficient of variation ratio is greater then Nabil i.e  $0.225 < 0.05377$ . It indicates that NSBI maintained fewer consistencies than NABIL.

**4.1.3.2 Loan and advances to fixed deposit ratio**

The ratio is calculated by dividing loans and advances by fixed deposit liabilities

$$= \frac{\text{Loan \& Advance}}{\text{Fixed Deposit Ratio}}$$

The ratio indicates what proportion of fixed deposit has been used of loans and advances. Since fixed deposits carry high rate of interest, fund so collected need to be

invested in such sectors, which yield at least sufficient return to meet the obligation. High ratio means utilization of the fixed deposit in form of loans.

**Table No. 4.11**  
**Loan and advanced to Fixed deposit ratio**

**Rs.In Million**

<b>Year</b>	<b>NABIL</b>	<b>Loan &amp; Advance</b>	<b>Fixed Deposit</b>	<b>SBI</b>	<b>Loan &amp; Advance</b>	<b>Fixed Deposit</b>
2006	3.74529	12922.0	3,450	2.394	14642.0	6116.2
2007	2.86006	15545.0	5435.2	3.0807	16997.0	5517.3
2008	2.52419	21365.0	8464.1	2.8442	19497.0	6854.9
2009	3.319696	27589.0	8310.7	1.4217	24793.0	17438.4
2010	2.926351	32268.0	11026.7	1.8908	27980.0	14797.8
<b>Mean</b>	<b>3.07512</b>			<b>2.326</b>		
<b>SD</b>	<b>0.46927</b>			<b>0.68</b>		
<b>CV</b>	<b>0.1526</b>			<b>0.292</b>		

Source: Annual Report NABIL AND NSBIBL

The above table showed the loan and advance to Fixed deposit ratio of NABIL and NSBIBL for the five year. The ratio ranged from 3.74529 to 2.9263 during the study period for NABIL, Higher in F/Y 2006 i.e 3.74529 and lower in F/Y 2008 i.e 2.52419. Whereas, the ratio of NSBIBL ranged from 2.394 to 1.8908 in 2006 to 2010, Higher in F/Y 2007 i.e 3.0807 and lower in F/Y 2009 i.e 1.4217. The mean ratio of NABIL is higher than NSBI i.e 2.326 < 3.07512. and Co-efficient of variation of NSBI is higher than NABIL 0.1526 < 0.292.

#### **4.1.3.3 Loan and advances to saving ratio**

The ratio is calculated using following formula

$$= \frac{\text{Loan \& Advance}}{\text{Saving Deposit}}$$

The ratio measures what extent of saving deposit has been turned over to loans and advances. Saving deposit also, being an interest bearing liability needs to be invested

in productive sector. High ratio indicates greater utilization of the saving deposit in advancing loans.

**Table No. 4.12**  
**Loan and advanced to Saving deposit ratio**

**Rs.In Million**

<b>Year</b>	<b>NABIL</b>	<b>Loan &amp; Advance</b>	<b>Saving Deposit</b>	<b>SBI</b>	<b>Loan &amp; Advance</b>	<b>Saving Deposit</b>
2006	1.473298	12922.0	8770.8	5.1689	14642.0	2832.7
2007	1.525905	15545.0	10187.4	5.1904	16997.0	3274.7
2008	1.75699	21365.0	12160.0	4.6742	19497.0	4171.2
2009	1.887021	27589.0	14620.4	4.2583	24793.0	5822.3
2010	1.938577	32268.0	16645.2	3.8283	27980.0	7308.8
<b>Mean</b>	<b>1.71636</b>			<b>4.624</b>		
<b>SD</b>	<b>0.20947</b>			<b>0.589</b>		
<b>CV</b>	<b>0.12204</b>			<b>0.127</b>		

Source: Annual Report NSBIBL and NABIL

The above table showed the loan and advance to Saving deposit ratio of NABIL and NSBIBL for the five year. The ratio ranged from 1.4732 to 1.9385 during the study period for NABIL, Higher in F/Y 2010 i.e 1.938577 and lower in F/Y 2006 i.e 1.473298. Whereas, the ratio of NSBIBL ranged from 5.1689 to 3.8283 in 2006 to 2010. Higher in F/Y 2007 i.e 5.1904 and lower in F/Y 2010 i.e 3.8283. The mean ratio of NSBI is higher than NABIL i.e 4.624 < 1.71636. and Co-efficient of variation of NSBI is higher than NABIL 0.127 < 0.122.

#### **4.1.3.4 Investment to total deposit ratio**

The ratio obtained by dividing investment by total deposits collection in the bank.

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

Investment comprises investment its Gov. treasury bills development bonds, company shares and other type of investment. The ratio shows how efficiently the major resources of the bank have been mobilized. High ratio indicates managerial efficiency

regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds.

**Table No. 4.13**  
**Investment to Total deposit ratio**

**Rs.In Million**

<b>Year</b>	<b>NABIL</b>	<b>Investment</b>	<b>Total Depsoit</b>	<b>SBI</b>	<b>Investment</b>	<b>Total Deposit</b>
2006	0.12261	2372.3	19,348	0.3391	3680.4	10,853
2007	0.229591	5359.2	23342.4	0.2049	2345.6	<b>11445.2</b>
2008	0.153207	4889.6	<b>31915.0</b>	0.2256	3093.6	<b>13715.4</b>
2009	0.10653	3978.7	<b>37348.3</b>	0.1183	3306.6	<b>27957.2</b>
2010	0.101765	4480.0	<b>44023.2</b>	0.0968	2796.5	<b>28882.5</b>
<b>Mean</b>	<b>0.14274</b>			<b>0.197</b>		
<b>SD</b>	<b>0.05255</b>			<b>0.097</b>		
<b>CV</b>	<b>0.36818</b>			<b>0.49</b>		

Source: Annual Report NSBIBL and NABIL

The above table showed the Investment to total deposit ratio of NABIL and NSBIBL for the five year. The ratio ranged from 0.12261 to 0.10176 during the study period for NABIL, Higher in F/Y 2007 i.e 0.229591 and lower in F/Y 2010 i.e 0.101765. Whereas, the ratio of NSBIBL ranged from 0.3391 to 0.0968 in 2006 to 2010, Higher in F/Y 2006 i.e 0.3391 and lower in F/Y 2010 i.e 0.0968. The mean ratio of NSBI is higher than NABIL i.e

$0.197 > 0.14274$  .and Co-efficient of variation of NSBI is higher than NABIL  $0.49 > 0.36818$  .

#### **4.1.3.5 Performing assets to total assets ratio**

It is calculated by dividing performing assets by total assets.

$$= \frac{\text{Performing Assets}}{\text{Total Assets Ratio}}$$

Performing assets to total assets include those assets, which are invested for income generating purpose. These consist of loans, advances; bills purchased and discounted investment and money at call or short notice.

**Table No. 4.14**  
**Performing Assets to Total Assets ratio**

**Rs.In Thousand**

<b>Year</b>	<b>NABIL</b>	<b>Performing Assets</b>	<b>Total Assets</b>	<b>SBI</b>	<b>Performing Assets</b>	<b>Total Assets</b>
2006	0.986	22010884931.0	22,329,971,078	0.995	12969127326.0	13,035,839,124
2007	0.989	26966497784.0	27253393008.0	0.993	13803981755.0	13901200559.0
2008	0.984	36534720151.0	37132759149.0	0.993	17067223915.0	17187446174.0
2009	0.985	43206408518.0	43867397504.0	0.992	29912858854.0	30166439549.0
2010	0.986	51370697583.0	52079725697.0	0.989	37629434705.0	38047679465.0
<b>Mean</b>	<b>0.986</b>			<b>0.992</b>		
<b>SD</b>	<b>0.002</b>			<b>0.002</b>		
<b>CV</b>	<b>0.002</b>			<b>0.002</b>		

Source: Annual Report NSBIBL and NABIL

The above table showed the performing assets to total assets ratio of NABIL and NSBIBL for the five year. The ratio ranged from 0.986 to 0.986 during the study period for NABIL. Higher in F/Y 2007 i.e 0.989 and lower in F/Y 2008 i.e 0.984. Whereas, the ratio of NSBIBL ranged from 0.995 to 0.989 in 2006 to 2010. Higher in F/Y 2006 i.e 0.995 and lower in F/Y 2010 i.e 0.989. The mean ratio of NSBI is higher than NABIL i.e  $0.992 < 0.986$  .and Co-efficient of variation of NSBI is equal to NABIL  $0.002 = 0.002$  .

#### **4.1.4 Risk Ratio**

Risk taking is the prime business of bank's investment management. The proper risk management increase effectiveness and profitability of the bank. These ratios inductee the amount of risk associated with the various banking operations, which ultimately influences the bank's investment policy.

### i) Liquidity Risk Ratio

This can be mentioned as

$$\text{Liquidity Risk Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total Deposit}}$$

**Table No. 4.15**

#### **Total cash & bank balance to total deposit ratio**

**Rs In Million**

Year	NABIL	Cash and Bank	Total deposit	NSBIBL	Cash and Bank	Total deposit
2006	0.12224	2365.2	19,348	0.0824	894.5	10,853
2007	0.0841	1963.1	23342.4	0.1533	1754.5	11445.2
2008	0.14487	4623.5	31915.0	0.1204	1651.6	13715.4
2009	0.1051	3925.4	37348.3	0.0684	1910.9	27957.2
2010	0.10679	4701.2	44023.2	0.1013	2924.8	28882.5
Mean	0.1126			0.105		
SD	0.0226			0.033		
CV	0.2004			0.317		

Source: Annual Report NSBIBL and NABIL

Above table and figure show is the fluctuation on cash and bank balance to total deposit ratio of all sample banks. During the study period, the ratio of NABIL is ranged between 0.1222 in 2006 to 0.1067 in 2010; NSBIBL is ranged between 0.0824 in 2006 and 0.1012 in 2010.

It is found that NABIL has maintained the highest mean ratio which is 0.11262 than NSBIBL. Even though NSBIBL maintain a low cash balance which is shown by low mean ratio 0.10515.

This consistency is measured by lowest C .V. (20.03) in NABIL which is lowest among the sample banks in comparison NSBIBL C.V. is 31.67 which Indicate the lower cash balance and higher.

## ii) Credit Risk Ratio

Credit risk ratios measure the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan & advances by total assets.

This can be mentioned as,

$$\text{Credit Risk Ratio} = \frac{\text{Total Non-Performing Assets}}{\text{Total Loans and Advances}}$$

## 4.1.5 Growth Ratios

Growth ratios measure how well the firm is maintaining its economic position in its industry. It is directly related to the fund mobilization and investment management of a commercial bank. Higher the ratios better the performance of a bank.

**Table No.4.16**  
**Growth ratio of Loan & Advance, Investment, and Total deposit**

Year	NABIL			SBI		
	L&A	Investment	Total Deposit	L&A	Investment	Total Deposit
2006	1292.3	2372.3	19,348	7626.7	3680.4	10,853
2007	1554.6	5359.2	23342.4	9460.5	2345.6	11445.2
2008	2136.5	4889.6	31915.0	1211.4	3093.6	13715.4
2009	2759.0	3978.7	37348.3	1513.2	3306.6	27957.2
2010	3226.9	4480.0	44023.2	1748.1	2796.5	28882.5
Growth rate	0.25707	0.1722685	0.22817185	-0.3081	-0.066359	0.277245102
%	25.7069	17.226852	22.8171846	-30.808	-6.635892	27.72451022

Source: annual report of Nabil & SBI

The above table presents the growth rate ratio of Loan & Advance, Investment, and Total deposit of Nabil Bank and SBI bank. It is seen that in case of Nabil bank the growth rate for L&A, Investment, and Total Deposit were 25.70%, 17.22%, and

22.81% respectively. In case of SBI there is negative growth on L&A and Investment at -30.80% and -6.63% respectively except total deposit which has positive growth rate of 27.72%. It means the performance of NSBI to collect grant loan and advances and to invest is compared to lower than NABIL, but the deposit is higher than NABIL.

#### 4.2.1 Trend Analysis

The concept of trend does not include short-range collections but rather the steady movement over a long time. Trend is the general smooth long-term average tendency. It is not necessary that the increase or decline should be in the same direction throughout the given period. It may be possible that different tendencies of increase, decrease or stability are observed in different sections of time. Trend Analysis occupies an important place in the analysis and interpretation of financial statements. Most of the series relating to economics, business and commerce e.g. population, production, price, consumption, national income, foreign exchange reserves, bank deposits, investment, bank clearings, dividend on shares etc are all time series spread over a long period of time. It helps in forecasting and planning the future courses of action. Here, in the study, least square method of trend analysis is applied for the analysis of trend of the bank's Loan & Advance, Investment, and Total Deposit using MS Excel.

**Table No. 4.17**  
**Trend Analysis**

Year	NABIL			SBI		
	L&A	Investment	Total Deposit	L&A	Investment	Total Deposit
2006	1292.3	2372.3	19,348	7626.7	3680.4	10,853
2007	1554.6	5359.2	23342.4	9460.5	2345.6	11445.2
2008	2136.5	4889.6	31915.0	1211.4	3093.6	13715.4
2009	2759.0	3978.7	37348.3	1513.2	3306.6	27957.2
2010	3226.9	4480.0	44023.2	1748.1	2796.5	28882.5

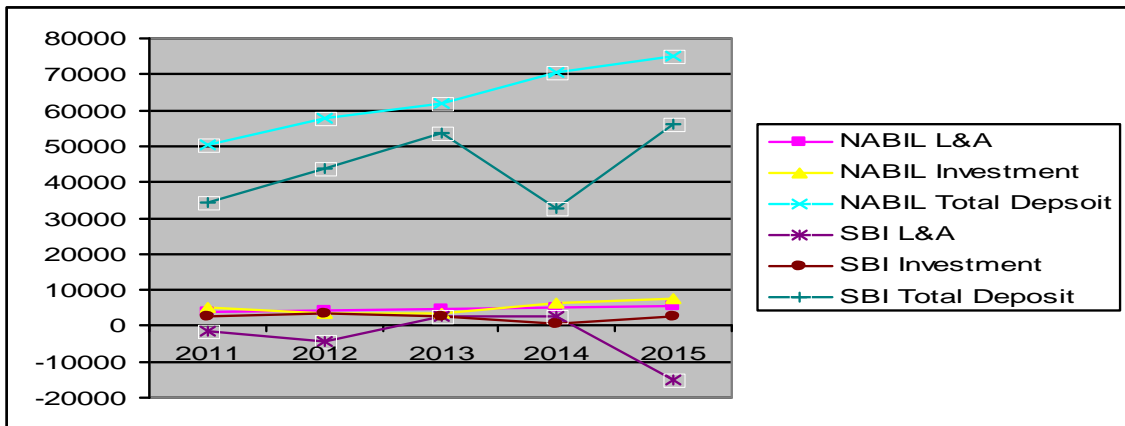
### Trend Value

2011	3715.948	5066.43	50202.11	-1599.43	2802.5	34342.08
2012	4393.037	3434.9	57773.72	-4509.12	3433.57	43793.87
2013	4888.226	3630.23333	61978.56667	2564.236	2471.36667	53852.56667
2014	5098.463	6485.2	70722.8	2687.575	756.1	32583.7
2015	5672.191	7412.15	74917.75	-14989.4	2826.5	56180.4

The above table showed the trend of L&A, Investment, and total Deposit for the sample bank for upcoming 5 years period from 2010 to 2015. In case of Nabil Bank, due to the positive growth rate during the study period, it is seen that total L&A would be 5672.19 in the year 2015. In the same way its investment and total deposit would also increases to 7412.15 and 74917.75 respectively in the year 2015. Likewise, in case of SBI, due to the cause of negative growth rate, the trend value for L&A, and Investment would decreases to -14989.4 and 2826.5 in the year 2015. However, due to the cause of positive growth on Total deposit, the trend value for the year 2015 would be increases to 56180.4.

The figure below makes clear the above factors.

**Figure No. 4.10**  
**Trend Analysis**



#### 4.2.2 Regression analysis & Test of Hypothesis

The objective of this test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population.

**Table No. 4.18**

#### **Relationship of Loan&Advance to Total Deposit and Total Investment of NABIL**

Year	L&A	Investment	Total Deposit
2006	1292.3	2372.3	19,348
2007	1554.6	5359.2	23342.4
2008	2136.5	4889.6	31915.0
2009	2759.0	3978.7	37348.3
2010	3226.9	4480.0	44023.2
Mean	2193.844	4215.96	31195.46
SD	807.989	1149.552105	10061.68
CV	36.82984	27.26667486	32.25366

Variables	r	r <sup>2</sup>	t-cal	a-value	b-value	t-table	Remarks
L&A Vs. TI	0.27762	0.077073	0.577959	1371.18	0.195132	2.776	Insignificant
L&A Vs. TD	0.996006	0.992027	22.30928	301.258	0.079983	2.776	Significant

The table given above (Table No. 4.18) shows the relation of Loan&Advance with Total Deposit and Total Investment. It reflects that L&A of NABIL Bank is positively correlated with TD and Negatively correlated with TI. It indicates that raise in these indicators results the rise in L&A and vice versa. The simple correlation coefficient of TI and TD are 36.82%, 27.266%, and 32.25% respectively.

#### **Decision:**

#### **L&A with Total Investment**

Since the calculated value of t i.e., 0.5779 is less than the tabulated value i.e. 2.776, the null hypothesis is accepted. This means there is no significant difference between mean ratios of Loan & Advance to total Investment of Nabil Bank Limited.

**L&A with Total Deposit**

Since the calculated value of t i.e., 22.3092 is more than the tabulated value i.e. 2.776, the null hypothesis is rejected. This means there is significant difference between mean ratios of Loan & Advance to total Deposit of Nabil Bank Limited.

The **Simple Regression** equation of TD and TI taking L&A as dependent variable is given below:

**Table: 4.19**  
**Regression Equation of NABIL**

S.N.	Variables	Regression Equation
1	L&A Vs. TI	$L\&A = 0.1951 TI + 1371.18$
2	L&A Vs. TD	$L\&A = 0.0799 TD - 301.25$

The first equation is the regression equation of L&A on TI. The regression constant equals to 1371.18. This means that when TI falls to zero, L&A equals to Rs. 1371.18. Likewise, the constant for TI equals to 0.1951 implies that when TI increases by Re. 1, L&A increases by Rs. 0.1951 and vice versa.

The second equation refers to the regression equation of L&A on TD. The regression constant equals to -301.25. This means that when TD becomes zero, L&A will fall to Rs. 301.25. Likewise, the constant for TD equals to 0.0799 meaning that when TD increases/decreases by Re. 1, L&A increases/decreases by Rs. 0.0799 and vice versa.

**Table No.4.20**

**Relationship of L&A to Total Deposit and Total Investment of SBI**

Year	L&A	Investment	Total Deposit
2006	7626.7	3680.4	10,853
2007	9460.5	2345.6	11445.2
2008	1211.4	3093.6	13715.4
2009	1513.2	3306.6	27957.2
2010	1748.1	2796.5	28882.5
Mean	4311.957	3044.54	18570.6
SD	3921.58	506.320361	9060.268
CV	90.94664	16.63043879	48.78823

Variables	r	r <sup>2</sup>	t-cal	a-value	b-value	t-table	Remarks
L&A Vs. TI	-0.21913	0.048016	-0.44917	9479.112663	-1.697188	2.776	Insignificant
L&A Vs.TD	-0.70308	0.494328	-1.97744	9963.326026	-0.304318	2.776	Insignificant

The table given above (Table No. 4.2) shows the relation of loan & Advance with total deposit and total investment. It reflects that L&A of SBI Bank is negatively correlated with TD and TI. It indicates that decrease in these indicators results the decrease in L&A and vice versa. The simple correlation coefficient of TI and TD are 90.94%, 16.63%, and 48.78% respectively.

**Decision:**

**L&A with Total Investment**

Since the calculated value of t i.e., -0.4491 is less than the tabulated value i.e. 2.776, the null hypothesis is accepted. This means there is no significant difference between mean ratios of Loan & Advance to total investment of SBI Bank Limited.

### **L&A with Total Deposit**

Since the calculated value of  $t$  i.e.,  $-1.9774$  is less than the tabulated value i.e.  $2.776$ , the null hypothesis is accepted. This means there is no significant difference between mean ratios of Loan & Advance to total deposit of SBI Bank Limited.

The **Simple Regression** equation of TD and TI taking L&A as dependent variable is given below:

**Table: 4.21**  
**Regression Equation of SBI**

S.N.	Variables	Regression Equation
1	L&A Vs. TI	$L\&A = -1.6971 TI + 9479.11$
2	L&A Vs. TD	$L\&A = -0.3043 TD + 9963.32$

The first equation is the regression equation of L&A on TI. The regression constant equals to  $9479.11$ . This means that when TI falls to zero, L&A equals to Rs.  $9479.11$ . Likewise, the constant for TI equals to  $-1.6971$  implies that when TI increases or decreases by Re. 1, L&A increases or decreases by Rs.  $1.6971$ .

The second equation refers to the regression equation of L&A on TD. The regression constant equals to  $9963.32$ . This means that when TD falls to zero, L&A equals to Rs.  $9963.32$ . Likewise, the constant for TI equals to  $-0.3043$  implies that when TI increases or decreases by Re. 1, L&A increases or decreases by Rs.  $0.3043$ .

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter consists of summary, conclusion and recommendation. After completion of analysis chapter one should have to enlist finding and should make necessary suggestions on the basis of the study. The entire study has no meaning until and unless the researcher summarizes, concludes and provides his/her recommendation in the respective field.

#### **5.1 Summary**

Joint venture banks are major financial institutions which occupy quite an important place in the framework of every economy because they provide capital for the development of industry trade and business and other resources deflect sectors investing the saving collected as deposit joint venture banks by playing active role have changed the economic structure of the world. JOINT VENTURE banks have its own role and contribution in the economic development it maintains economic confidence of various segments and extends credit to people. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and planned effort pushed forward the force of economic growth.

The income and profit of the bank depends upon its lending procedure lending policy and investment of its fund utilize in different securities. Joint venture banks able to utilize its deposits properly i.e. providing loans and advances or lending for a profitable project the reason behind it is lack of sound investment policy. The objective of this study is to evaluate the investment policies adopted by NABIL and SBI bank limited. The study is totally based on secondary sources to data i.e. population sample. Financial tools, statistical tools etc. The required data has been collected from various financial tools i.e.liquidity ratio, asset management ratio, profitability ratio, risk ratio,growth ratio and statistical tools like percentage, mean,

standard deviation, coefficient of variation, trend analysis, test of hypothesis and regression analysis etc.

Regarding the investment policies of joint venture banks there are basically five basic principles of the bank follow while providing the loans i.e. liquidity, profitability, security, suitability and diversification. Various processes while making investment decision are applied in the study i.e. set investment process security analysis portfolio construction, revision, performance evaluation.

This study mainly aims to examine the financial performance of the company and forecast the five year trend of net profit. Although many studies are already conducted in Nepal to examine the performance of a company or some companies, this study is based on small sample and examines the performance of sampled listed commercial banks whose financial statements are available. The data taken for the study is of secondary nature. The required secondary data are collected mainly from the annual reports of listed companies and the web-page of NEPSE: [www.nepalstock.com](http://www.nepalstock.com). The other sources of secondary data are the various publications of securities Board, Nepal; Nepal Stock Exchange Limited and Nepal Rastra Bank.

Among the 31 commercial banks, only two banks namely NABIL and NSBIBL have been taken as the sampled commercial banks to analyze the financial performance and their trend on net profit.

Various statistical and financial analyses have been performed to satisfy the mentioned objectives.

## 5.2 Major Findings

- ) Liquidity ratio of NABIL is found to be high than NSBIBL such as Cash and Bank to Total deposit Ratio, Current Ratio, Saving Deposit to Total Deposit Ratio, Cash and Bank Balance to Current Liabilities (CL) Ratio, NRB Balance to Total Deposit Ratio. NABIL has sound liquidity position in comparison to NSBIBL.
- ) Profitability ratio of NABIL and NSBIBL showed fluctuating trend. Return on Total Assets Ratio, Return on ordinary shareholders' equity (net worth). Higher CV of the ratios in NABIL signifies that lesser uniformity in the ratio. Return on Total Deposit Ratio in NSBIBL followed increasing trend up to the second year. In NABIL, it remained with little fluctuation up to the last year. Profitability of NABIL is volatile cannot be assessed but the profitability of is constant.
- ) The Turnover Ratio of both the banks is found to be fluctuating trend.
- ) This consistency is measured by lowest C .V. (20.03) in NABIL which is lowest among the sample banks in comparison NSBIBL C.V. is 31.67 which Indicate the lower cash balance and higher.
- ) It is seen that in case of Nabil bank the growth rate for L&A, Investment, and Total Deposit were 25.70%, 17.22%, and 22.81% respectively. In case of SBI there is negative growth on L&A and Investment at -30.80% and -6.63% respectively except total deposit which has positive growth rate of 27.72%.
- ) Trend analysis:
  - o In case of Nabil Bank, due to the positive growth rate during the study period, it is seen that total L&A would be 5672.19 in the year 2015. In the same way its investment and total deposit would also increases to 7412.15 and 74917.75 respectively in the year 2015.
  - o In case of SBI, due to the cause of negative growth rate, the trend value for L&A, and Investment would decreases to -14989.4 and 2826.5 in the year 2015. However, due to the cause of positive growth on Total deposit, the trend value for the year 2015 would be increases to 56180.4.

## ) Regression analysis and Test of Hypothesis

- There is significant difference between mean ratios of Loan & Advance to total deposit of Nabil Bank Limited.
- There is no significant difference between mean ratios of Loan & Advance to total Investment of Nabil Bank Limited.
- There is no significant difference between mean ratios of Loan & Advance to total investment of SBI Bank Limited.

There is no significant difference between mean ratios of Loan & Advance to total deposit of SBI Bank Limited

### **5.3 Conclusion**

Investment policy plays a key role on the development of countries utmost investment. The political insanity, government rules, tax policy treaty with neighbor country, social and economic condition of the country affect investment policy of bank. to keep up the stability with the foreign policy results the improvement of investment policy. Designing good investment policy helps to the improvement of investment policy in the country. As political influence, intervention economic scenario and social, economic scenario of the country is dramatically problem for the detection of designing investment policy of bank. As the investor, the adequate knowledge of investment policy is required. Major problem for applying the investment policies are integrator of the consumer, changing policy of the country, industrial policy and neighbor country's policy.

Liquidity position of both of the banks seems satisfactory. Overall liquidity position of NABIL appears stronger that of NSBIBL. It shows that NABIL can meet its current liabilities more efficiently that NSBIBL. However, looking up more funds in form of current assets in also not wise because it has negative impact on profitability. NSBIBL is found more successful to utilize its deposit in profitable sector. Liquidity ratio of NABIL is found to be high than NSBIBL such as Cash and Bank to Total deposit Ratio, Current Ratio, Saving Deposit to Total Deposit Ratio, Cash and Bank Balance to Current Liabilities (CL) Ratio, NRB Balance to Total Deposit Ratio. NABIL has

sound liquidity position in comparison to NSBIBL. Profitability ratio of NABIL and NSBIBL showed fluctuating trend. Return on Total Assets Ratio, Return on ordinary shareholders' equity (net worth). Higher CV of the ratios in NABIL signifies that lesser uniformity in the ratio. Return on Total Deposit Ratio in NSBIBL followed increasing trend up to the second year. In NABIL, it remained with little fluctuation up to the last year. Profitability of NABIL is volatile cannot be assessed but the profitability of is constant. The Turnover Ratio of both the banks is found to be fluctuating trend. This consistency is measured by lowest C .V. (20.03) in NABIL which is lowest among the sample banks in comparison NSBIBL C.V. is 31.67 which Indicate the lower cash balance and higher. It is seen that in case of Nabil bank the growth rate for L&A, Investment, and Total Deposit were 25.70%, 17.22%, and 22.81% respectively. In case of SBI there is negative growth on L&A and Investment at -30.80% and -6.63% respectively except total deposit which has positive growth rate of 27.72%.

Trend analysis: In case of Nabil Bank, due to the positive growth rate during the study period, it is seen that total L&A would be 5672.19 in the year 2015. In the same way its investment and total deposit would also increases to 7412.15 and 74917.75 respectively in the year 2015. In case of SBI, due to the cause of negative growth rate, the trend value for L&A, and Investment would decreases to -14989.4 and 2826.5 in the year 2015. However, due to the cause of positive growth on Total deposit, the trend value for the year 2015 would be increases to 56180.4.

#### Regression analysis and Test of Hypothesis

There is significant difference between mean ratios of Loan & Advance to total deposit of Nabil Bank Limited. There is no significant difference between mean ratios of Loan & Advance to total Investment of Nabil Bank Limited. There is no significant difference between mean ratios of Loan & Advance to total investment of SBI Bank Limited. There is no significant difference between mean ratios of Loan & Advance to total deposit of SBI Bank Limited.

## 5.4. Recommendations

On the basis of major findings some important suggestions have been forwarded so that they will help the sampled banks to strengthen weaker aspects of financial activities.

- ) Both of the banks have maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. So, both of the banks are suggested to lower this ratio and invest the surplus fund in other current assets such as loans and advances, bills purchase and discount, money at call and short notice.
- ) It is suggestive that these banks should hold the fund in form of cash or cash equivalent items only to the extent of requirement. Though it is difficult to know the exactly suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.
- ) In NABIL, earning, compared to the total deposit accumulated could not grow proportionately. Therefore, NABIL is suggested to invest in other current assets rather than in the low yielding Treasury bill on which interest has significantly declined at present. If the liquidity position does not appear weaker, it will be better for the bank to increase the investment in long-term loans after analyzing risk.
- ) Both of the banks are suggested to review their investment priorities to see if there is any better mix than the present one.
- ) Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the banks are suggested to diversify their loans in priority and deprived sectors as per the directive of NRB.
- ) In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its

marketing function,as it is an effective tool of attracting and retaining customers.For this purpose, the banks should develop an “Innovative approach to bank marketing” and formulate new strategic of serving customers in a more convenient and satisfactory way.

- ) Both the Banks are suggested to collect more amount as deposit through large variety of deposit scheme like Interest Scheme, cumulative deposit scheme, prize bond scheme, gift cheque scheme, free ABBS charge, free E-banking, Sms Banking, Free Debit card etc.
- ) NABIL is Operating with Limited Branch while NSBIL has greater network of branches all over country. therefore NABIL recommended to expand its hands provide banking service and facilities to the rural areas and communities to accelerate they rural areas economic development, through opening new branches in particular area after making feasibility study and study well about saving and business potentiality of those areas, it is very helpful to bank in tapping the resources of different areas.

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[www.nepalstock.com](http://www.nepalstock.com)

1	Nepal Bank Limited	1937/11/15	Dharmapath,Kathmandu
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## Appendix - 1

2	Rastriya Banijya Bank	1966/01/23	SinghDarbar,kathmandu
3	Nabil Bank Limited	1984/07/16	Kantipath, Kathmandu
4	Nepal Investment Bank Limited	1986/02/07	Durbarmarg , Kathmandu
5	Standard Chartered Bank Nepal Limited	1987/01/30	NayaBaneshwor, Kathmandu
6	Himalayan Bank Limited	1993/01/18	Thamel ,Kathmandu
7	Nepal SBI Bank Limited	1993/07/07	Hattishar,Kathmandu
8	Nepal Bangladesh Bank Limited	1993/06/05	NayaBaneshwor , Kathmandu
9	Everest Bank Limited	1994/10/18	Lazimpat, Kathmandu
10	Bank Of Kathmandu Limited	1995/03/12	Kamaladi, Kathmandu
11	Nepal Credit and Commerce Bank limited	1996/10/14	Siddhartha nagar, Rupandehi
12	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitwan
13	Nepal Industrial &Commercial Bank limited	1998/07/21	Biratnagar, Morang
14	Machhapuchhre Bank Limited	2000/10/03	Prithivichowk , Pokhara
15	Kumari Bank limited	2001/04/03	Putalisadak ,Kathmandu
16	Laxmi Bank limited	2002/04/03	Adarshanagar,Birgung
17	Siddhartha Bank limited	2002/12/24	Kamaladi,Kathmandu
18	Agriculture Development Bank limited	2006/03/16	Ramshapath, Kathmandu
19	Global Bank limited	2007/01/02	Birgung,Parsa
20	Citizens Bank International Limited	2007/06/21	Kamaladi, Kathmandu
21	Prime Commercial Bank Limited	2007/09/24	New road, Kathmandu
22	Sunrise Bank Limited	2007/10/12	Gairidhara crossing, Kathmandu
23	Bank Of Asia Nepal Limited	2007/10/12	Tripureswor, Kathmandu
24	Development Credit Bank Limited	2001/01/23	Kamaladi,Kathmandu
25	NMB Bank Limited	1996/11/26	Babarmahal, Kathmandu
26	Kist Bank Limited	2003/02/21	Anamnagar, Kathmandu
27	Janata Bank Nepal limited	2010	New Baneshwor, Kathmandu
28	Mega Bank Limited	2010	Kantipath, Kathmandu
29	Commerz and Trust Bank Limited.	2010	Kamaladi, Kathmandu
30	Civil Bank Limited	2010	Kamaladi, Kathmandu
31	Century Commercial Bank Limited	2011	Putalisadak ,Kathmandu

Table No. 13  
Sources & Uses of Fund of NEPAL SBI BANK LTD.

	Mid-July									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
(Rs. in million)										
<b>I. CAPITAL FUND</b>	243.5	541.5	582.9	831.2	889.3	1119.8	989.9	1163.3	1434.6	1712.2
a. Paid-up Capital	142.9	424.9	425.2	424.9	421.9	842.2	647.8	879.5	874.2	874.2
b. Statutory Reserves	72.2	75.7	83.3	126.2	191.0	245.7	145.7	191.7	243.2	234.1
c. Share Premium					0.0	0.0	3.9	0.0	0.0	0.0
d. Retained Earnings		12.2	40.9	12.2	74.2	5.3	1.7	0.7	-1.5	3.1
e. Other Reserves	35.4	78.7	32.9	247.9	37.4	22.2	232.4	88.6	287.1	519.2
f. Exchange Fluctuation Fund					5.8	6.2	7.3	7.8	10.2	10.2
<b>II. BORROWINGS</b>	0.8	244.2	45.8	0.0	47.4	0.0	1015.4	1827.5	927.5	2888.7
a. NRB	0.0	254.2	45.8	0.0	57.4	0.0		0.0	0.0	1690.0
b. "A" Class Licensed Institutions	0.0	0.0	0.0	0.0				25.0	0.0	600.0
c. Foreign Banks and Fin. Inst.	0.0	0.0	0.0				815.4	1807.5	727.5	378.1
d. Other Financial Inst.								0.0	0.0	5.4
e. Bonds and Securities							200.0	200.0	200.0	300.0
<b>III. DEPOSITS</b>	6618.4	8573.2	6522.8	7232.3	8645.8	10852.7	11445.2	13716.4	17997.2	28882.8
a. Current	2249.9	1086.7	1200.0	1712.6	1774.1	1775.4	1935.4	1738.1	2364.7	4395.4
Domestic					1724.2	1225.5	1884.2	1694.8	2671.9	2519.2
Foreign					49.9	48.9	46.1	43.3	192.8	176.2
b. Savings	1259.2	1274.7	1830.7	2524.2	2884.7	2632.7	3228.7	4171.2	3822.3	7308.8
Domestic					2601.0	2764.9	3125.6	4102.7	3791.8	7190.1
Foreign					83.7	67.8	99.3	67.2	70.7	118.7
c. Fixed	3129.4	7132.1	2327.6	2371.4	4085.4	6116.2	5512.3	6824.9	12436.4	14797.8
Domestic					4285.4	5970.4	5354.8	6824.8	7673.0	6922.7
Foreign					0.0	142.8	162.5	20.1	960.4	784.1
d. Call Deposits	0.0	36.3	0.0	0.0	0.0	449.0	624.7	828.8	1645.3	2482.8
e. Others	699.6	51.9	64.5	123.9	100.5	75.4	98.1	122.4	186.5	154.7
<b>IV. BILLS PAYABLE</b>					32.7	22.8	61.6	35.4	83.9	82.3
<b>V. OTHER LIABILITIES</b>	538.5	574.3	829.1	877.7	997.2	1243.3	1496.4	1547.8	1489.9	1297.7
1. Sundry Creditors					11.4	85.1	311.2	109.0	93.3	44.8
2. Loan Loss Provision					399.3	512.9	585.7	616.2	474.9	595.5
3. Interest Suspense acc.					472.5	462.8	464.6	512.2	297.9	373.9
4. Others	318.5	574.3	829.1	877.7	71.0	190.6	325.4	309.4	421.8	388.1
<b>VI. RECONCILIATION A/C</b>					7.1	244.7	0.2	5.7	0.0	48.2
<b>VII. Profit &amp; Loss A/c</b>					313.1	219.8	304.5	258.1	337.4	201.3
<b>SOURCES OF FUNDS</b>	<b>1400.4</b>	<b>4452.3</b>	<b>8006.6</b>	<b>8935.0</b>	<b>10616.6</b>	<b>12755.6</b>	<b>14597.2</b>	<b>18594.0</b>	<b>21989.8</b>	<b>35071.7</b>
<b>I. LIQUID FUNDS</b>	2465.2	1483.3	1311.6	775.0	499.4	894.5	1294.5	1652.6	1910.9	2924.8
a. Cash Balance	148.5	160.6	289.6	161.2	545.7	269.7	287.5	314.7	629.0	688.9
Nepalese Rupee & Coins	122.2	182.8	243.1	140.1	125.3	344.1	262.2	222.3	640.5	655.1
Foreign Currency	15.3	18.8	28.3	21.1	18.4	25.6	22.3	23.3	18.5	33.9
b. Bank Balance	1806.7	1256.0	1062.2	613.8	315.9	261.6	822.1	1232.9	1271.9	2235.9
1. In Nepal Banks	394.2	1177.5	492.3	578.1	390.1	223.9	257.7	493.8	444.1	1255.4
Domestic Currency					397.6	125.2	544.0	791.8	392.6	1217.7
Foreign Currency					2.5	5.2	32.7	12.3	83.2	67.7
2. "A" Class Licensed Institutions	4.7	12.9	12.2	7.2	8.1	4.7	17.8	19.5	47.0	56.1
Domestic Currency					8.1	1.1	3.9	16.8	48.0	51.8
Foreign Currency						0.6	1.0	2.7	2.0	4.5
3. Other Financial Inst.								0.0	0.0	0.0
4. In Foreign banks	1510.8	46.2	157.3	28.2	(82.2)	(272.0)	366.4	609.6	760.4	894.4
c. Money at Call	290.0	0.0	0.0	0.0	0.0	263.2	631.9	304.0	0.0	0.0
Domestic Currency						215.0	250.0	0.0	0.0	0.0
Foreign Currency						148.2	281.9	304.0	0.0	0.0
<b>II. INVESTMENTS</b>	364.7	203.2	1189.4	1871.5	2882.2	3688.4	2545.6	2483.6	3806.6	2796.5
a. Govt Securities	364.7	203.2	1189.4	1871.5	2870.0	3680.4	2545.6	2483.6	3806.6	2796.5
b. NRB Bond					118.2	0.0				0.0
c. Govt Non-Fin. Inst.									0.0	0.0
d. Other Non-Fin. Inst.									0.0	0.0
e. Non Residents									0.0	0.0
<b>III. SHARE &amp; OTHER INVESTMENT</b>	8.9	17.9	17.9	17.9	19.5	19.5	21.9	55.3	897.6	9210.4
1. Non Residents					0.0	0.0	0.0	0.0	5545.7	9476.1
2. Others					19.5	19.5	21.9	23.3	32.9	34.1
<b>IV. LOANS &amp; ADVANCES</b>	4891.8	4524.4	4761.1	5890.9	6829.2	9299.0	9346.7	12574.9	15466.3	18327.5
a. Private Sector	4302.7	4441.7	4711.1	5418.0	6875.1	7896.6	9458.4	12211.0	14871.2	17917.2
b. Financial Institutions							176.8	275.3	283.8	410.3
c. Government Organizations	38.3	87.4	50.0	72.9	43.0	162.0	205.9	164.5	210.3	0.0
<b>V. BILLS PURCHASED</b>	253.3	65.3	5.0	61.6	146.1	190.6	216.4	467.7	146.8	58.8
a. Domestic Bills Purchased					24.5	21.8	51.6	13.8	20.7	20.7
b. Foreign Bills Purchased	25.3	65.3	5.0	61.6	116.6	164.0	166.8	343.8	126.1	78.1
c. Export Bills & Imports								0.2	0.0	0.0
<b>VI. LOANS AGAINST COLLECTED BILLS</b>					0.0	0.0	0.0	0.0	0.0	0.0
a. Against Domestic Bills								0.0	0.0	0.0
b. Against Foreign Bills								0.0	0.0	0.0
<b>VII. FIXED ASSETS</b>	582.3	431.9	695.6	714.5	632.1	472.5	334.2	269.0	489.9	506.2
<b>OTHER ASSETS</b>	164.8	192.5	289.7	421.2	494.0	484.4	485.2	472.2	385.2	571.0
a. Accrued Interest	0.0	2.2	0.5	0.4	0.0	0.0	0.0	20.0	33.2	22.3
Govt. Emp										
Private Sector										
b. Staff Loans / Adv.	364.8	194.2	289.2	420.8	494.0	484.4	485.2	472.2	349.8	517.7
c. Sundry Debits					1.0	0.0	210.7	28.7	66.5	41.2
d. Cash in Transit					7.0	0.0	0.0	0.0	0.0	0.0
e. Others	357.7	225.6	255.9	294.9	197.1	218.8	211.2	231.1	225.1	158.9
<b>Expenses not Written off</b>					0.0	2.4	3.5	1.0	0.5	1.9
<b>10. Non Banking Assets</b>					19.4	43.6	3.8	0.0	0.0	0.0
<b>11. Reconciliation Accounts</b>					0.0	0.0	0.0	0.0	0.0	0.0
<b>12. Profit &amp; Loss A/c</b>					0.0	0.0	0.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>1400.4</b>	<b>4452.2</b>	<b>8006.6</b>	<b>8935.0</b>	<b>10616.6</b>	<b>12755.6</b>	<b>14597.2</b>	<b>18594.0</b>	<b>21989.8</b>	<b>35071.7</b>

Table No. 9  
Sources & Uses of Fund of NABIL BANK LTD.

(In million)

	Mid-July									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>1. CAPITAL FUND</b>	1046.9	1062.8	1146.4	1204.2	1482.4	1557.7	1874.8	2087.0	2336.3	3129.4
a. Paid-up Capital	591.5	451.7	491.7	491.7	491.7	491.7	491.7	689.2	965.7	1449.1
b. Statutory Reserve	-	214.7	508.8	652.0	743.2	817.3	975.0	985.5	1121.5	1349.5
c. Share Premium	-	-	-	-	0.7	0.1	0.1	0.1	0.1	0.1
d. Retained Earnings	-	26.2	7.1	26.1	29.8	23.6	57.4	112.4	160.7	103.6
e. Other Reserves	157.8	26.4	83.8	624.4	187.1	22.1	350.4	273.8	112.1	160.7
f. Exchange Fluctuation Fund	-	-	-	-	33.9	37.8	44.2	-	64.1	74.4
<b>2. BORROWINGS</b>	0.0	200.0	562.5	239.7	37.1	175.2	382.6	1600.0	1981.1	2698.9
a. NRB	0.0	0.0	611.5	0.0	0.0	0.0	600.0	600.0	0.0	1500.0
b. *A-Class Licensed Institution	0.0	200.0	250.0	229.7	17.1	175.2	282.6	760.0	1050.0	838.9
c. Foreign Banks and Fin. Ins.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
d. Other Financial Ins.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
e. Bonds and Securities	-	-	-	-	-	-	-	0.0	0.0	0.0
<b>3. DEPOSITS</b>	15838.9	15970.6	13437.7	14086.0	14585.8	19348.4	23945.4	27915.0	37368.2	44022.2
a. Current	2957.1	2725.0	3035.0	2687.0	2847.5	2923.2	3366.1	3269.8	5515.9	7104.5
Domestic	-	-	-	-	2046.1	2266.5	2567.3	2610.0	4269.1	5312.4
Foreign	-	-	-	-	791.4	656.8	842.8	2155.8	1452.8	1791.8
b. Savings	4917.1	4897.1	5377.4	5934.1	7076.4	8770.8	10187.4	12160.0	14070.4	15648.5
Domestic	-	-	-	-	6114.6	7377.2	9107.6	10899.0	12023.8	13764.9
Foreign	-	-	-	-	911.9	1393.8	1082.8	1261.2	1685.6	1883.7
c. Fixed	3703.2	2446.8	2225.3	2210.6	2378.5	3459.7	5435.2	8484.1	9710.7	11025.7
Domestic	-	-	-	-	1212.9	1165.1	2062.4	3877.3	5568.2	8628.6
Foreign	-	-	-	-	1165.7	2244.1	2342.8	2286.9	2592.4	2368.1
d. Call Deposits	2948.5	4044.7	2540.7	2801.8	2517.2	3811.2	3461.4	5883.4	8478.7	8720.2
e. Others	297.2	397.3	582.0	304.7	297.0	322.9	312.1	261.8	467.0	516.3
f. Bills Payable	2568.6	2932.4	2700.3	2182.4	1639.4	2862.4	1780.6	2014.4	2143.3	2828.8
g. Other Liabilities	-	-	-	-	176.9	215.9	478.0	736.7	401.0	637.7
1. Sundry Creditors	-	-	-	-	392.2	352.9	356.3	434.8	400.1	500.0
2. Loan Loss Provision	-	-	-	-	156.8	115.0	112.2	172.4	153.3	150.1
3. Interest Suspense etc	-	-	-	-	907.9	1147.6	1874.3	1180.7	1067.4	1282.0
4. Others	-	-	-	-	3.0	6.0	3.3	6.0	6.0	6.0
h. Reconciliation A/c	-	-	-	-	817.9	979.1	682.6	780.4	1624.0	992.2
i. Profit & Loss A/c	-	-	-	-	-	-	-	-	-	-
<b>SOURCES OF FUNDS</b>	19454.4	19645.7	18275.9	18734.1	18614.9	24138.6	26668.4	35738.6	45912.6	53256.1
<b>4. LIQUID FUNDS</b>	4284.9	4999.2	4162.1	3818.9	1345.3	2365.2	1963.1	4323.5	3618.4	4781.3
a. Cash Balance	228.2	218.1	190.4	286.9	145.1	237.8	270.4	321.4	678.4	666.8
Nepalese Notes & Coins	182.3	282.4	357.6	263.2	332.4	228.1	245.1	483.8	600.9	622.8
Foreign Currency	25.9	32.7	33.0	23.7	13.7	13.7	23.9	33.5	33.5	24.0
b. Bank Balance	600.6	3038.8	917.1	632.5	437.2	392.5	1529.7	2129.7	2648.4	2074.7
1. In Nepal Banks	510.2	266.3	892.8	606.4	107.5	318.4	1177.2	1829.5	2648.4	2074.7
Domestic Currency	-	-	-	-	85.7	299.1	1168.8	1827.4	2617.4	2071.7
Foreign Currency	-	-	-	-	21.6	19.3	12.4	2.1	21.2	0.0
2. *A-Class Licensed Institution	4.8	24.0	15.7	27.8	26.2	26.9	71.8	23.8	47.0	25.0
Domestic Currency	-	-	-	-	26.7	26.9	71.8	23.8	47.0	25.0
Foreign Currency	-	-	-	-	-	-	-	-	-	-
3. Other Financial Ins.	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
4. In Foreign banks	87.6	205.5	48.1	28.3	278.7	47.2	15.9	307.2	7.5	42.4
c. Money at Call	5474.1	4367.4	2014.4	2497.5	782.7	1784.9	523.5	1953.4	322.9	1580.4
Domestic Currency	-	-	-	-	102.5	670.0	102.0	200	0.0	1580.4
Foreign Currency	-	-	-	-	680.2	1064.9	461.5	1452.4	522.9	184.4
<b>5. INVESTMENTS</b>	2332.8	4338.8	3653.5	2673.6	2326.8	2172.3	3289.2	4899.6	3976.7	4488.0
a. Government Securities	2332.8	4116.3	3653.5	2673.6	2417.3	2277.9	3287.7	4848.5	3706.2	4257.7
b. NRB Bond	-	-	-	-	-	-	-	-	-	-
c. Govt. Non-Fin. Ins.	-	-	-	-	-	-	-	-	-	-
d. Other Non-Fin. Ins.	-	-	-	-	-	-	-	-	-	-
e. Non-Residents	-	-	-	-	412.9	74.4	352.2	242.9	373.4	182.7
<b>6. SHARE &amp; OTHER INVESTMENT</b>	19.8	1881.8	34.3	24.5	1816.5	2802.5	3693.1	2077.0	8856.3	7217.3
1. Non-Residents	-	-	-	-	1907.9	3711.2	3211.5	4935.2	6724.6	7177.7
2. Others	-	-	-	-	25.5	91.3	71.6	41.8	161.7	43.0
<b>7. LOANS &amp; ADVANCES</b>	8373.1	7072.0	7964.8	8635.1	10788.8	13021.3	15067.1	22214.8	27816.6	33792.8
a. Private Sector	7873.2	6751.1	7718.2	8407.3	11038.0	12661.5	15199.5	20877.5	25366.5	32382.9
b. Financial Institutions	-	-	-	-	-	-	-	-	-	-
c. Government Departments	101.3	64.7	28.8	20.3	60.0	360.0	60.0	60.8	2.4	290.0
<b>8. BILL PURCHASED</b>	264.5	254.2	186.9	117.5	144.7	218.1	231.2	288.1	188.5	117.3
a. Domestic Bills Purchased	-	-	-	-	77.2	66.7	67.0	216.8	83.9	52.2
b. Foreign Bills Purchased	264.5	254.2	186.9	117.5	67.5	151.4	158.2	38.3	96.6	64.1
c. Import Bills & Imports	-	-	-	-	-	-	-	2.1	0.0	0.0
<b>9. LOANS AGAINST COLLECTED BILLS</b>	3.0	0.0	14.0	17.1	137.6	39.4	24.7	3.0	0.0	0.0
a. Against Domestic Bills	-	-	-	-	23.4	21.0	-	2.1	-	-
b. Against Foreign Bills	3.0	0.0	14.0	17.1	114.2	18.3	24.7	-	-	-
<b>10. FIXED ASSETS</b>	1979.2	2116.2	2156.2	2156.6	1194.0	1996.7	2223.0	1607.1	2508.1	2567.7
<b>11. OTHER ASSETS</b>	1993.3	1377.2	201.2	212.7	136.3	288.3	220.0	724.2	278.2	441.7
a. Accrued Interest	-	-	-	-	-	0.6	-	0.0	0.0	0.0
Govt. Imp.	-	-	-	-	-	-	-	-	-	-
Private Sector	169.4	372.7	237.6	212.7	145.0	287.4	220.0	274.7	278.2	441.1
b. Sundry Loans / Adv.	-	-	-	-	-	-	-	-	-	-
c. Sundry Debtors	-	-	-	-	176.6	148.7	734.4	2.1	277.3	162.6
d. Cash In Transit	-	0.1	-	-	-	-	-	-	-	-
e. Others	1600.7	1384.4	1917.0	1837.5	389.3	1277.2	1629.2	988.6	1385.7	1992.7
f. Expenses and Writoffs off	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
g. Non-Banking Assets	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
h. Reconciliation Accounts	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
i. Profit & Loss A/c	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	19454.4	19645.7	18275.9	18734.1	18614.9	24138.6	26668.4	35738.6	45912.6	53256.1