INVESTMENT POLICY AND FINANCIAL PERFORMANCE COMMERCIAL BANKS

A Thesis

Submitted By:

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RECOMMENDATION

This is to certify that the Thesis

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has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This Thesis is forwarded for examination.

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DECLARATION

I hereby declare that the work reported in this thesis "**Investment Policy And Financial Performance Commercial Banks"** submitted to the Office of Dean, Faculty of Management, Tribhuvan University, is my Degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Keshab Raj Joshi** Lecturer of Shanker Dev Campus, Faculty of Management, Tribhuvan University.

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NEERU KARKI

Researcher

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ABBREVIATIONS

CRR	:	Credit Risk Ratio
EBL	:	Everest Bank Limited
GBIME	:	Global IME Bank Limited
HBL	:	Himalayan Bank Limited
II	:	Interest Income
MBL	:	Machhapuchher Bank Limited
NPAT	:	Net Profit After Tax
ROA	:	Return on Assets
ROE	:	Return on Equity
SD	:	Standard Deviation
TA	:	Total Assets
TD	:	Total Deposit
TE	:	Total Equity
TI	:	Total Investment
TL	:	Total Loan and Advance

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nestled between India and China, Nepal is a landlocked, mountainous, agricultural country with a highly distinct physical landscape. It is among the least developed secular kingdoms. It is a sovereign nation that has never been overrun by outside forces. It is composed of a diverse range of racial and tribal groups who speak various languages and dialects. The Himalayan area and inner Himalayas, the Sub-Himalayas or the Mountain region, the Valley basin or Inner Terai, and the Terai region are the four primary regions that make up Nepal, and they differ greatly in terms of height and temperature. Nepal is regarded as one of the world's most beautiful countries, possessing a wealth of cultural and natural legacy.

1.1.1 Banking and Financial System in Nepal

The founding of Nepal Bank Limited (NBL), the country's first commercial bank, in November 1937 marked the beginning of the contemporary financial system in Nepal. The Nepal Bank Act of 1937 was used to create it. The modern financial system in the nation was initiated with the foundation of NBL. Before the NBL was founded, credit was distributed to the populace through the Tejarath Adda, which was founded in 1880. It used to offer loans secured by gold and silver coins as collateral. It supplied its consumers and clients with commercial banking services, including taking deposits, granting credit, and other related services. The nation has dealt with a variety of financial entities during the course of the previous 74 years as the contemporary financial system has developed.

The nation is home to a wide variety of financial institutions, each offering a unique range of financial services. There are two general subheadings into which these financial entities might be divided. There are two types of financial institutions: non-banking and banking. Financial Institutions for Banking (BFIs) Financial entities involved in banking are commercial banks. The main participants in the nation's financial markets are commercial banks. With a wide range of deposit and credit products, they are market leaders in the financial sector. By mid-July 2008, they

accounted for around 80.0% of the total deposits and 70% of the total loans and advances in the Nepalese financial markets. The NRB has granted operating licenses to a total of 26 commercial banks.The Rastriya Banijya Bank (RBB) was founded in 1966 as the nation's second commercial bank following the founding of NBL in 1937. It was founded in accordance with the 1966 Rastriya Banijya Bank Act. The development of commercial banking services in the nation was substantially aided by the founding of RBB. The RBB is still Nepal's only entirely state-owned commercial bank. However, the government still owns 41% of NBL while the private sector owns the remainder, or 59%. 10% of NBL's shares, or 51% of the total, were sold to the general public by the government.

In 1984, the Nepal Arab Bank Limited (NABIL) was founded as the country's first joint-venture commercial bank, with a foreign bank contributing 50.0% of the shares. Numerous joint-venture and entirely Nepalese private sector owned commercial banks were founded following the formation of NABIL, and they have been offering banking services to their patrons ever since. ii. Financial institutions that are not banks (NBFLs) The NRB has licenses for four different kinds of non-bank financial entities to conduct financial activities. Development banks, finance firms, financial cooperative societies, and financial intermediary non-governmental organizations are the following. Other non-bank financial institutions include stock exchanges, insurance boards, employee's provident funds, citizen trust funds, deposit insurance and credit guarantee corporations, insurance companies, insurance boards, stock exchanges, security boards, and post office savings banks. Establishing the Employees Provident Fund in 1962 was another way to raise long-term funds. To help farmers and co-operators finance their operations, the government founded the Cooperatives Bank.The Land Reform and Savings Corporation (LRSC) was also founded by the government in 1966. However, the LRSC and co-op bank were unable to give farmers the necessary agricultural credits. Thus, in 1968, the government founded the Agricultural Development Bank. In 1964, the Cooperative Bank Act of 1964 was passed, establishing the Cooperative Bank. To offer insurance services to the Nepalese people, the National Insurance Corporation was founded in 1967, followed by the Nepal Insurance Corporation in 1968. Later, in 1968 and 1973, respectively, the Co-operative Bank and the Land Reform Savings Corporation amalgamated with the Agricultural Development Bank (ADB/N).

In order to offer credit guarantee services to minor credit and subsequently priority sector credits issued by NBL and RBB, the Credit Guarantee Corporation was founded in 1974. In 1984, the Securities Exchange Center replaced the Securities Marketing Center, which had been founded in 1977. In an effort to expand Nepal's capital market, it was subsequently transformed into the Nepal Stock Exchange Limited (NEPSE) in 1992. The NRB has embraced financial deregulation from the middle of the 1980s. The creation and growth of several commercial banks, including international joint ventures and private commercial banks, have been greatly aided by NRB. The Commercial Bank Act of 1974, the Finance Company Act of 1985, and the Development Bank Act of 1972 were all enacted as a result of this approach. A necessary legislative foundation for the formation of several commercial banks, financing businesses, and development banks has been provided by the amending and adoption of these Acts.

In Nepal, a developing nation, the duty of banking and financial institutions is to strive to set out on the path of economic development by accelerating economic growth and fostering the development of all economic sectors. While a number of variables contribute to economic development, economists firmly believe that capital accumulation and its appropriate use are essential. The country's well-organized financial system network plays a significant role in this. It gathers disparate financial resources from the populace and distributes them among those involved in the nation's commercial and economic endeavors.In this sense, investors obtain a big pool of resources and savers receive highly liquid, divisible assets at a reduced rate from financial intuitions. The only way the nation can develop efficiently and quickly is if competitive service is available throughout the entire nation. It is common knowledge that a nation's economic operations would be difficult to continue without the backing and aid of financial institutions. A catalytic function is played by financial institutions in the process of economic growth. It is true that the economy is significantly impacted by the healthy growth and operation of financial institutions, including commercial banks and non-bank financial institutions.

The commercial bank handles transactions related to industry, trade, commerce, and agriculture. The volume of financial transactions and economic activity determines the creation of financial institutions. Nepal was compelled to consider the creation of new financial institutions due to the expansion of economic and financial activity

inside the country as well as the institutional advancements of its neighbors. Following the government's introduction of the financial liberalization program in 1984 A.D., the financial sector's development accelerated quickly. Numerous financial institutions, including national insurance corporations, credit guarantee corporations, employee provident funds, cooperative banks, development banks, and commercial banks, have emerged since then. The Nepal Stock Exchange was established to meet the nation's financial demands and promote the nation's financial growth. Thus, the core of our financial system is comprised of commercial banks. Millions of people, businesses, and government agencies have their deposits with them. Through their lending and investment operations, they provide funds that the government and certain corporate units can borrow (Wetal, 1978).

They make it easier for producers to supply customers with goods and services and for other financial activity to reach the government. They offer data on trade and finance that has an impact on the country's overall monetary policy. They gather public deposits and channel or deploy them into various sectors, including as the commercial and industrial, agricultural, and deprivation, and other productive sectors, which contribute to the success of the country's overall growth. The data demonstrates how crucial the country's commercial banking sector is to the health of our economy. Effective management has a major role in the commercial bank system's capacity to carry out its duties effectively, in line with the demands of the country and economic objectives. The management of money is one of the bank's main responsibilities, but it also involves material and personal management.

The capital and asset structure of a bank are influenced by the management. The primary activity at a bank that generates profit and uses national resources is money management. To put it briefly, banks are vital to the rapid and sound development of a nation, its people, and its societies. Banks play a vital role in the construction and growth of several small and large-scale companies, as well as in domestic and international trade and commerce, through their creation and mobilization of capital and provision of diverse financial services. The efficient payments and credit system that banks offer makes it easier for money to move from the economy's surplus spending units, or savers, to its deficit spending units, or investors (Garhal, 1993).

The banks encourage individuals to save and practice thrift by taking deposits. These savings eventually lead to capital formation, which is the cornerstone of the nation's economic development. In addition, banks support economic growth and technological advancements by lending money to entrepreneurs. Because banks are able to produce money in the economy, they have a significant impact on the amount of economic activity.

In order to generate money and subsequently lend it to deficit spending individuals, banks play a crucial role as middlemen between these institutions and deficit spending individuals. Banks also contribute by being prepared to take on riskier projects, including loans from borrowers, in exchange for providing their depositors with low-risk assets. The numerous utility tasks carried out by banks have a significant economic impact on the economy and have the power to shape the path and intensity of economic activity. They combine all of the community's funds and make arrangements for their productive use by offering both short- and long-term loans in the many forms required for trade and business. They do a variety of tasks on behalf of their clients, receiving payment for their labor.

Investment Policy of Commercial Bank

Commercial banks are significant financial organizations that play a crucial role in the structure of any economy since, via investing accumulated deposits, they supply money for the growth of commerce, business, industry, and other resource-related sectors. They thereby aid in the country's economic growth. In addition, commercial banks provide their clients with a wide range of services aimed at improving their social and economic lives. The commercial banking industry of a nation has a significant impact on all aspects of its economy. Commercial banks have therefore evolved into the core of the financial system. Through the generation of credit in the form of loans and investments, commercial banks provide the most crucial component of the money supply—demand deposits (Crosse, 1980).

Customers of commercial banks also benefit from flexibility and mobility because payments may be made quickly and effectively in most cases. Demand deposits may be accepted by the commercial bank (Hanks and Suki, 1980). Clearly, a key prerequisite for developing bank policy is understanding the function of commercial banks in the economy. The mobilization of domestic resources and their investment

for productive use to the various sectors is a critical component of the nation's growth. Commercial banks develop wise investment plans to make it more successful, which ultimately aids in a nation's economic growth. Sound policies assist commercial banks in achieving their goals of societal welfare and profit maximization. Commercial banks' investment operations carry a high degree of risk.Commercial banks take this into account when determining their lending and investing policies. One aspect of the larger set of policies that direct banks' investing activities is their investment policy. Any bank's investment philosophy has a major impact on how well it develops. A sound investment strategy draws in lenders as well as borrowers, increasing the quantity and caliber of deposits, loans, and investments. Commercial banks base their lending decisions on a number of criteria, including loan duration, purpose, profitability, and safety. Most commercial banks are required to get security, such as real estate (land and buildings) and shares, equipment, and bank guarantees (movable properties), in order to reduce risk while providing credit.

The NRB claims that the purpose of this legislation is to reduce the risk associated with the financial position's liquidity, which impacts all financial institutions. Every commercial bank takes these core investing concepts into account in its investment policy-making process. Analyzing the investment policy thoroughly is necessary. Therefore, commercial banks should exercise caution while carrying out the role of credit generation. The goal of investment policy should be to maximize lending profits while minimizing risk. The government and Nepal Rastra Bank's directives must be followed by commercial banks, and the creation of a strong investment strategy may address the issue of the country's economy's elevation. A prudent investment strategy would reduce deposit interest rates and guarantee that the greatest amount of capital is invested in all sectors, properly used, and yields an effective rate of return.

1.2 **Statement of the Problem**

Investing is the use of resources like money and time to create an enterprise, earn interest, or bring in a profit. When the terms "investment" and "who invests?" are used, it becomes clear that banks, in addition to the general public, also make investments. For example, banks may invest in other banks' shares or in people's

shares of other manufacturing companies, banks, or social institutions. When we looked into the investments made by Nepalese domestic banks in the commercial sector, we found that they make handsome interest rate investments in government securities, company shares, debentures, national savings boards, and occasionally, securities issued by the NRB. Commercial banks' guiding principles are centered on both the nation's economic growth and the institution's goal of maximizing profits. One of the key responsibilities of every commercial bank is the efficient mobilization of available capital. One of the most important choices that affects the whole bank is the investment purpose criteria that commercial banks make. These criteria dictate how banks operating under their umbrella should behave. The present investigation aims to address the following queries:

- What is the leading policies and deposit and investment trends of the sample banks?
- Is there relationship between total assets, total deposit, total equity, total loan and advance, interest income, total investment on net profit after tax?
- What is the effect of between total assets, total deposit, total equity, total loan and advance, interest income, total investment on net profit after tax?

1.3 **Objectives of the Study**

The main objectives of the study are to evaluate the investment policy of sample banks. The specific objectives of the study are as follows:

- To study the leading policies and deposit and investment trends of the sample banks.
- To analyze the relationship between total assets, total deposit, total equity, total loan and advance, interest income, total investment on net profit after tax.
- To analyze the effect betweentotal assets, total deposit, total equity, total loan and advance, interest income, total investment on net profit after tax.

1.4 Significance the Study

There are several significant reasons why this study is needed and relevant. First and foremost, the efficient mobilization of the available finances, which are gathered from

dependable sources, is a prerequisite for every nation's economic success. The foundation of economic growth is investment. The government, interested banks, investors, oversight organizations, Nepal Rastra Bank, stakeholders, and other intermediaries find it significant.

1.5 Limitation of the study

This study has been carried out within certain assumptions and limitation which are as follows.

- The study primarily relies on secondary sources, such as journals, unpublished and published thesis works, annual reports of the bank under evaluation, and other published papers and reports.
- The study's primary focus has been the balance sheet, profit and loss account, and associated notes, all of which are taken to be accurate and truthful.
- The study's ten-year scope spans the fiscal years 2013–14 through 2022–23. of the 20 commercial banks, only HBL and NABIL are mentioned in the report.
- The NRB's investment strategy is subject to periodic changes, therefore the study's long-term implications may be limited.
- A number of significant statistical and financial technologies have been employed in the data analysis.

1.6 Organization of the Study

This study is organized into the following five chapters:

Chapter-I: Introduction

It covers the introduction of the study's primary issue, including the study's limitations, general context, problem statement, aims, and importance.

Chapter-II: Review of Literature

It reviews the pertinent research that are currently accessible. It comprises the thesis, conceptual review, reviews of relevant books and periodicals, and published and unpublished research efforts.

Chapter-III: Research Methodology

It addresses the study's technique, or the magnitude and form of the research that was conducted. Different statistical tools that will be utilized to analyze the data that is supplied have been defined for this aim.

Chapter-IV: Presentation and Analysis of Data

It addresses how all pertinent data that has been gathered is presented and analyzed. A descriptive analysis and presentation of secondary data is made. Likewise, this chapter presents the study's primary findings. The study's central chapter is this one.

Chapter-V: Summary, Conclusion and Recommendations

The study's summary is included, and the advice and conclusion are based on the research findings.

The research bibliography includes an appendix at the conclusion.

CHAPTER- II
REVIEW OF LITERATURE

A survey of the literature is essential for comprehending current research and avoiding issues that have previously been solved. For example, a social scientist researching how social mobilization initiatives affect the reduction of poverty might benefit from current understanding of strategies and laws. This assessment centers on commercial banks' investment policies, emphasizing the value of healthy credit circulation and avoiding poor choices that hurt the banks and the economy.

2.1 Conceptual Framework

For the bank, choosing which funds to invest might be the difference between life and death. A commercial bank is an organization that, notwithstanding the limitations of its other funding sources, accepts demand deposits subject to inspection and extends short-term loans to commercial firms (American Institute of Banking, 1992). Commercial banks are primarily intended to provide short-term loans to support the manufacture, distribution, and sales of goods. Demand deposits are the foundation of a commercial bank and are invested in short-term lending. The finest examples of commercial banks are national and state banks, while most states still have trust. Businesses are also allowed to do commercial banking; often, private banks do this (Woeltel, 1999).An entity that engages in financial transactions, money exchanges, deposit acceptance, large loans, and other commercial banking activities; it is not a bank intended for co-ops in industry, agriculture, or other particular uses (Commercial Bank Act, 2031).

These data demonstrate how crucial the country's commercial banking sector is to the health of our economy. The word "commercial bank" originally denoted that the loans were intended primarily for businesses, however subsequently, loans were also given to consumers, the government, and other non-business entities. Generally speaking, compared to the assets held by other financial intermediaries, the assets of commercial banks are often more liquid and low risk (The New Encyclopaedia Britannia, 1991). Due to the diversification of commercial banks into many operations beyond commercial lending, such as consumer banking, mortgage banking, savings banking, commercial sales, financing and factoring, international banking and foreign

exchange, underwriting and trading to US government and state, state and municipal obligations, travel service, travelers checks, money orders, and so forth, the term "full service banking" has been promoted in recent years as a more descriptive term (Woelfel, 1999).

It's challenging to lend money. It usually entails danger. Liquidity issues may arise when gathering and processing information, communicating with the borrower while paying careful attention to incentives, and monitoring compliance are all necessary to control risk. According to Dr. Sunity Shrestha's book Portfolio Behavior of Commercial Bank in Nepal, commercial banks provide loans to a variety of industries. Commercial banks base their lending policies on both the nation's economic growth and the institution's goal of increasing profits (Portfolio Behaviour of Commercial Banks in Nepal, 1995).

2.1.1 Banks and Banking

The two primary subtypes of contemporary industrial banking are central and commercial banking. Additionally, a commercial banker deals in money substitutes like bills of exchange or cheques. A range of financial services are also offered by the banker. The foundation of the banking industry is the taking of "deposits" (i.e., borrowing money) from people, businesses, and occasionally even governments. The banks do this by using both their resources and their own capital. The banker gets money by charging commission for services given, borrowing at one interest rate and lending at a higher one (The New Encyclopaedia Britannia, 1991).

I. Acceptance of Deposit

Deposits of all kinds are accepted by banks, including call, recurring, savings, current, and fixed deposits. The type of deposit determines the interest rate; deposits are held securely by the bank and are repaid upon demand. While current deposits provide instant withdrawal, fixed deposits are only permitted for a predetermined amount of time. Recurring deposits encourage consistent savings, usually in the form of monthly installments, however savings deposits have limitations. Call deposits are a combination of savings and current deposits, and the bank and depositors can agree on a variable interest rate.

II. Advancing of loans

Banks lend money to a wide range of clients for a variety of uses, such as house, company, and personal loans. Cash credit, overdraft, exchange bill discounting, and money on call or short notice are some examples of these loans. While overdraft allows clients to overdraw their accounts through checks, cash credit enables them to satisfy working capital and long-term obligations. Consumers must pay interest on their overdraft or basic EMI. Usually, other banks and financial institutions get these loans.

III. Agency Functions of Bank

The bank provides a wide range of agency services, such as money transfers, customer fund collection, buying and selling stocks and shares, collecting dividends and interest on shares, paying insurance premiums, serving as an executor and trustee, enabling ATM deposits and withdrawals, and serving as a correspondent agent or customer representative. The bank offers these services on behalf of its clients.

IV. Purchase and Sale of Foreign Exchange

The bank also engages in the purchase and sale of foreign exchange. In wealthy nations, exchange banks handle this, while commercial banks do it in our nation.

V. Creation of Credit

By making deposits or taking on obligations against themselves, banks generate credit by lending money to their clients, which results in net growth in the money supply of the economy. These days, banks provide services including travelers checks, safe deposit boxes, bill exchanges, and financial counseling. According to the American Institutes of Banking, commercial banks are entities that receive, process, and create money through the granting of credit. Commercial banks accept deposits, buy and discount bills of exchange, promissory notes, and foreign currencies in addition to providing short-term loans for trade and commerce.

Modern banking systems differ in their organizational and technical structures, partly because of the increasing effectiveness of global communications and the inclination to adopt successful techniques from other regions. The most significant commercial banking system in Nepal is the branch banking system, in which a single bank

operates through a nationwide network of branches. Local communities may benefit from branch banks' better banking services, and when loans exceed the bank's capacity, they may be able to get support from bigger banks.

Board managers ensure a lack of interest in local matters by working with and serving the communities they represent to build a strong operational record. By taking deposits, borrowing money, and issuing shares, commercial banks generate capital and benefit society by lowering risk.

2.1.2 Liquidity Management

The term "liquidity" describes the situation in which an asset may be changed into cash, specifically. To be considered liquid, an item must be able to be sold quickly and easily, and at a price that is almost equal to its market worth. When selling liquid assets quickly, there shouldn't be any unnecessary transaction expenses. Because they may be turned into cash at a fair market price very quickly—often in minutes—money market instruments are therefore extraordinarily liquid. On the other hand, because real estate investments typically take a while to turn into cash, they are typically less liquid (Koch & Ricardo, 1996).

Because of this, it is relatively simple to sell real assets—or any other kind of asset—almost instantly when it comes to illiquid assets. Nevertheless, this is typically only possible by making significant discounts from their fair market value. Commercial banks have special liquidity demands since their deposits payable to demand ratio is so high compared to other company categories. While inadequate liquidity does harm such companies' credit ratings, banks who fail to return deposits on demand lose the public's faith, which can result in "runs in the bank and probably bankruptcy there of." Liquidity management is crucial for commercial banks as many of the bank's obligation owners have the ability to demand that their assets be converted into cash at any moment, often even upon demand.

Therefore, a commercial bank has to have enough liquid assets on hand to cover a fluctuating cash demand. A bank has access to the Federal Reserve's discount window in the event of an unforeseen liquidity crisis. Large banks in particular have easy access to the money market, where they may easily raise the capital required to avoid liquidity issues. Naturally, there are transaction expenses involved in turning non-cash

assets into cash. Broker fees are included in these transaction expenses, along with administrative and clerical labor. The price discount from the asset's market value is also included in the transaction expenses if the asset being sold for cash is not highly liquid. Keeping liquid assets typically involves the opportunity cost of missed interest in addition to transaction expenses, as liquid.

Since cash has no rate of return for the bank, it is the most obvious example of how banks must forgo some profitability in order to maintain liquidity. In general, short-term assets are more liquid than long-term assets; the most liquid asset is vault cash; reserves held at the fed and deposits at correspondent banks are also very liquid; the bank's holdings of Treasury bills and other short-term securities are somewhat less liquid; and the bank's loans are even less liquid but more profitable than the more liquid assets.

2.1.3 Cash Management

The most liquid asset in a bank is vault cash. All banks are required to maintain a certain amount of cash in their safe deposit boxes despite the fact that clients are free to remove their demand deposits whenever they like. Naturally, not every customer will visit a bank at the same time during regular business hours. As a result, banks are required to maintain adequate cash balances to meet the regular financial demands of their customers without going beyond. In this sense, banks play a significant role in helping many firms manage their cash more effectively. Thus, nonbanking businesses need to take into account a number of significant financial benefits, such as early cash collection or delayed cash payout, among others (Koch & Rodriguez, 1990).

2.1.4 Portfolio Management

An asset combination is referred to as a portfolio management. The selection of optional portfolios, or portfolios that offer the best return for a given level of risk or the lowest risk for a given rate of return, is the subject of portfolio theory. Since stocks and bonds are financial assets, portfolio theory has been developed in the most comprehensive way. (Copland & Weston, 2000).

The concept that the intrinsic riskiness of any single asset held in a portfolio differs from the riskiness of that item held in isolation is a core component of portfolio theory (Weston & Copland, 2001).

Portfolio management is not very appealing if one believes that interest rate forecasting is impossible. The management of the portfolio is aware of how to adjust it to capitalize on anticipated changes in interest rates (Rodriguez, 1996).

Diverse multifactor models of security returns are employed by portfolio managers. Thus far, the validity of the index model has been the foundation of our analytical framework for managing portfolios (Marcus, 2002).

The best risky portfolio, which combines an active and passive component, is determined by looking at the macroeconomic projection for the portfolio (Kane, Marcus & Trippi, 1996).

2.1.5 Introduction to the Investment

The phrase "investment" conjures us images of riches, risk-taking, and reward since haphazard investing may go horribly wrong. Investment, in its widest meaning, refers to the sacrifice of present cash for future dollars, and for those who possess the necessary understanding, it can be an exciting and financially rewarding process. Usually, two distinct characteristics are involved: time and danger.

Because their customers have the right to demand the prompt return of the money in their custody, banks, savings banks, and, to a lesser extent, life insurance companies, must also take into account the ready marketability of some of their investments. It is crucial that these demands be satisfied without requiring the sale of securities or other property at a lower price. Other organizations, like trust companies that manage other people's money for a fee and endowed hospitals and colleges, are less under pressure to maintain price stability. However, they are typically bound to achieve long-term security and, in an era of persistent price inflation, a significant long-term increase in income and capital values to counteract a declining value of the dollar. Most financial organizations' investment plans are subject to some level of regulation by the government, and precedent and tradition also have a significant impact. Therefore, it must be concluded that financial and endowed institutions' investment policies are likely to be highly influenced by the kind of business conducted, the laws that are in place, the clients that the company serves, and the management's preferences (Christy & Clendemin, 1974).

2.1.6 Investment Objectives

The goal of investing is to gradually enhance a person's wealth, which is calculated as assets less obligations. When investing, one must put money into assets that will increase in value over time and provide the necessary amount of money for retirement, college for one's children, or other financial objectives. As a result, the goal of the majority of investments is to enhance wealth. The required return increases with the desired degree of wealth. Higher returns require a higher amount of risk, thus an investor seeking such returns must be ready to accept it. While wealth maximization may remain an investor's lifetime goal, changing circumstances related to age or family may cause an investor to adjust their investing strategy. Their financial goal should have been wealth maximization, just as it is now, when they were first married and had kids 25 years ago. But in their first year, they would have been prepared to take significant risks in order to accomplish this goal. Take a closer look at Bill and Martha Stanton as examples.

This talk will demonstrate how the appropriate distribution of an investor's resources across different asset classes is a single, integrated issue. Various investment types have distinct purposes. For instance, saving bonds or accounts guarantee that the owners will always have money on hand for emergencies, while common stocks or real estate offer superior inflation protection. Thus, sound policy will most likely balance in addressing the investor's entire spectrum of requirements (Christy & Clendenin, 1974).

2.1.7 Investment Policy of Bank

A bank with a strong investment program would allocate its capital among various profitable assets while also offering the highest level of safety and security to both the banks and their depositors. Furthermore, the loan portfolio in banking is typically where risk is concentrated. When a bank experiences severe financial difficulties, it is typically the result of a sizable number of loans that have become uncollectible as a result of poor loan management, unlawful loan manipulation, poor lending practices, or an unanticipated decline in the economy.

Consequently, in order to safeguard public money, the bank's investment policy needs to guarantee that it is sensible and sound. Funds from share capital, reserve funds, bank borrowings, retained profits, deposits, and other obligations are received by a bank. These funds are stored as cash and bank balances, and they are invested in assets such as call money, short-term investments in government securities, buying and discounting bills, loans and advances, fixed assets, various costs, and other assets. The views of M. Radha Swami and S. Vasudevan The key to successful banking is allocating resources among different asset classes in a way that achieves a balance between profitability and liquidity, leaving ample cash on hand to cover all claims while also generating enough revenue to cover operating costs and distribute profits to shareholders (Dahal & Dahal, 1999).

Basically principles of investment policy of commercial banks are as follows:

1. Liquidity: Banks' ability to swap cash for deposits is referred to as liquidity. The bank need to maintain as much liquidity as feasible in its investments and assets. There will be "runs" on the bank to take money if it doesn't give back clients' money when they're asked to. Even extremely powerful banks would fall in such scenario. In light of this, the bank should apply the liquidity requirement and have adequate cash on hand to satisfy client demand. To the degree directed by the NRB or Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), banks are obliged to invest funds in liquid assets.

2. Profitability: It is the process of calculating return on equity. The bank should allocate its capital in a way that ensures it has a sufficient and steady income. The bank requires enough revenue to cover its operating and non-operating costs, reserves and provisions, interest costs, and shareholder dividend payments. The bank's goal is to maximize profits; in order to do this, it should invest its money in loans, advances, and discounted bills as these assets provide high yields and enable the bank to pay its obligations. "The higher the liquid assets the less profitability and vice versa, Hence banks should strike right balance between liquidity and profitability" (Dahal and Dahal, 1999).

3. Safety: Banks handle other people's money, which needs to be paid back when requested. The bank's loans have to be fully secured by suitable collateral. A few years ago, a moratorium on lending caused a huge number of banks and finance

enterprises in South East Asia to fail. Therefore, asset safety should never be compromised. In order to appropriately satisfy obligations to shareholders and depositors, resources should be allocated.

4. Suitability: Here, "suitability" refers to the idea that loans and advances should be granted to borrowers who have been carefully chosen and deemed suitable, as well as by keeping in mind the overall national development objectives that the relevant authorities have outlined. Prior to granting credit to a borrower, lenders ought to confirm that the loan is intended for a purpose compliant with the country's current national credit policy, as stipulated by the central bank.

5. Dispersal: Given that many customers profit from banker's money, the distribution of loans and advances should be based on this fact as an investment program. From a security perspective, it is also critical to distribute loans and advances as this lowers the chance of recovery in the event that something goes wrong in a single yield or industry. As a result, a bank's investment strategy has to be diverse across several industries.

"A variety of factors affect investing. Bonds may entail financial investment. notes, common stocks, real estate, mortgages, oil ventures, livestock, or theater tickets. It might entail selling short in downturn markets or buying specifically in bull ones. It might involve index funds, silver mutual funds, straddles, options, and money market funds, and it could lead to the building of wealth or the depletion of resources. There was diversity and difficulty in the field. If someone is knowledgeable or not, the outcome might be terrible. Hempal& Cross 1980, Through the issuance of loans and investments, commercial banks create credit, which is the most crucial component of the money supply.

2.2 Empirical Review

Shrestha (2017) conducted research on monetary policy and deposit mobilization in Nepal. He came to the conclusion that one of the main characteristics of Nepal's monetary policy is the mobilization of domestic savings, and that commercial banks, which are more active financial intermediaries, are the primary source of resources in the form of private sector deposits that are used to fund loans to investors in a variety of economic sectors. An analysis of the contribution has been conducted using the

multiple regression approach. It demonstrates that all variables have a positive influence on GDP—aside from lending to the service sector. He discovered that, with the exception of the services and investment sectors, commercial banks' lending has had a favorable effect on a number of economic sectors.

Rimal (2018) conducted research on some banks are struggling with liquidity due highlighted the regulatory credit to deposit ratio (CD Ratio). The balance sheets of Class "A" financial institutions show a little increase in loans in spite of a growth in deposits, indicating that they may have some liquidity. Reports from Sanima Bank, NMB Bank, Nepal Investment Bank, Bank of Kathmandu, Everest Bank, Commerz and Trust Bank, Citizens Bank International, and Global IME Bank indicate that a number of banks' credit to deposit ratios have dropped. The financial statements of NCC Bank show an increase in the credit to deposit ratio. The credit-to-deposit ratios of all these banks are far below the requirements set by Nepal Rastra Bank. In the second quarter, the NIBL CD Ratio surpassed the statutory barrier, reaching 81.29 percent; it is now at 77 percent. Because banks were giving low interest rates on deposits, deposits had already started to fall. He found that the onset of a tighter liquidity scenario puts banks' ability to lend money to major projects at jeopardy.

Anarfo (2018) conducted research on capital structure and bank performance – evidence from Subsahara Africa. Examining the connection between capital structure and bank performance in Sub-Saharan Africa is the aim of this research. Panel data approaches are employed in the study methodology to examine the connection between capital structure and bank performance. The study included return on asset (ROA), return on equity (ROE), and net interest margin (NIM) as performance factors. All of the variables were found to have stationary levels by the investigation. He discovered a bad correlation between bank performance and capital structure. Additionally, he argues that a bank's performance drives its capital structure rather than the other way around.

Mutaraiand Naser (2019) conducted research on determinants of capital structure of Banking sector in GCC: An emperical investigation. Finding the factors that influence a sample of commercial banks' capital structures that are listed on Gulf Cooperation Council (GCC) stock exchanges is the study's main goal. The study found that banks' decisions about capital structure are influenced by profitability and liquidity. He

discovered that loans, which account for more than 80% of the commercial banks' capital, finance the majority of their assets in the GCC. This highlights how crucial long-term debt is to the funding of commercial banks in the GCC.

Gazi et al (2021) wrote an article Financial Performance of Converted Commercial Banks from Non-Banking Financial Institutions: Evidence from Bangladesh. Using Bangladesh Commerce Bank Limited as a case study and example organization, the current study aims to assess the financial performance of converted commercial banks from non-banking financial institutions. Throughout the years 2015–2019, the bank was able to maintain a steady growth rate in net income after taxes, total loans and advances, and total deposits. Additionally, the bank's ROA, ROE, NIM, and other ratios were below normal, which led the researchers to conclude that Bangladesh Commerce Bank Limited's financial condition was not as robust. Researchers employed panel data regression modeling and descriptive statistical methods to analyze secondary data. The findings indicate that Bangladesh Commerce Bank provides loans to clients and operates with adequate operational and asset management efficiency. A few hypotheses about net income after taxes, ROA, and ROE with total assets, total loans, total deposits, and interest income have also been evaluated in this study. Since these theories have been accepted, the independent variable has no discernible impact on the dependent variable. According to the report, Bangladesh Commerce Bank Limited has the chance to strengthen their financial position by taking use of their strong financial position and effective management.

Agustin (2023) conducted research on the effect of ownership structure on capital structure : evidence from Indonesia banks. This study showed that ownership structure, the economic crisis, and government bank policy (regional autonomy and Indonesia bank design) are the external factors affecting an Indonesian nation's economy. Similar to this, a bank's size, physical assets, and profitability are its internal factors or features. The correlation between leverage and size is positive. Large companies have stronger credit ratings for debt issuance, pay lower interest rates on borrowed capital, are more diversified, and have easier access to the capital market. He discovered that ROA has a negative influence on leverage in addition to a favorable effect.

Zhang (2024) wrote an article Analysis of Investment Policies in China and the U.S. and the Impact of FDI on China's Economy. Global trade and transnational investment are expanding quickly due to the acceleration of globalization and the strengthening of international ties. To support and guide domestic businesses and investors, as well as influence other nations' and regions' investment decisions and cooperation, a clear and sound system of investment policy is essential. The investment policies of China and the United States are succinctly summarized in this paper. It emphasizes how China's priority is still on luring international investment, with ongoing improvements being made to its outward foreign direct investment (OFDI) policies, whereas the United States' investment policies are largely focused on protecting local businesses and money. This essay also examines the advantages and dangers of foreign direct investment on China's economy. In general, foreign direct investment (FDI) stimulates China's economic growth, creates jobs, raises labor standards, advances technology, and fosters innovation. However, FDI is not without its challenges, chief among them being the adverse effects of market competition, economic stability, and coordinated social development. All of these problems may be improved with prompt adaptation and direction from national investment strategies.

2.2.1 Review of Unpublished Theses

Joshi (2019) conducted a study on Investment Policy of Commercial Banks in Nepal, a comparative study of Everest Bank Ltd. The study compared EBL, Bank of Kathmandu, and NABIL Bank Ltd. to evaluate their loan and advance, total investment, profitability, risk position, growth ratios, deposit utilization trends, investment policy, and fund mobilization. EBL has the highest ratios of cash and bank balance to total deposits and current assets, and a stronger liquidity position than NABIL and BOKL. EBL has a cautious investment strategy in loans and advances but has sufficient investments in government securities and strong deposit collecting. However, EBL has an average profitability ratio and a higher average credit risk ratio.

Thapa (2020) conducted a research on Investment policy of commercial banks with special reference to Nepal SBI Bank Ltd. We looked at the bank's profitability, efficiency, asset management, liquidity, and portfolio management. According to the report, the bank has enough liquidity to cover its short-term liabilities, but extra cash

management is lacking for assets that generate revenue. The bank need to concentrate on cutting back on fee-based OBS transactions and give priority lending to priority industries. The bank's investment approach is inappropriate as it is having a detrimental effect on growth owing to declining profitability. The fact that profitability has not improved enough despite more loans and advances suggests that there is a lack of a comprehensive investment approach.

Pandit (2022) conducted a researchonInvestment Policy Analysis of Joint Venture Bank (with special references to NSBIL and EBL.The research assessed NSBIL, BOKL, and EBL's investing procedures, risk, efficiency, profitability, and liquidity. It was discovered that NSBIL has a lower loans and advances to total deposited ratio, a stronger liquidity position, and a superior capacity to fulfill daily cash requirements. On the other hand, NSBIL has not had a major effect on deposits or overall investment, and neither EBL nor BOK have been able to increase their sources of funding.

Shahi (2023) conducted a research on Investment policy of commercial banks in Nepal.In comparison to joint venture banks, the research assessed Nepal Bank Limited's (NBL) liquidity, profitability, and risk posture. It looked at developments in net profit, deposits, loan and advance policies, investment, and fund mobilization and investment policies. NBL has a stronger liquidity position than joint venture banks, according to the data, but it hasn't put in place a consistent policy. NBL has less investment in government securities but more loans and advances in current assets. Given that its profitability situation is comparable to that of joint venture banks, NBL will likely need to continue making large profit margins going forward.

Bhatta (2024) conducted a research on A Study on the Investment Policy of NABIL Bank Ltd. in comparison to Other Joint Venture Banks of Nepal.The study evaluated NABIL Bank Ltd.'s liquidity, assets management efficiency, and profitability in relation to fund mobilization compared to other joint venture banks. It found that NABIL Bank has a worse liquidity position, with more current assets as loans and advances and less investment in government securities. It also has a lower profitability position, with a slightly lower mean return on loans and advances. Despite this, NABIL Bank Ltd. is more successful in increasing its sources of funds and mobilization, but struggles to maintain its high profit growth rate.

2.3 Research Gap

A research gap is the discrepancy between the results of previous studies and the current study. The banking industry in Nepal been expanding from the beginning. However, it is currently thought to be more complex in this industry. In this industry, financial fraud is common. Studying investment decisions in the current situation is therefore crucial. The researcher's prior fiscal years' thesis on this subject was completed. However, data from the current fiscal year is included in this study. Analyses are also conducted on the percentage of loan that is on deposit and the liquidity status of particular institutions. Thus, it demonstrates the wise investment choices made by these banks. The majority of the secondary data included in this analysis spans the last five years, from Fiscal Year 2013–2022–2022–2023. As a result, this study differs in that it uses a different sample, different analysis period, and different methodologies to acquire data on the investment policies of sample banks.

CHAPTER - III
RESEARCH METHODOLOGY

The controlled exploration of theoretical and applied elements of measuring, mathematics, and statistics is a critical component of research technique, which is especially important in social science and educational research. The purpose of this study is to assess and examine the financial strengths and weaknesses of particular banks with an emphasis on methodology.

3.1 Research Design

A methodical strategy for gathering and evaluating data in order to address research issues is known as a research design. It blends procedural efficiency with relevancy. To accomplish its goals, this study combines descriptive and analytical research methods to gather, assess, validate, and compile historical financial data.

3.2 Population and sample

The study focuses on 21 commercial banks, including Himalayan Bank Limited (HBL), Global IME Bank Limited (GBIMEL), Everest Bank Limited (EBL), Machhapuchher Bank Limited (MBL), and NABIL Bank Limited (NABIL), as a purposive sample, in order to ensure the efficacy of joint venture banks. This is due to the population's propensity for belonging to large groupings, which makes gathering data difficult. In the study, a judgmental sample design using a non-probability sampling approach was employed. The example commercial banks were chosen with respect for the ten parameters listed below.

3.3 Nature and Sources of Data

On the basis of certain secondary data, this investigation is being undertaken. The relevant banks' balance sheets and profit and loss accounts provide the information on investments, deposits, loans, advances, and profits. Information is gathered from online sources, regulatory bodies, and annual reports, among other sources. Reports from publications and official documents are frequently utilized for this purpose. Informal inquiries and interviews with authorities have been carried out in order to bolster the secondary data.

3.4 Tools for Analysis of Data

The working capital management of Nepalese commercial banks has been examined using statistical and financial methodologies.

3.4.1Financials Tools

The following financial techniques are used to examine how commercial banks use their resources:

3.4.1.1 Liquidity Ratio

i. Total Loan to Total Deposit Ratio:

This ratio shows how well the banks are able to turn a profit on the entire amount of deposits on loans and advances. It gauges how rapidly loans and advances may be made out of the total deposits received in order to provide respectable returns. The following formula is used to compute it:

$$\text{Total loans \& advances to total deposit ratio} = \frac{\text{Total Loans and Advances}}{\text{Total Deposit}}$$

A higher ratio shows that funds are being used effectively and efficiently, whereas a lower ratio shows that banks are not doing enough to keep the money from sitting around.

Total Loan and Advances to Total Assets

This ratio is computed to demonstrate how profitably banks are using the fund to make advances and loans relative to total assets. Total Loans and Advances to Total Assets is the formula used to compute it.

$$\text{Total Loans and Advances to Total Assets} = \frac{\text{Total Loan \& advances}}{\text{Total Assets}}$$

Total Loan and Advances to Total Shareholder Fund/Equity

This ratio is computed to demonstrate how profitably banks are using the money to make loans and advances relative to total loans and advances. It is computed as

$$\text{Total Loan and Advances to Total Equity } \frac{\text{Total Loan and Advance}}{\text{Total Equity}}$$

ii. Interest Income to Loans & Advances Ratio:

This ratio shows how well the banks are able to handle advances and loans while generating more interest revenue. It displays the percentage of interest revenue received in relation to the total amount of advances and loans made. The following formula is used to compute it:

$$\text{Interest income to Loans \& advances ratio} = \frac{\text{Total Interest Income}}{\text{Total Loans and Advances}}$$

A greater ratio is a sign of both strong success in lending operations and a higher rate of interest revenue earned, and vice versa.

Investment to Total loan and advances Ratio

The ratio evaluates the risk and present sacrifice made in relation to the total amount of loans and advances in exchange for the potential future returns on investments made.

$$\text{Investment to Total Loan and advances ratio} = \frac{\text{Investment}}{\text{Total loan and advances}}$$

Return on Assets (ROA): The ratio of return on assets compares the amount invested in the assets to the net profit after taxes. According to Van Horne's perspective, "we obtain the return on assets ratio or earning power on total asset when we multiply the assets turnover of the firm by net profit margin" (Van Horne; 1996). The following formula may be used to express the statement:

$$\textit{Return on Assets} = \frac{\textit{Net Profit After Tax}}{\textit{Total Assets}} \times 100\%$$

Return on assets (ROFA), which is computed as, is another kind of return on assets that is based on fixed assets.

Net Profit after Tax to net worth: Another indicator of a bank's effectiveness in using equity capital is the operating profit to net worth ratio. One matter that has to be looked into is the amount of money that is made via using the equity fund.

$$\text{Net profit to net worth} = \frac{\textit{Net profit After Tax}}{\text{Net worth}}$$

Net Profit to Total Deposit: The bank's ability to turn a profit from the entire amount of deposits it has received is measured by its net profit to total deposit ratio. This indicates that the ratio tends to be higher if the bank is able to generate more revenue from the deposits received from the various sources.

$$\text{Net profit to total deposit} = \frac{\textit{Net profit After Tax}}{\text{total deposit}}$$

Net Profit to Total loan and advances: The ratio of net profit to total loans and advances indicates how profitable the bank is at making net profits. It is computed in the way that follows.

$$\text{Net profit to total loan and advances} = \frac{\textit{Net profit After Tax}}{\text{total loan and advances}}$$

Credit Risk Ratio:

This percentage suggests that there may be a loan default or non-repayment by the borrower, which would result in losses for the bank. The proportion of nonperforming loans to all loans, advances, and credit is used to compute it.Credit Risk Ratio = $\frac{\text{Total Non performing loans}}{\text{Total loans and advances}}$

A higher ratio indicates that there are more riskier assets relative to the total amount of advances and loans, and vice versa.

As a result, these are the different financial instruments that were employed to meet the study's goals.

3.4.2 Statistical Tools

Bank financial performance is assessed using statistical methods such as correlation analysis, measure of central tendency, theory of dispersion, and estimate. These tools aid in discussing the relationships and distinctions between variables and describe data. Statistical analysis may be used to describe connections between variables and interpret outcomes in a variety of human activities and areas. Additionally, it verifies

demographic data based on hypotheses.

Mean ($\overline{X}$)

The total values added to the number of observations in the sample yields the arithmetic mean, often known as the average. It depicts the whole set of data that is situated roughly halfway between the two extremes. This is the reason why a measure of central tendency is often used to describe an average. It is applied to data on sample banks' dividends during a ten-year period in this study. It is computed as follows:

Arithmetic Mean: Arithmetic mean is the average return over periods.. It is calculated by,

$$\overline{X} = \frac{X_1 + X_2 + X_3 + ... + X_n}{n}$$

Or, $\overline{X} = \frac{\sum X}{n}$

Where,

$\overline{X}$ = Arithmetic mean return

x_1, x_2, x_3 ……..x_n= Set of observations

n = total no. of observations

$\sum X$ = Sum of given observation

Standard Deviation (S.D.)

Mass scattering in a series is measured by dispersion, and standard deviation (SD) is an absolute metric that accounts for bias. Low SD denotes strong similarity while high SD denotes low similarity.S.D. $\sqrt{\frac{\sum \left(X - \overline{X}\right)^2}{n}}$

Where,

X = number of observations in the sample

$\overline{X}$ = mean of number of observations in the sample

n = number of years

$\sum\left(X-\overline{X}\right)^2$ = Sum of Total number of observations deviation from mean in the sample.

Correlation Analysis

Finding positive or negative correlations between two variables is the goal of correlation analysis. Statistical tools such as formula approaches or graphical representation can be used to determine it. When two variables move in opposing directions, there is a negative correlation; when they move in the same proportion, there is a positive correlation. Finding the connection between a few chosen variables throughout the course of a research period is the primary goal of correlation analysis. To quantify this link, Pearson's coefficient of correlation is frequently utilized.

Correlation of coefficient $r = \frac{n\sum XY - \sum X \times \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2}.\sqrt{n\sum Y^2 - (\sum Y)^2}}$

r = coefficient of correlation

ΣXY = Sum of product of two series.

ΣX^2 = Sum of squared in X series

ΣY^2 = Sum of squared in Y series

The value of this coefficient can never be more than + 1 or less than -1. Thus, + 1 and -1 are the limit of this coefficient. The r = + 1 implies that correlation between variables is positive and vice- versa. And zero denoted no correlation.

Coefficient of Determination

The coefficient of determination, or r2, is the square of the correlation coefficient. It shows the percentage of the dependent variable's variance that the independent factors account for.

t- Statistics

W.S. Grosset devised the distribution in 1908, and R.A. Fisher explains it. The t-test is used to determine if a research is valid for small samples; t-values are computed and compared to crucial values at a certain level of significance.Under $H_{0,}$ the t-statistic is:

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

Where,

t=calculated value of t

r= correlation of coefficient between the variables.

n= number of sample.

3.4.2.1Regression Analysis

It is a statistical measure that looks for the degree of correlation between a set of other changing variables (called independent variables) and one dependent variable, typically represented by the letter Y. Multiple regression and linear regression are the two fundamental forms of regression. Multiple regression employs two or more independent factors to predict the outcome, whereas linear regression uses just one independent variable to explain and/or predict the outcome of Y.

$Y= a+b_1 X_1 +b_2 X_2+b_3X_3+ b_4X_4+ b_5X_5+ b_6X_6+e_i$ ……..(i)

Where y = Net Profit After Tax

X_1 = Total Assets

X_2 = Total Deposit

X_3 = Total Equity

X_4= Total loan and advances

X_5 = Interest Income

X_6 = Total Investment

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This constitutes the bulk of the research. This chapter presents the data's statistical analysis and an explanation of the findings. Likewise, several tables and figures are provided to assess and illustrate the data. In a similar vein, the significance of the findings has been investigated using statistical and financial methodologies. As a result, the analysis and connections that follow concentrate primarily on the investment strategies of HBL, GBIME, EBL, MBL, and NABIL.

4.1 Financial Analysis

The ratio calculation has been used to assess the selected institutions' operational effectiveness, growth, and financial stability. The following ratios have been utilized to evaluate and understand the data that has been supplied.

4.1.1 Total Loan and Advances to Total Deposit Ratio

A bank's liquidity may be evaluated by comparing its total loans to its total deposits during a certain time period, which is known as the loan-to-deposit ratio, or LDR. A percentage is used to represent the LDR. The bank could not have adequate liquidity to meet any unanticipated funding requests if the ratio is very high. On the other hand, the bank could not be making as much money as it might if the ratio is too low.

Table 1

Total Loans and Advances to Total Deposit Ratio (in %)

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	71.9	82.27	71.82	78.24	61.51
2014/15	75.37	83.47	75.39	77.5	62.84
2015/16	79.12	81.47	73.52	83.45	69.02
2016/17	85.1	79.31	81.27	87.27	75.59
2017/18	88.31	87.67	81.53	90.26	83.56
2018/19	88.01	91.98	86.45	91.01	81.25
2019/20	82.73	88.8	82.95	91.26	79.72
2020/21	90.11	86.03	84.37	87.21	92.46
2021/22	90.37	94.99	89.76	88.66	92.03
2022/23	86.44	85.21	84.62	81.81	83.44
Mean	**83.75**	**86.12**	**81.17**	**85.67**	**78.14**
S.D.	**6.37**	**4.87**	**5.84**	**5.13**	**10.89**
C.V. (%)	**7.61**	**5.65**	**7.19**	**5.98**	**13.94**

Sources: Appendix I & II

Table 1 displays the total loan/credit to total deposit ratio for the previous 10 fiscal years for HBL, GBIME, EBL, MBL, and NABIL. The average ratio of total loan/credit to total deposit for HBL, GBIME, EBL, MBL, and NABIL is 83.75%, 86.12%, 81.17%, 85.67%, and 78.14%, in that order. This serves as evidence of the banks' ability to profitably employ all deposits for loans and advances.

The shifting trend or measure of the banks' homogeneity is indicated by the coefficient of variation, which is at 7.67% for HBL, 5.65% for GBIME, 7.19% for EBL, 5.98% for MBL, and 13.94% for NABIL. Because of its higher CV (13.94%) than that of HBL, GBIME, EBL, MBL, and NABIL, this research demonstrates that the NABIL total loan/credit to total deposit ratio is somewhat more volatile than that of the other four institutions. As a result, a higher ratio indicates the productive and efficient use of money, whereas a lower ratio indicates the banks' inability to stop money from being idle.

4.1.2 Total Loan and Advances to Total Assets

In relation to total assets, this ratio is calculated to show how profitably banks are using the fund to make advances and loans. It is calculated as

Table 2

Total Loans and Advances to Total Assets Ratio (times)

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	0.62	0.72	0.62	0.71	0.53
2014/15	0.65	0.73	0.65	0.7	0.56
2015/16	0.68	0.69	0.61	0.73	0.6
2016/17	0.72	0.69	0.66	0.74	0.64
2017/18	0.74	0.72	0.65	0.76	0.7
2018/19	0.74	0.76	0.66	0.74	0.66
2019/20	0.69	0.73	0.64	0.76	0.65
2020/21	0.74	0.71	0.64	0.74	0.71
2021/22	0.72	0.76	0.69	0.72	0.72
2022/23	0.72	0.71	0.67	0.68	0.69
Mean	**0.70**	**0.72**	**0.65**	**0.73**	**0.65**
S.D.	**0.04**	**0.02**	**0.02**	**0.03**	**0.06**
C.V. (%)	**5.88**	**3.38**	**3.59**	**3.53**	**10.01**

Sources: Appendix I & II

Table 2 displays the impact of the sample banks' total loans and advances on their total assets. The average ratio of total loan and advance to total assets for HBL, GBIME, EBL, MBL, and NABIL are, respectively, 0.70%, 0.72%, 0.65%, 0.73%, and 0.65. This implies that the return on assets of the bank is sufficient. The standard deviations of HBL, GBIME, EBL, MBL, and NABIL are 0.04%, 0.02%, 0.03%, and 0.06%, in a similar manner. For HBL, GBIME, EBL, MBL, and NABIL, the corresponding coefficients of variation are 5.88%, 3.38%, 3.59%, 3.53%, and 10.01, indicating the trend that varies or measures the banks' consistency. This study demonstrates that NABIL's total loan and advance to total assets is higher than those of HBL, GBIME, EBL, and MBL during all fiscal years. This ratio for sample banks

varies in a similar manner. With the greatest CV of 10.01%, NABIL has a higher risk than HBL, GBIME, EBL, and MBL.

4.1.3 Total Loan and Advances to Total Shareholder Fund/Equity

Shareholder equity is comprised of reserve, retained profits, stock capital, and share premium. The ratio of loans to advances to shareholder equity shows the extent to which shareholder equity has been able to develop assets and increase their value. Calculable as;

Table 3

Total Loans and Advances to Shareholder equity ratio

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	7.64	7.02	7.64	8.98	6.06
2014/15	7.97	6.86	7.72	8.98	6.91
2015/16	7.83	6.8	8.21	8.17	6.56
2016/17	6.41	6.53	6.74	6.23	6.37
2017/18	6.23	6.88	5.84	6.2	5.52
2018/19	6.22	7.01	6.36	6.9	5.77
2019/20	6.2	6.94	6.39	8.2	5.95
2020/21	6.69	7.45	6.48	9.12	6.1
2021/22	7.04	7.21	6.8	8.88	0.57
2022/23	7.08	6.34	6.6	7.81	0.58
Mean	**6.93**	**6.90**	**6.88**	**7.95**	**5.04**
S.D.	**0.69**	**0.31**	**0.74**	**1.14**	**2.39**
C.V. (%)	**9.96**	**4.55**	**10.74**	**14.29**	**47.34**

Sources: Appendix I & II

Table 3 displays the total amount of loans and advances to shareholder equity for the sample institutions. This shows that for HBL, GBIME, EBL, MBL, and NABIL, respectively, the average total loan and advance to shareholder equity is 0.693%, 6.90%, 6.88%, 7.95%, and 5.04% over the usual criterion. This implies that the overall lending and advance to shareholder equity of the sample institutions are sufficient. The standard deviations of the HBL, GBIME, EBL, MBL, and NABIL are 0.69%, 0.31%, 0.74%, 1.14%, and 2.39%, in a similar manner. The shifting trend or

measure of the banks' homogeneity is indicated by the coefficient of variation, which is 9.96% for HBL, 4.55% for GBIME, 10.74% for EBL, 14.29% for MBL, and 47.34% for NABIL. Similarly, this proportion exhibits a pattern of variation for the sample banks. NABIL has a higher CV (47.34%) than HBL, GBIME, EBL, and MBL, making it riskier. Finally, MBL's return on equity investment is less than that of GBIME, NABIL, EBL, and other HBL.

4.1.4 Interest Income to Loans and Advances Ratio

This ratio demonstrates how the bank may manage advances and loans while increasing interest income. In proportion to the total number of advances and loans made, it shows the interest revenue percentage.

Table 4

Interest Income to Loans and Advances Ratio (in%)

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	10.2	8.87	10.21	9.76	12.3
2014/15	8.35	9.28	8.35	9.07	8.8
2015/16	7.31	8.2	7.34	8.01	8.09
2016/17	8.78	9.11	8.73	10	9.03
2017/18	11.04	12.3	10.68	12.09	9.99
2018/19	11.68	11.81	11.62	13.9	11.41
2019/20	11.16	10.18	11.72	11.95	10.7
2020/21	7.7	8.9	8.52	9.51	8.32
2021/22	10.69	10.67	9.98	15	77.75
2022/23	12.22	12.88	13.37	12.08	39.68
Mean	**9.91**	**10.22**	**10.05**	**11.14**	**19.61**
S.D.	**1.74**	**1.63**	**1.86**	**2.23**	**22.52**
C.V. (%)	**17.59**	**15.94**	**18.47**	**20.06**	**114.86**

Sources: Appendix I & II

Table 4 displays the interest revenue to loans and advances ratio over the preceding 10 years for HBL, GBIME, EBL, MBL, and NABIL. The average interest income to loans and advances ratios for HBL, GBIME, EBL, MBL, and NABIL are 9.91%, 10.22%, 10.05%, 11.14%, and 19.61%, correspondingly. This illustrates the banks'

ability to manage advances and loans while increasing interest income. This sample bank ratio has fluctuated a little bit during the course of the investigation. The standard deviations of the HBL, GBIME, EBL, MBL, and NABIL are 1.74%, 1.63%, 1.86%, 2.23%, and 22.52%, in a similar manner.

4.1.5 Investment to Total loan and advances Ratio

The investment's percentage of the total loan and advance amount is shown by this ratio. A financial commitment made with the intention of increasing wealth is called an investment. This ratio is shown in the table that follows.

Table 5

Investment to Total loan and advances (In times)

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	42.67	20.18	14	15.42	39.42
2014/15	30.87	21.34	27.25	16.49	47.28
2015/16	27.94	19.5	26.41	13.79	48
2016/17	22.87	12.56	15.48	12	36.27
2017/18	19.8	17.48	16.24	12.04	22.27
2018/19	23.54	11.96	19.14	13.55	25.18
2019/20	24.46	13.6	24.2	12.77	28.61
2020/21	20.89	20.48	23.27	16.88	19.31
2021/22	20.58	17.46	23.01	18.77	68.04
2022/23	15.8	24.06	23.99	21.74	79.89
Mean	**24.94**	**17.86**	**21.30**	**15.35**	**41.43**
S.D.	**7.53**	**4.04**	**4.73**	**3.17**	**19.94**
C.V. (%)	**30.19**	**22.61**	**22.21**	**20.69**	**48.14**

Source: Appendix-I and Appendix-II

The bank's ability to make money on the whole amount of loans and advances is shown by the investment to entire loan and advance ratio (Table 5). The average investment to total loan and advance ratios for HBL, GBIME, EBL, MBL, and NABIL are 24.94%, 17.86%, 21.30%, 15.35%, and 41.43%, in that order. This demonstrates that the bank can turn a profit since its investment in relation to the total loan and advance ratio is adequate. The standard deviations of the HBL, GBIME,

EBL, MBL, and NABIL are likewise 7.53%, 4.04%, 4.73%, 3.17%, and 19.94%, in that order. The shifting trend or measure of the banks' homogeneity is indicated by the coefficient of variation, which is 30.19% for HBL, 22.61% for GBIME, 22.21% for EBL, 20.69% for MBL, and 48.14% for NABIL. Because of its higher CV of 48.14%, NABIL has a somewhat higher volatility than HBL, GBIME, EBL, and MBL, according to this study.

4.1.6 Net Profit to Shareholder Equity Ratio

A statistic called return on equity (ROE) gauges a company's profitability and how successfully it leverages equity to produce profits. It is computed as a percentage by dividing a business's net income by the entire amount of shareholder equity:

Table 6

Return on Equity (in%)

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	15.77	15.9	15.77	14.03	30.26
2014/15	15.98	13.12	15.25	16.14	22.09
2015/16	21.93	15.45	20.61	16.82	24.32
2016/17	17.67	16.65	17.5	15.86	25.85
2017/18	13.26	15.47	16	12.06	19.6
2018/19	17.28	16.91	17.33	15.1	18.28
2019/20	14.7	10.04	13.5	10.92	13.4
2020/21	14.89	12.73	9.38	12.49	13.37
2021/22	10.75	13.14	10.88	11.64	8.03
2022/23	4.64	11.34	13.25	10.06	11.25
Mean	**14.69**	**14.08**	**14.95**	**13.51**	**18.65**
S.D.	**4.59**	**2.34**	**3.31**	**2.39**	**7.11**
C.V. (%)	**31.24**	**16.61**	**22.15**	**17.69**	**38.12**

Source: Appendix-I and Appendix-II

Table 6 shows the sample bank's return on equity. The average ROE for HBL, GBIME, EBL, MBL, and NABIL were 14.69%, 14.08%, 14.95%, 13.51%, and 18.65%, in that order. This implies that GBIME's return on equity investment is somewhat lower than EBL's. The standard deviations of the HBL, GBIME, EBL,

MBL, and NABIL are 4.95%, 2.34%, 3.31%, 2.39%, and 7.11%, in that order. The coefficient of variation, which indicates the trend that varies or gauges the homogeneity of the banks, is highest for HBL at 31.24%, GBIME at 16.61%, EBL at 22.15%, MBL at 17.69%, and NABIL at 38.12.

4.1.7 Return on Assets (ROA)

A profitability ratio called return on assets shows how much money a business can make from its assets. Stated differently, return on assets (ROA) quantifies the effectiveness of a company's management in generating profits from the assets or financial resources shown on its balance sheet.

Table7

Return on Assets (in%)

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	1.28	1.62	1.28	1.11	2.65
2014/15	1.31	1.39	1.29	1.26	1.8
2015/16	1.91	1.58	1.52	1.51	2.22
2016/17	1.99	1.75	1.72	1.89	2.6
2017/18	1.58	1.63	1.78	1.47	2.5
2018/19	2.04	1.82	1.8	1.61	2.1
2019/20	1.63	1.06	1.36	1.02	1.46
2020/21	1.66	1.21	0.92	1.02	1.56
2021/22	1.09	1.38	1.1	0.94	1.14
2022/23	0.47	1.27	1.34	0.87	1.31
Mean	**1.50**	**1.47**	**1.41**	**1.27**	**1.93**
S.D.	**0.48**	**0.25**	**0.29**	**0.34**	**0.56**
C.V. (%)	**32.00**	**16.83**	**20.76**	**26.47**	**28.78**

Source: Appendix-I and Appendix-II

Table 7 gives the average return on assets (ROA) for HBL, GBIME, EBL, MBL, and NABIL, which are 1.50%, 1.47%, 1.41%, 1.27%, and 1.93%, respectively. This implies that the bank's return on assets is reasonable. The standard deviations of HBL, GBIME, EBL, MBL, and NABIL are 0.48%, 0.25%, 0.29%, 0.34%, and 0.56%, in a similar manner. The highest and lowest ROAs for HBL are 1.82% and 1.06%,

respectively, for the comparable years 2018/19 and 2019/20. The highest ROA for GBIME is 1.82%, while the lowest is 1.21%.Comparable years 2018/19 and 2020/21 also show that EBL's ROA is at its highest point of 1.80% and lowest point of 0.92%. The greatest and lowest values of MBL ROA are 1.89% and 0.87%, respectively. At its highest point of 2.65% and lowest point of 1.14%, NABIL ROA is. It is 32.00% for HBL, 20.76% for EBL, 16.83% for GBIME, 26.47% for HBL, and 28.78% for NABIL, in accordance with the coefficient of variation measurement.

4.1.8 Credit Risk Ratio

Credit risk is the likelihood that a borrower would default on a loan, causing a financial loss. Credit risk is basically the possibility that a lender won't get paid the principle and interest due, which would cause cash flow problems and higher collection expenses. By examining details regarding a borrower's creditworthiness, such as their income and present debt burden, lenders can reduce credit risk.

Table8

Credit Risk Ratio of Sample Banks in (%)

FY	HBL	GBIME	EBL	MBL	NABIL
2013/14	1.96	2.54	1.01	1.78	2.23
2014/15	3.22	2.23	0.66	0.64	1.82
2015/16	1.23	1.89	0.38	0.55	1.14
2016/17	0.85	1.6	0.26	0.38	0.8
2017/18	0.85	0.77	0.2	0.44	0.55
2018/19	1.12	0.54	0.16	0.37	0.74
2019/20	1.01	1.75	0.1	0.52	0.98
2020/21	0.48	1.4	0.12	0.62	0.84
2021/22	1.59	1.28	0.12	1.04	1.62
2022/23	4.93	3.15	0.79	2.26	3.39
Mean	**1.72**	**1.72**	**0.38**	**0.86**	**1.41**
S.D.	**1.37**	**0.79**	**0.33**	**0.65**	**0.88**
C.V. (%)	**79.21**	**46.05**	**85.60**	**75.59**	**62.27**

Sources: Appendix I & II

The table displays the credit risk for HBL, GBIME, EBL, MBL, and NABIL during the last ten fiscal years as well as the non-performing loan to total loan and advance/credit ratio. The average credit risk ratios are 1.72%, 1.72%, 0.38%, 0.86%, and 1.41% for HBL, GBIME, EBL, MBL, and NABIL, in that order. According to NRB rules, however, NPL should not go beyond 1% of all loans and advances for acceptable credit performance and should not go over 5% overall. EBL and MBL thereby meet the NRB's need to carry out the NPL obligation. The coefficient of variation (CV) for HBL is 79.21%, for GBIME it is 46.05%, for EBL it is 85.60%, for MBL it is 75.59%, and for NABIL it is 62.27%, which is marginally less than the coefficient of variation (CV) for EBL.

4.2 Descriptive Statistics of Variable

Descriptive statistics are used to compute the study's mean, standard deviation, minimum, and maximum. Each of the following is a component of the study: Net Profit After Tax (NPAT), Total Assets (TA), Total Loan and Advance (TL), Total Deposit (TD), Interest Income (II), Total Equity, and Total Investment (TI). As indicated by Table 1, the research consists of thirty observations in total. The observations consider four variables from five commercial banks.

Table 9

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPAT	50	454.00	6694.00	2424.7000	1381.87898
TA	50	40723.00	526882.00	154387.7200	95889.62934
TD	50	32622.00	439349.00	126924.4400	77006.75383
TE	50	3235.00	59054.00	17777.5200	12882.47095
TL	50	29053.00	374356.00	107107.7000	69231.99597
II	50	2836.00	48210.00	12589.6600	9702.61640
TI	50	3815.00	76452.00	20730.2800	15342.45290
Valid N (listwise)	50				

Descriptive statistics are shown in Table 1 for the mean net profit after taxes (NPAT) of five commercial banks during a ten-year period (2013/2014–2022/23), with a deviation of 1381.87 and a range that starts at 454.00 and ends at 6694.00. The TA of the sample commercial banks ranged from 95889.62 to 526882.00, with a minimum of 40723.00 and a maximum of 154387.72. The TD of the sample commercial banks ranged from 77006.75 to 439349.00, with a minimum of 32622.00 and a maximum of 126924.44. In contrast, the TE variable has a minimum of 3235.00 and a maximum of 59054.00, with an average of 17777.52 and a deviation of 12882.47. Over the course of the same ten years, the TL variable had an average of 107107.70, a high of 374356.00, a low of 29053.00, and a deviation of 69231.99. In contrast, the II variable has a minimum of 2836.00 and a maximum of 48210.00, with an average of 12589.60 and a deviation of 9702.61. The TI variable has a minimum of 3815.00 and a maximum of 76452.00, with an average of 20730.28 and a deviation of 15342.45. The results show that there is a significant amount of volatility in the variables under consideration.

4.3 Correlation Analysis

A statistical technique for determining how strongly two quantitative variables are related is correlation analysis. This section establishes the link between net profit after tax (NPAT) and total assets (TA), total deposits (TD), total equity (TE), total loans and advances (TL), interest income (II), and total investment (TI). It is therefore logical to anticipate a link of some type between these variable pairs. A weak correlation indicates that there is little to no association between the variables, whereas a high correlation indicates that two or more variables have a significant relationship. So, using 100 observations (N) from 2013–14 to 2022–23, ten sample banks are used in this section to attempt to explain the relationship between these variables. A correlation is significant at the 5-percentage (2-tailed) level when it has a * sign, and at the 1-percentage (2-tailed) level when it has a ** sign. In the correlation matrix, the Pearson correlation coefficients for each pair of variables are displayed.

Table9

Correlation Analysis

		NPAT	TA	TD	TE	TL	II	TI
NPAT	Pearson Correlation	1	.600**	.594**	.871**	.593**	.802**	.775**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
	N	50	50	50	50	50	50	50
TA	Pearson Correlation	.600**	1	.998**	.630**	.995**	.682**	.357*
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.011
	N	50	50	50	50	50	50	50
TD	Pearson Correlation	.594**	.998**	1	.622**	.994**	.679**	.359*
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.010
	N	50	50	50	50	50	50	50
TE	Pearson Correlation	.871**	.630**	.622**	1	.637**	.936**	.817**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000
	N	50	50	50	50	50	50	50
TL	Pearson Correlation	.593**	.995**	.994**	.637**	1	.693**	.348*
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.013
	N	50	50	50	50	50	50	50
II	Pearson Correlation	.802**	.682**	.679**	.936**	.693**	1	.746**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000
	N	50	50	50	50	50	50	50
TI	Pearson Correlation	.775**	.357*	.359*	.817**	.348*	.746**	1
	Sig. (2-tailed)	.000	.011	.010	.000	.013	.000	
	N	50	50	50	50	50	50	50

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 2 displays the correlation coefficients amongst the six variables (NPAT, TA, TD, TE, TL, II, and TI). The independent variable and NPAT are perfectly correlated. The association between NPAT and TA is positive since the p value of 0.001 is smaller than 0.05 at the significance level of 5%. With a significance threshold of 5%, the p-value of 0.001 is less than 0.05, showing a positive correlation between TD and NAPT of 0.594. Similarly, because the p value of 0.065 is greater than 0.05, the correlation between NAPT and TE is 0.871, suggesting a positive relationship that is significant at the 5% level of significance. The result demonstrates a high correlation with NPAT, TL, II, and TI in that precedential sequence. With a correlation of 0.594, NPAT and TD have the highest and lowest correlations, respectively. Overall, there is a strong positive association between NPAT, TA, TD, TE, TL, II, and TI, according to the correlation table.

4.4 Regression Model

The connection between one or more independent variables and a response, dependent, or target variable is described by a function that is provided by a regression model. For instance, a linear regression model may be used to explain the link between height and weight.

Regression Model with k number of independent variables is

$$NAPT = b_0 + b_1TA + b_2TD + b_3 TE + b_4TL + b_5II + b_6TI + u \quad (1)$$

where Y is dependent variable, X_1 and X_2, are independent variables, u is an error term, b_0 is Y-intercept, and $b_1, b_2, \ldots, b_k$ are partial slope coefficients.

Y = Net Profit after tax (NPAT)

X_1 =Total Assets

X_2 = Total Deposit.

X_3 = Total Equity

X_4 = Total Loan and Advance

X_5= Interest income

X_6 = Total Investment

Table 10

Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.891[a]	.794	.765	669.51120

a. Predictors: (Constant), TI, TL, II, TE, TD, TA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	74295340.793	6	12382556.799	27.625	.000[b]
	Residual	19274545.707	43	448245.249		
	Total	93569886.500	49			

a. Dependent Variable: NPAT

b. Predictors: (Constant), TI, TL, II, TE, TD, TA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	452.653	215.741		2.098	.042
	TA	.012	.018	.860	.682	.499
	TD	.002	.021	.109	.093	.926
	TE	.082	.027	.766	3.060	.004
	TL	-.016	.015	-.816	-1.065	.293
	II	-.024	.031	-.169	-.779	.440
	TI	.019	.013	.212	1.472	.148

a. Dependent Variable: NPAT

$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + u$

$NPAT = 452.653 + 0.012X_1 + 0.002X_2 + 0.082X_3 - 0.016X_4 - 0.024X_5 + 0.019X_6$

$b_1 = 0.012$ shows that, while keeping the values of the other independent variables constant, an increase in total assets of Re 1 will result in an increase in net profit after taxes of Re 0.012.

$b_2 = 0.002$ means that, while keeping the values of the other independent variables constant, an increase in the total deposit of Re 1 will result in an increase in net profit after taxes of Re 0.002.

$b_3 = 0.082$ means that, while keeping the values of the other independent variables constant, an increase in total equity of Re 1 will result in an increase in net profit after taxes of Re 0.082.

$b_4 = -0.016$ shows that, while keeping the values of the other independent variables constant, net profit after tax will drop by Re -0.016 if the total loan and advance are raised by Re 1.With the values of the remaining independent variables held constant,

b5 = -0.024 shows that if the total deposit is increased by Re 1, net profit after tax would fall by Re -0.024.

b_6 = 0.019 means that, while keeping the values of the other independent variables unchanged, an increase in the total deposit of Re 1 will result in an increase in net profit after taxes of Re 0.019.

When evaluating the t-statistic, the p value (0.004) is larger than 0.05 at the 5% threshold of significance, indicating that among the three independent variables, TE is significant (with the beta coefficient) with net profit after tax. When the t-statistic is tested using net profit after tax, the three independent variables—TA, TD, TL, II, and TI—are not significant (with the beta coefficient) since their p values (0.499, 0.926, 0.293, 0.440, and 0.148) are more than 0.05 at the 5% level of significance.

4.5 Major Findings

The major findings of the study are as given below.

- The study reveals that the total loan/credit to total deposit ratio for HBL, GBIME, EBL, MBL, and NABIL over the past 10 fiscal years is 83.75%, 86.12%, 81.17%, 85.67%, and 78.14%, indicating the banks' ability to efficiently use all deposits for loans and advances. However, NABIL's higher CV (13.94%) suggests a more volatile ratio, suggesting the banks' inability to prevent idle money.
- The study shows that HBL, GBIME, EBL, MBL, and NABIL have an average return on assets of 0.70%, 0.72%, 0.65%, 0.73%, and 0.65, respectively. However, NABIL has a higher total loan and advance to total assets ratio, with a maximum CV of 10.01%, indicating higher risk.
- The study reveals that HBL, GBIME, EBL, MBL, and NABIL have sufficient total loans and advances to shareholder equity, with standard deviations of 0.69%, 0.31%, 0.74%, 1.14%, and 2.39%. The coefficient of variation shows a shifting trend, with NABIL having a higher CV (47.34%), making it riskier, and MBL's return on equity investment being less than other HBL.

- The interest revenue to loans and advances ratios for HBL, GBIME, EBL, MBL, and NABIL over the past decade show averages of 9.91%, 10.22%, 10.05%, 11.14%, and 19.61%, indicating their ability to manage advances and loans.
- The study reveals that HBL, GBIME, EBL, MBL, and NABIL have average investment to total loan and advance ratios of 24.94%, 17.86%, 21.30%, 15.35%, and 41.43%, indicating adequate investment for profit. The standard deviations are 7.53%, 4.04%, 4.73%, 3.17%, and 19.94%, with NABIL having higher volatility.
- The average ROE for HBL, GBIME, EBL, MBL, and NABIL was 14.69%, 14.08%, 14.95%, 13.51%, and 18.65%, with GBIME's return on equity investment slightly lower than EBL's. The coefficient of variation was highest for HBL.
- The average return on assets (ROA) for HBL, GBIME, EBL, MBL, and NABIL is 1.50%, 1.47%, 1.41%, 1.27%, and 1.93%, respectively. The standard deviations are 0.48%, 0.25%, 0.29%, 0.34%, and 0.56%. The highest ROAs for HBL are 1.82% and 1.06%, while GBIME has the highest at 1.82%. NABIL has the highest ROA at 2.65%.
- The credit risk for HBL, GBIME, EBL, MBL, and NABIL over the last ten fiscal years is 1.72%, 1.72%, 0.38%, 0.86%, and 1.41%, respectively. NPL should not exceed 1% of loans and advances for acceptable credit performance. EBL and MBL meet NRB's NPL obligation requirements.
- The study analyzed the net profit after taxes (NPAT) of five commercial banks over a ten-year period (2013/2014–2022/23). The NPAT ranged from 454.00 to 6694.00, with a deviation of 1381.87. The TA ranged from 95889.62 to 526882.00, while the TD ranged from 77006.75 to 439349.00. The TE variable had an average of 17777.52, while the TL, II, and TI variables had varying averages and deviations.
- The study examines the correlation coefficients among six variables (NPAT, TA, TD, TE, TL, II, and TI). The results show a strong positive association between NPAT, TA, TD, TE, TL, II, and TI. The highest correlations are found between NPAT and TD, while the lowest are between TD and NPAT.
- The t-statistic, the p value (0.004) is larger than 0.05 at the 5% threshold of significance, indicating that among the three independent variables, TE is

significant (with the beta coefficient) with net profit after tax. When the t-statistic is tested using net profit after tax, the three independent variables—TA, TD, TL, II, and TI—are not significant (with the beta coefficient) since their p values (0.499, 0.926, 0.293, 0.440, and 0.148) are more than 0.05 at the 5% level of significance.

CHAPTER –V

SUMARRY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The commercial bank is one of the key players in this business, which works with the process of distributing the available resources to the right sector. It acts as a link between the excess and deficiency of financial resources. Banks under significant pressure to meet the demands of its employees, investors, depositors, and borrowing clients in order to satisfy government regulators on the soundness of the bank's policies, loans, and investments. Most criteria from stakeholders have to do with how profitable the banks are. For this reason, maximizing profits is the bank's main objective. Like other business organizations, commercial banks are driven by profit. In this highly competitive environment, only the most profitable banks can endure over the long term. Profitability has an effect on any company's financial policy, either directly or indirectly. It provides the framework for a bank's growth and development. The research was titled "Investment policy Management Analysis of commercial banks with reference to HBL, GBIME, EBL, MBL and NABIL." By examining the main policies, deposit and investment patterns, and the relationships between total assets, deposits, equity, loans, interest income, and net profit after tax, the research seeks to assess the investment policies of the sample banks. This study collects, evaluates, validates, and compiles historical financial data for research objectives using a research design strategy that combines analytical and descriptive methodologies.

The research looks at the following ratios: interest revenue to loans and advances, return on equity, total loan/credit to total deposit, total loan and advance to total assets, total loan and advance to shareholder equity, and HBL, GBIME, EBL, MBL, and NABIL during the last ten fiscal years. The corresponding average ratios are 83.75%, 86.12%, 81.17%, 85.67%, and 78.14%. Because NABIL's coefficient of variation is larger than that of other institutions—13.94%—it suggests that NABIL is more risky.The average total loans and advances to shareholder equity are 6.90%, 6.88%, 7.95%, 5.04%, and 0.693%. The total amount of loans and advances to shareholder equity is also studied. Banks are able to control loans and advances while

raising interest revenue, as seen by the interest income to loans and advances ratios. Because banks' investments are sufficient in comparison to the total loan and advance ratio, the average investment to total loan and advance ratios indicates that banks may make a profit.

HBL, GBIME, EBL, MBL, and NABIL have average return on assets (ROAs) of 1.50%, 1.47%, 1.41%, 1.27%, and 1.93%, in that order. With regard to the comparable years 2018/19 and 2019/20, HBL's top and lowest ROAs are, respectively, 1.82% and 1.06%. EBL's maximum and lowest ROA values are 1.80% and 0.92%, whilst MBL's maximum and lowest ROA values are 1.89% and 0.87%.The credit risk for the previous 10 fiscal years for HBL, GBIME, EBL, MBL, and NABIL is shown in the table along with the ratios of non-performing loans to total loans and advances/credit.

HBL, GBIME, EBL, MBL, and NABIL have average credit risk ratios of 1.72%, 1.72%, 0.38%, 0.86%, and 1.41%, in that order. EBL and MBL, with a coefficient of variation (CV) of 79.21%, satisfy the NRB's NPL duty. Over a ten-year period (2013/2014–2022/23), the mean net profit after taxes (NPAT) of five commercial banks varied from 454.00 to 6694.00. Strong positive associations were seen in the correlation coefficients between the six variables (NPAT, TA, TD, TE, TL, II, and TI). There is a positive link between NPAT and TA, and a 0.594 correlation exists between TD and NAPT. TE is significant with net profit after tax, according to the t-statistic, however the other three independent variables—TA, TD, TL, II, and TI—are not. The findings point to a considerable degree of volatility in the variables studied.

5.2 Conclusions

In the area of liquidity analysis, sample banks have respected NRB orders. The effective use of sample funds, credit control, total loan, and advances to total deposit is somewhat higher than sample. In order to make a profit, the two example banks are also able to effectively employ the total deposits for loans and advances.

On the other hand, the sample banks' ability to manage advances and loans in order to increase interest income. The average interest revenue to total loan and advance ratio for GBIME has been gradually decreasing during the investigation. GBIME's return on equity investment is somewhat lower than NABIL's in terms of profitability.

Similarly, the return on assets of the sample bank is satisfactory. Likewise, the bank turns a profit since its net profit to total loan and advance ratio is enough. The credit risk ratio of the sample banks is less than 5% but not less than 1% in each fiscal year. Thus, in terms of NPL duties, EBL and MBL only meet NRB requirements. The t-test reveals a significant association between the total loan and advances and the total deposit of the sample GBIME and MBL.

For HBL, GBIME, EBL, MBL, and NABIL during the last ten fiscal years, the research examines the following ratios: total loan/credit to total deposit, total loan and advance to total assets, total loan and advance to shareholder equity, interest revenue to loans and advances ratio, and return on equity. 83.75%, 86.12%, 81.17%, 85.67%, and 78.14% are the average ratios, in that order. Because of its greater CV (13.94%), NABIL carries a higher risk. HBL, GBIME, EBL, MBL, and NABIL had average return on assets (ROAs) of 1.50%, 1.47%, 1.41%, 1.27%, and 1.93%, respectively. Five commercial banks' mean net profit after taxes (NPAT) varied from 454.00 to 6694.00, and there was a significant positive correlation between NPAT and TA.

5.3 Recommendations

Following are some recommendations based on major findings of the study:

- As a proportion of total deposits, the bank's interest income is decreasing. As a result, sample banks should focus on interest-generating investments by managing the portfolio of different businesses.
- The return on equity of both sample banks is fluctuating and progressively decreasing. Sample banks should thus boost it in order to motivate shareholders and investors.
- Rather of investing its deposits for short-term gains, the example bank should do so for long-term gains. To encourage the growth of the nation's economic activity, they ought to distribute the deposit among the producing industries. The percentage of non-performing loans to total loans and advances, or average credit risk, is more than 1% for GBIME. In order to improve its financial efficacy, the sample bank needs reduce this percentage below 1%.

- Banks must to be transparent about the terms of their term loans, with a particular emphasis on empowering women and adolescents by providing some loans without collateral, allowing borrowers to get employment.
- In order to maintain the NRB standard, Sample Bank needs to make the necessary provisions for the problematic loan. This supports the banks' social duties and encourages new ideas in entrepreneurship, both of which ultimately result in the growth of the national economy.

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APPENDIX

Appendix-I

Summary of the Financial Transactions of Himalayan Bank Limited from FY 2013/14 to 2022/23

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Assets	74718	84753	101217	109309	118388	135211	158250	181002	216286	332392
Total Deposit	64674	73538	87335	92881	99743	113089	131860	149381	171487	275310
Total Equity	6083	6958	8823	12328	14138	15994	17589	20132	22010	33630
Net Profit	959	1112	1935	2178	1875	2763	2586	2998	2367	1562
Total Loan and Advance	46499	55428	69100	79044	88086	99530	109092	134605	154972	237989
Interest Income	4742	4627	5051	6938	9724	11625	12178	10370	16565	29094
Total Investment	19842	17113	19306	18076	17439	23432	26679	28123	31900	37595
NPL	1.96	3.22	1.23	0.85	0.85	1.12	1.01	0.48	1.59	4.93

Source: Annual Reports of HBL

Fiscal Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
TL/TD (in %)	71.90	75.37	79.12	85.10	88.31	88.01	82.73	90.11	90.37	86.44
TL to TA	0.62	0.65	0.68	0.72	0.74	0.74	0.69	0.74	0.72	0.72
TL to Equty	7.64	7.97	7.83	6.41	6.23	6.22	6.20	6.69	7.04	7.08
II to TL (in %)	10.20	8.35	7.31	8.78	11.04	11.68	11.16	7.70	10.69	12.22
I to TL (in %)	42.67	30.87	27.94	22.87	19.80	23.54	24.46	20.89	20.58	15.80
NP to Equity ROE	15.77	15.98	21.93	17.67	13.26	17.28	14.70	14.89	10.75	4.64
(NPL to TL in %)	1.96	3.22	1.23	0.85	0.85	1.12	1.01	0.48	1.59	4.93
ROA (in %)	1.28	1.31	1.91	1.99	1.58	2.04	1.63	1.66	1.09	0.47

Source: Annual Reports of HBL

Summary of the Financial Transactions of Machhapuchher Bank Limited from FY 2013/14 to 2022/23

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Assets	40723	48753	59455	68925	84787	105246	124519	158213	178727	186574
Total Deposit	37132	44205	52291	58629	71142	85198	104098	134481	145026	154179
Total Equity	3235	3816	5340	8211	10356	11237	11584	12864	14485	16151
Net Profit	454	616	898	1302	1249	1697	1265	1607	1686	1625
Total Loan and Advance	29053	34261	43636	51167	64215	77536	95000	117286	128573	126137
Interest Income	2836	3109	3495	5118	7766	10777	11352	11155	19284	15232
Total Investment	4479	5649	6019	6142	7732	10506	12132	19803	24127	27418
NPL	1.78	0.64	0.55	0.38	0.44	0.37	0.52	0.62	1.04	2.26

Source: Annual Reports of MBL

Fiscal Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
TL/TD (in %)	78.24	77.50	83.45	87.27	90.26	91.01	91.26	87.21	88.66	81.81
TL to TA	0.71	0.70	0.73	0.74	0.76	0.74	0.76	0.74	0.72	0.68
TL to Equty	8.98	8.98	8.17	6.23	6.20	6.90	8.20	9.12	8.88	7.81
II to TL (in %)	9.76	9.07	8.01	10.00	12.09	13.90	11.95	9.51	15.00	12.08
I to TL (in %)	15.42	16.49	13.79	12.00	12.04	13.55	12.77	16.88	18.77	21.74
NP to Equity ROE	14.03	16.14	16.82	15.86	12.06	15.10	10.92	12.49	11.64	10.06
(NPL to TL in %)	1.78	0.64	0.55	0.38	0.44	0.37	0.52	0.62	1.04	2.26
ROA (in %)	1.11	1.26	1.51	1.89	1.47	1.61	1.02	1.02	0.94	0.87

Source: Annual Reports of MBL

Summary of the Financial Transactions of Global IME Bank Limited from FY 2013/14 to 2022/23

(NPR in millions)

Details	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Total Deposit	52292	60176	74683	101910	106510	124499	226643	283349	286560	439349
Total Loans &Advances	43019	50227	60841	80820	93373	114520	201251	243762	272212	374356
Non-Performing loan	1094	1122	1149	1296	717	622	3520	3422	3477	11787
Total assets	60018	69186	87701	117893	128841	151653	273876	345423	360537	526882
Net Profit After Tax	974	961	1382	2061	2101	2761	2909	4165	4959	6694
Shareholder fund	6126	7323	8946	12376	13579	16332	28988	32720	37739	59054
Interest income	3815	4660	4988	7366	11481	13530	20489	21693	29058	48210
Investment	8680	10717	11865	10154	16320	13692	27362	49916	47537	90082

Source: Annual Reports of GBIME

Fiscal Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
TL/TD (in %)	82.270	83.470	81.470	79.310	87.670	91.980	88.800	86.030	94.990	85.210
TL to TA	0.720	0.730	0.690	0.690	0.720	0.760	0.730	0.710	0.760	0.710
TL to Equty	7.020	6.860	6.800	6.530	6.880	7.010	6.940	7.450	7.210	6.340
II to TL (in %)	8.870	9.280	8.200	9.110	12.300	11.810	10.180	8.900	10.670	12.880
I to TL (in %)	20.180	21.340	19.500	12.560	17.480	11.960	13.600	20.480	17.460	24.060
NP to Equity ROE	15.900	13.120	15.450	16.650	15.470	16.910	10.040	12.730	13.140	11.340
(NPL to TL in %)	2.540	2.230	1.890	1.600	0.770	0.540	1.750	1.400	1.280	3.150
ROA (in %)	1.620	1.390	1.580	1.750	1.630	1.820	1.060	1.210	1.380	1.270

Source: Annual Reports of GBIME

Summary of the Financial Transactions of Everest Bank from FY 2013/14 to 2022/23

(NPR in millions)

Details	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Total Deposit	64675	73523	93735	95094	115511	129568	143545	160220	172739	198007
Total Loans &Advances	46449	55428	68911	77287	94181	112007	119069	135173	155053	167555
Non-Performing loan	470	367	264	198	187	177	117	178	183	
Total assets	74719	84913	113885	116510	144811	170077	185023	212336	225381	250090
Net Profit After Tax	959	1095	1730	2006	2581	3054	2516	1958	2479	3362
Shareholder fund	6083	7178	8394	11464	16134	17625	18637	20870	22794	25371
Interest income	4743	4626	5057	6747	10057	13019	13956	11515	15467	22400
Investment	6504	15102	18198	11964	15292	21434	28813	31460	35674	40201

Source: Annual Reports of EBL

Fiscal Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
TL/TD (in %)	71.82	75.39	73.52	81.27	81.53	86.45	82.95	84.37	89.76	84.62
TL to TA	0.62	0.65	0.61	0.66	0.65	0.66	0.64	0.64	0.69	0.67
TL to Equity (in %)	7.64	7.72	8.21	6.74	5.84	6.36	6.39	6.48	6.80	6.60
II to TL (in %)	10.21	8.35	7.34	8.73	10.68	11.62	11.72	8.52	9.98	13.37
I to TL (in %)	14.00	27.25	26.41	15.48	16.24	19.14	24.20	23.27	23.01	23.99
NP to Equity ROE	15.77	15.25	20.61	17.50	16.00	17.33	13.50	9.38	10.88	13.25
(NPL to TL in %)	1.01	0.66	0.38	0.26	0.20	0.16	0.10	0.12	0.12	0.79
ROA (in %)	1.28	1.29	1.52	1.72	1.78	1.80	1.36	0.92	1.10	1.34

Source: Annual Reports of EBL

Summary of the Financial Transactions of NABIL Bank from FY 2013/14 to 2022/23

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Assets	87274	115986	127300	140332	161304	201139	237680	291066	41982	48120
Total Deposit	75388	104237	110267	118896	135979	164373	193035	223474	32622	39684
Total Equity	7648	9473	11606	14102	20590	23160	25849	33858	52981	56912
Net Profit	2314	2093	2823	3645	4036	4233	3463	4527	4256	6404
Total Loan and Advance	46369	65501	76106	89877	113625	133559	153890	206622	30021	33112
Interest Income	5702	5762	6155	8116	11349	15243	16462	17188	23340	46251
Total Investment	18277	30972	36528	32594	25303	33633	44022	39889	62455	76452
NPL	2.23	1.82	1.14	0.8	0.55	0.74	0.98	0.84	1.62	3.39

Source: Annual Reports of NABIL

Fiscal Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
TL/TD (in %)	61.51	62.84	69.02	75.59	83.56	81.25	79.72	92.46	92.03	83.44
TL to TA	0.53	0.56	0.60	0.64	0.70	0.66	0.65	0.71	0.72	0.69
TL to Equity (in %)	6.06	6.91	6.56	6.37	5.52	5.77	5.95	6.10	0.57	0.58
II to TL (in %)	12.30	8.80	8.09	9.03	9.99	11.41	10.70	8.32	77.75	139.68
I to TL (in %)	39.42	47.28	48.00	36.27	22.27	25.18	28.61	19.31	208.04	230.89
NP to Equity ROE	30.26	22.09	24.32	25.85	19.60	18.28	13.40	13.37	8.03	11.25
(NPL to TL in %)	2.23	1.82	1.14	0.8	0.55	0.74	0.98	0.84	1.62	3.39
ROA (in %)	2.65	1.80	2.22	2.60	2.50	2.10	1.46	1.56	10.14	13.31

Source: Annual Reports of NABIL

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i CHAPTER - I INTRODUCTION 1.1 Background of the Study Nestled between India and China, Nepal is a landlocked, mountainous, agricultural country with a highly distinct physical landscape. It is among the least developed secular kingdoms. It is a sovereign nation that has never been overrun by outside forces. It is composed of a diverse range of racial and tribal groups who speak various languages and dialects. The Himalayan area

and inner Himalayas , the **Sub-Himalayas or the Mountain region** , the **Valley basin or Inner Terai, and the Terai region**

are the four primary regions that make up Nepal, and they differ greatly in terms of height and temperature. Nepal is regarded as one of the world's most beautiful countries, possessing a wealth of cultural and natural legacy.

1.1.1 Banking and Financial System in Nepal The

founding

of Nepal Bank Limited (NBL), the country's **first commercial bank, in November 1937**

marked the beginning of the contemporary financial system in Nepal. The Nepal Bank Act of 1937 was used to create it. The modern financial system in the nation was initiated with the foundation of NBL. Before the NBL was founded, credit was distributed to the populace through the Tejarath Adda, which was founded in 1880. It used to offer loans secured by gold and silver coins as collateral. It supplied its consumers and clients with commercial banking services, including taking deposits, granting credit, and other related services. The nation has dealt with a variety of financial entities during the course of the previous 74 years as the contemporary financial system has developed. The nation is home to a wide variety of financial institutions, each offering a unique range of financial services. There are two general subheadings into which these financial entities might be divided. There are two types of financial institutions: non-banking and banking. Financial Institutions for Banking (BFIs) Financial entities involved in banking are commercial banks. The main participants in the nation's financial markets are commercial banks. With a wide range of deposit and credit products, they are market leaders in the financial sector. By mid-July 2008, they accounted for around