INVESTMENT POLICY AND PRACTICES:
A CASE STUDY OF NEPAL SBI BANK LTD.

By:

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RECOMMENDATION

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (M.B.S.)

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I am solely responsible for any errors in this report. I would like to extend warm welcome to suggestions and comments if any.

Dipendra Karki

ABSTRACT

The banking sector plays a crucial role in the economic development of nations, with commercial banks serving as vital intermediaries in channelling financial resources to various sectors. However, this function involves inherent risks, necessitating the formulation of sound investment policies to safeguard the interests of depositors, shareholders, and the wider society. This study focuses on analysing the investment policy and practices of Nepal SBI Bank Ltd. (NSBL) through a descriptive and analytical research approach. To achieve this objective, the study is designed within the framework of a case study research design. The research aims to assess NSBL's investment policy regarding single borrower credit limit, loan loss provisioning, priority and deprived sector lending, capital adequacy norms, loan and advances, and overall investment trends over a five-year period from FY 1999/00 to 2003/04. Analyzing data, the study reveals a strong positive correlation between investments and loans & advances ($r = 0.93$, $p < 0.05$), as well as investments and deposits ($r = 0.76$). Moreover, the study finds that lending predominantly favored industrial and commercial sectors, with mean ratios of 43.13% and 28.47%, respectively, with relatively lower allocations to priority sectors (10.99%), indicating potential deviations from Nepal Rastra Bank (NRB) directives. While NSBL managed to meet the NRB's requirement for deprived sector credit, it lagged in fulfilling the requirement for priority sector lending. Although the bank demonstrated effective management of non-performing loans, the increasing trend of loan loss provision suggests deteriorating loan quality. Trend analysis projections indicate a modest growth in NSBL's loan and advances and total investment, highlighting the need for the bank to adopt more robust investment policies to achieve higher growth and profitability. Recommendations include increasing investments to optimize resource utilization, enhancing focus on priority sector lending, and implementing effective investment policies to achieve competitive banking practices and ensure sustainable growth. Future research could explore the impact of these recommendations and further refine investment strategies for NSBL as well as for Nepal's banking sector, contributing to the broader discourse on investment policies and practices in emerging economies.

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ABBREVIATIONS

NSBL/NSBI	Nepal SBI Bank Ltd.
NRB	Nepal Rastra Bank
NPA	Non-Performing Assets
CRR	Cash Reserve Requirements
ADB	Asian Development Bank
GDP	Gross Domestic Product
CBs	Commercial Banks
B.S.	Bikram Sambat
S.D.	Standard Deviation
C.V.	Coefficient of Variation
App.	Appendix

CHAPTER I

INTRODUCTION

1.1 General Background

Nepal is one of the least developed countries of the world. Around 31% percent of the total population are living below poverty line and per capita income is $ 210. The economic development of the country, which is reflected by the annual GDP growth rate, is also not very significant. Nepal's average GDP growth rate in recent year is around 5 percent. The population growth rate is 2.3% and the population distribution is 160 people per square k.m. have affected its economy to a large extent. World development Report 2004 shows that, economic growth rate is 2.2% and the average annual growth rate on GNP per capita is negative (i.e. -0.1%).. The report shows that the public expenditure on education & health is 2.8% & 1.2% of GNP respectively. Currently 59% of all adult are literate. The country is facing the problem of nutritional deficiencies and higher infant mortality. About 70% of the children are the victims of malnutrition. Infant mortality rate is 83 per 1000 infants. Average fertility rate per woman is higher in country. Due to the higher fertility rate and lower medical care, maternal mortality rate is higher which is 500 in per 1 00,000. Currently, the life expectancy at birth of Nepalese people is 58 years of male and 57 years of female.

The development of any country largely depends upon its economic development. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economic development (Nigam 1967). The network of a well-organized financial system of the country has great bearing in this regard.

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals in the process of channelising the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances. It pools the funds scattered in the economy and mobilizes them to the productive sector. But these institutions inherent a large amount of risk, which cannot be, denied either. If a bank behaves irresponsibly, the costs borne by the economy are enormous. A large amount of depositors' money is at stake. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Investment operation of commercial banks is very risky one. For this, Banks have to pay due consideration while formulating investment policy regarding loan and investment. A sound and viable investment policy can be effective one for the economy to attain the economic objectives directed towards the acceleration of the pace of development. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The loan provided by commercial bank is guided by several principal such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment policy. Mcnaughton (1994) in her research paper state that "Investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, and loan portfolio balance and term structure of the liabilities (Mcnaughton 1994). Thus, commercial banks have to consider government and Nepal Rastra Bank's instructions and national and their own interest as well.

Nepalese commercial banks lag far behind fulfilling the responsibility to invest in the crucial sector of the economy for the upliftment of the national economy. Thus the problem has become very serious one in developing countries like Nepal. This can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and NPAs, which cause the bank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization.

1.2 Focus of the Study

The study aims to analyze the investment policy and practices of Nepal SBI bank by using descriptive tools under descriptive and analytical research design. Thus, the study concentrates the whole energy and efforts to a specific bank *i.e.* Nepal SBI Bank ltd (NSBL) regarding how it performs with specific focus on investment policy. More specifically, the study is focusing on the investment policy and practices related to single borrower credit limit, loan loss provisioning, priority and deprived sector lending, capital adequacy norms, Loan and advances and its trend and finally the trend of total investment of the Nepal SBI Bank Ltd. during the period of past five years starting from FY 1999/00 to 2003/04.

The study on Investment Policy and Practices of Nepal SBI Bank Ltd. focusing on portfolio management and credit management in compliance with the foresaid policy strives to disclose the internal weakness and furnish the ideas for improvement.

1.3 Statement of the Problem

Investment operation of the bank is very vital and risky one. As a result, the matter is running as an appealing issue among the research scholars and students of finance. Thus, many attempts have been made to carry out a study on Investment function of the banks. On the other hand, commercial banks are major components of financial system and they work as a catalyst of economic development of the nation. The main objective of the banks is profit maximization and wealth maximization with the responsibility of safeguarding the interest of the stakeholders. Emphasizing the role of commercial banks, Dali (1974) says," The major problem in almost all developing countries and Nepal is no exception, is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and act as development banks, due to the lack of other specialized institutions (Dali, 1974). The problem of lending has become very serious for developing country like Nepal. This is due to lack of sound investment policy of commercial banks.

Commercial banks are found to be making loan only on short-term basis against movable merchandise. There is hesitation to invest on long term projects because they are much more safety minded. So, they follow conservative loan policy, which is based on string security. They don't consider the profit potential of the project. There is raised criticism that commercial banks have served only richer communities not the poor. This has directly had negative impact on economic growth. Nowadays commercial banks don't seem to be capable to invest their funds in more profitable sector. They are found to be more interested in investment in less risky and highly liquid sectors i.e. treasury bills, development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors, this result into lower profitability to commercial banks and ignorance to the national economic growth process. This is the main reason for crisis in the commercial banks and in the whole national economy as well.

Commercial bank’s investment has been found to have lower productivity, which is due to the lack of supervision regarding whether there is proper utilization of their investment. Similarly, lack of farsightedness has caused many problems to commercial banks. The proportion of NPAs has been increasing significantly, quite higher than internationally accepted standards (3%). This affects profitability of a bank significantly.

In the Nepalese economy, commercial banks are growing rapidly and showing the best working result in most recent years. The growth of the banks may be the outcome the investment policy they are applying.. So, it is felt important to carry out a detailed study on the matter of how the commercial banks are carrying their investment operation & the risk inherent on their investment activities is needed to be analyzed and effectiveness should be measured to sustain and to compete them within the increasing globalization. In this situation the present study makes a modest attempt to analyse investment policy and practices of NSBL.

In general the study seeks to trace out the general investment policy and practices in the bank. In addition to this, the study attempts to solve the following problems specially related to investment function of Nepal SBI Bank Ltd.

a) What is investment policy in specific?

b) What are the variables of investment policy that measures practices?

c) What is the Liquidity position, the impact of deposit in liquidity and its effect on lending practices?

d) What is the portfolio of loans and advances in the bank?

e) What is the proportion of Non-performing Asset to total loan and advances of the bank?

f) What is the trend of total investments made by the bank?

1.4 Objectives of the Study

The basic objective of the study is to review the investment policy adopted by Nepal SBI Bank ltd. To achieve the solution of above problem, the specific objectives of this study are given below:

a) To analyze the general investment policy of NSBL;

b) To analyze the relationship between various important variables of investment policy;

c) To evaluate the liquidity, asset management efficiency, profitability and risk position of NSBL.

d) To analyze the portfolio behavior of loans and advances of the bank;

e) To determine the proportion of loan loss provision to total loans and advances;

f) To access the Non-Performing Assets position of the bank; and

g) To analyse the investment trend of NSBL.

1.5 Significance of the Study

Research itself has its own importance because it aims to gain knowledge and to add the new literature in existing field. The significance of this study lies mainly in filling a research gap on the study of investment policy of commercial banks with respect to Nepal SBI Bank Ltd. This study will contribute significantly to solve the problem existing in the investment decisions of commercial banks and to formulate the policy and strategies to maintain investment activities effective. Mainly, the study is important for the researcher to fulfill the academic requirement of master degree. On the other, the study is important for commercial banks, researchers, scholars, investors, students, government and many other parties. So, I hope, this study will emphasis and help those, who want to study in further detail and widely in this field. At last, it is expected that, the study will add a drop of literature in the field of commercial banks and their investment policy and practices.

1.6 Limitations and Delimitations of the Study

This study is carried out as an academic requirement for degree of Master of Business Studies (MBS). So, the study may not be able to reveal the reliability and validity in every field. Basically, the study is limited within the following factors.

1. The findings of the study may or may not be applicable to all commercial banks of Nepal. So the findings of the study cannot be generalized.
2. Last five years' data are taken into consideration for the study purpose, which are collected from the secondary sources.
3. Research based on secondary data is not far from limitation due to inherent character. Data published from various sources differ; some figures published by Nepal Rastra Bank and the bank do not tally each other. However, in this research work data collected and published by the bank is taken as authentic sources of the data.
4. Accuracy, reliability and validity of the study depend upon the data provided by the bank.

1.7 Organization of the Study

This study is organized into five chapters Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and Summary, Conclusions and Recommendations. Introduction chapter includes the general background, focus of the study, statement of problem, objective of the study, importance of the study, Limitations and delimitations of the study and organization of the study. Similarly, the second chapter includes the theoretical review, review of dissertation reports, articles and journals. Research methodology chapter is concerned with the methodology adopted in the research work. In the same way Presentation and Analysis of Data is included in chapter four. Finally, the summary of the research report, conclusions and recommendations are given in chapter five.

CHAPTER II

REVIEW OF LITERATURE

In this chapter, the attempts have been made to review useful bunch of literature relevant to study area as they have provide ideas, policies and data inputs to this analysis. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, other information managing bureaus and the concerned bank. This chapter helps to take adequate feedback to broaden the information base and inputs to my study. This also helps to avoid duplication and provide guidelines to update the study. Conceptual foundation is a most important part of every study. Without clear concept on subject matter the study may not go through right way. Conceptual frameworks given by different authors, research scholars, practitioners etc. in this chapter are reviewed from the research papers, articles, journals etc. This chapter is divided into two parts- theoretical review and research review. Research review includes the review of relevant past studies.

2.1 Theoretical Review

This sub-chapter presents the theoretical aspect of the study. It includes the concept of commercial banks, functions of commercial bank, introduction to Nepal SBI Bank Ltd., concept of investment and investment policy, other some important terms, characteristic of sound investment policy, general investment policy (as per NRB directives).

2.1.1 Concept of Commercial Bank

In general, commercial banks are those financial institutions, which play the role of financial intermediary in collection and disbursement of funds from surplus unit to deficit unit. American Institution of banking (1972) defines commercial bank as: Corporation which accepts demand deposits subject to cheque's and makes short term loans to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitute for money, such as cheques or bill of exchange. He also provides a variety of financial services (The New Encyclopedia Britannia 1985).

Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services (Principal of Bank Operation 1972).

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

Similarly, Commercial bank Act (1974) defines the commercial bank as; “A commercial bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose.

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

Financial activities are necessary for the economic development of the country and commercial banking is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

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

The income and profit of the bank depend upon the lending procedure applied by the bank. As well as lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies it is always taken in mind that "the greater the credit created by the bank, higher will be the profitability." A sound lending and investment policy is not only pre-requisite for bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal. The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most important one. In the words of H. D. Crosse (1963), "Commercial banks bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investments (Crosse, 1963). Emphasizing upon this Crosse stated, “The investment policy should be carefully analyzed". Commercial bank should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending.

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

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

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

2.1.2 Development of Commercial Banks in Nepal

The evolution of banking industry had started a long time back, during ancient time. There was reference to the activities of moneychangers in the temple of Jerusalem in the New Testament. Bank of Venice, set up in 1157 in Venice, Italy, is regarded as the first modern bank. Subsequently, Bank of Barcelona (1401) and Bank of Genoa

(1407) were established. The Lombards migrated to England and other parts of Europe from Italy are regarded for their role in the development and expansion of the modern banking. Bank of Amsterdam set up in 1609 was very popular then. The bank of Hindustan established in 1770 is regarded as the first bank in India. These modern Banks gradually replaced goldsmiths and moneylenders. Though Bank of England was established in 1694, the growth of banks accelerated only after the introduction of Banking Act-1833 in United Kingdom as it allowed to open joint stock company Banks.

In the country the development of banking is relatively recent. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhardhar, a Sudra merchant of Kantipur in 879 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. In 11th century, during Malla regime there was an evidence of professional moneylenders and bankers. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced.

The establishment of the 'Tejarath Adda' during the year 1877 AD was fully subscribed by the government of Kathmandu valley, which played a vital role in the banking system. The establishment helped the general public to provide credit facilities at a very low rate of 5 percent. The Tejarath Adda distributed credit facilities to the public especially on the collateral of gold and silver. Several branches were opened in different part of the country. Hence the establishment of Tejarath Adda could be regarded as pioneer foundation of banking in Nepal. 'Tejarath Adda' was running smoothly for few decades.

The main defects of this institution soughed as there was no other financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposits from the public. In the absence of saving mobilization the 'Adda' faced financial problems making it impossible to Carter to the credit and service need of the general population through out the country. After that again, for a long time, several unorganized bankers and indigenous moneylenders continued to flourish as the sole provider of the credit and services to the general public.

Reviewing these situations, the “Udyog Parisad” (Industrial Development Board) was constituted in 1936 AD. One year after it’s formulation, it formulated the “Company Act” and Nepal Bank Act” in 1937 AD. The establishment of Nepal Bank Ltd, came into existence as the first commercial bank of Nepal, inaugurated by His Majesty King Tribhuwan on November 1937. Rastriya Banijya Bank, the second commercial bank was established in the year 1965. RBB being the largest commercial bank plays a major role in the economy. The financial shapes of the two old banks have a tremendous impact on the economy.

Financial liberalization took place in Nepal in the mid 1980’s. Reforms were introduced with the changes in the Commercial Bank Act of 1974. The entry barriers placed on commercial banks were eliminated. This change was introduced to allow both foreign banks and the private sector to operate in the banking sector. However, foreign participation in the financial sector is only allowed with the joint collaboration with the domestic promoters. The objection was to help transmit banking, managerial and technical knowledge in the economy. The immediate impact was on the number of joint venture commercial banks that came following the remove of the entry barrier.

The inception of Nepal Arab Bank Limited (renamed as NABIL Bank Limited since January 01, 2002) in B.S. 2041-03-29 (12 July 1984) as the first joint venture Bank proved to be a milestone in the history of banking. NABIL Bank gave a new ray of hope to the sluggish financial sector. Having observed the success of NABIL based on marketing concept and also because of liberal economic policy adopted by the successive governments, other many commercial Banks were established and started their operations. Today, we got 17 commercial banks in operation.

Nepal SBI bank is the first Indo Nepal Joint Venture in the financial sector. Sponsored by three institutional promoters, namely: State Bank of India, Karmachari Sanchaya Kosh (Employee Providend Fund) and Agriculture Development Bank trough a memorandum of understanding sign on 17th July 1992, the bank comes into operation on 8th July 1993 within a period of less than one year. NSBL has its corporate office at Hattisar. The bank is currently running its operation with fifteen branches in various part of the kingdom.

2.1.3 Functions of Commercial Banks

Commercial bank performs different functions such as core function and support function to the business. Core function includes two types of functions- fund based and non-fund based functions. Similarly, support functions are those functions, which are carried out to fulfill the core functions. American Institute of Banking (1972), has fixed out four major functions of a commercial bank; receiving payments, handling payments, making loans & investment and creating money by extension of credit. Similarly, Upadhya and Tiwari (1980) have argued that there are three major functions of commercial bank. These three functions are:

i. Primary functions
   - Accepting various types of deposits.
   - Lending money in various productive sectors.
   - Investments.

ii. Agency functions
   - Sales and purchase of securities
   - Working as an agent & trustee of a customer
   - Transfer of funds.
   - Provide financial information

iii. General functions
   - Safe custody of valuable assets
   - Issue of credit instruments
   - Dealing with foreign exchange
   - Compilation of trade information & statistics

A bank receives funds in the following ways: -

- Capital fund.
- Borrowing.
- Deposits.
- Other liabilities.

The collected funds are invested in following assets: -

- Cash and bank balance.
- Investment.
- Loans, advances and bills purchased/discounted.
- Fixed assets.
- Other assets.

Out of the above said assets, Credit and Investment dominate the asset side of the bank balance sheet.

An Introduction to Nepal SBI Bank Ltd. (NSBL)

Nepal SBI bank is the first Indo Nepal Joint Venture in the financial sector. Sponsored by three institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank through a memorandum of understanding signed on 17th July 1992, the bank came into operation on 8th July 1993 within a period of less than one year. The bank received registration from Registrar of Companies Ministry of Industry, HMG on the 25th April 1993 and commenced its first board meeting on the May 25th, 1993 to pave the way for operationalizing the bank within the quickest possible time. The bank received certificate of commencement of business on the 30th June 1993. Moreover it received its license from NRB for all commercial banking transaction on the 6th July 1993. The bank had set up its corporate and banking office at Durbarmarg with computerized operations. However, the space available at Durbarmarg was not adequate to facilitate its business. Later the corporate office was shifted to Kamal Pokhari leaving Durbarmarg office as banking office. Now, this bank has its corporate office at Hattisar. The bank is currently running its operation with fifteen branches in various part of the kingdom.

Share Holding Pattern of the Bank

State Bank of India (SBI)	50.60%
Karmachari Sanchaya Kosh (EPF)	15.18 %
Agriculture Development Bank (ADB)	5.06%
General public (GEN.PUBLIC)	29.16%
Total	100 %

(Source: Nepal SBI Bank Limited)

Equity Capital (as on 31/03/061)

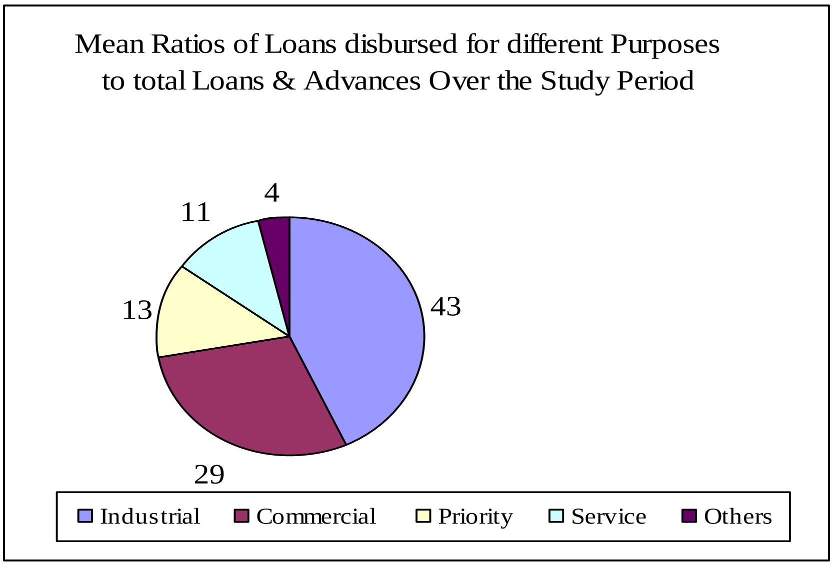
	Rs. in Million
Authorized Capital	1000
Issued Capital	500
Paid up Capital	426.88

Glimpse of the progress (for the fiscal year 2060/61)

	Rs. in Million
Total Deposit	7198.33
Total Loans and advances	5531.83
Total Investment	1907.52
Operating Profit	191.92
Net Profit	60.85

(*Source: Nepal SBI Bank Limited*)

Figure 2.1: Sector-wise Loan Portfolio of Nepal SBI Bank Limited.



(*Source: Nepal SBI Bank Limited*)

Banking Services and Products offered by Nepal SBI Bank Limited.

- Conventional deposit scheme like fixed, saving and current
- Credit by way of term loans as well as working capital
- Letter of Credit, Bank Guarantee
- Retail finance (housing, educational, vehicle etc)
- Remittances
- SWIFT transfer facility
- Sale & Purchase of Rupees & Dollar Travelers Cheques
- 365 days banking, ATM Cards, etc.

2.1.4 Concept of Investment

Investment, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value (Sharpe et al., 2001). The term investment for our purpose includes the loans and advances and investment made by commercial bank. According to F. J. Clark (1998), "Investing involves making a current commitment of funds in order to obtain an uncertain future return". It is a risky business that demands information. To process information effectively and select the best investments require goals that are clear cut and realistic. Gitman and Jochnk (1990) stressed that the Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.

Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds. Thus investment is the most important function of commercial banks; it is the long-term commitment of bank in the uncertain and risky environment. It is a very challenging task for commercial banks. So a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investible funds. Investment can be categorized as Real investments and financial investments. Real investments generally involve some kinds of tangible asset, such as land, machineries or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds (Sharpe et al., 1995)

For our purpose, in the study of financial institutions the investment problem revolves around the concept of managing the surplus financial asset in such a way, which leads to the wealth maximization and providing a significant further source of income. Thus the investment for various purposes is the management of the surplus resources in such a way as to make it for providing benefits to the suppliers of the funds by letting third party to use such resources. However, the investments need to be a procedural task. It must follow a definite investment process, which definitely begins from the formulation of proper investment policy (Dowrei & fuller, 1950).

2.1.5 Concept of Investment Policy

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk. According to Singh and Singh (1983), "The investment policies of banks are conditional, to great extent, by the national policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping, of course, his bank's credit policy also in mind".

Emphasizing the importance of investment policy**,** Crosse (1963) puts his view, "Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit". He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and asset pledged to security borrowing , interest rate policy, etc.

Investment policies include credit analysis and its principal purpose is to determine the ability and willingness of a borrower to repay a requested loan in accordance with the terms of the loan contract. Factors considered in credit analysis are capacity to borrow, economic conditions, characters (honesty, integrity, industry, morality), ability to create income, ownership of assets, etc. Loans are the most important assets held by banks and bank investment provides the bulk of bank income. Most of the banks have developed formal, written investment policies in recent years. They provide guidance for credit officers and there by establish a greater degree of uniformity in investment practices.

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

Some important terms

In this section of the study, efforts have been made to clarify the meaning of some important terms frequently used in this study. They are given as: -

Credit: Credit means providing of overdraft, loan, discount of bills', issuance of letter of credit & guarantee, acceptance, investment on any financial instrument (i.e. preference share, debenture etc.) or any other action which create obligations or risk to the Bank's assets whether temporarily or permanently.

Deposits: The amount in a current, saving or fixed account of a bank or financial institution is termed as Deposit. Deposit is the most important source of liquidity and treated as Lifeblood of the commercial bank. For bank's financial strength, it is treated as a barometer. In the word of Eugene, "A bank's deposits are the amounts that it owes to its customers." Though they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits. The deposit of a bank is influenced by various factors like: -

- Types of customers.
- Physical facilities of bank.
- Management and accessibility of customers.
- Types and range of the services offered by the bank.
- Interest rate paid on the deposit.

Besides these, the prevailing economic conditions exert a decisive influence on the amount of deposit the bank receives.

Loan and Advances: Loan, advances and overdrafts are the main sources of income for a bank. Bank deposits can be crossed beyond a desired level but the level of loans, advances and overdrafts will never cross it. The facilities of granting loan, advances and overdrafts are the main services in which customers of the bank can enjoy. Funds borrowed from banks are much cheaper than those borrowed from unorganized moneylenders. Cheaper interest rate excessively increases the demand for loan. Further, an increase in economic and business activities always increase the demand for funds. Due to limited resources and increasing demand for loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers.

Investment on Government securities, shares and debentures: Commercial banks invest on government securities, shares and debentures to earn some interest and dividend. This is the secondary source of income to the bank. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons, some of them are:

- To have high-grade marketable securities to liquidate, if its primary source of reserves becomes inadequate.
- To space its maturities so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- To utilize the funds when the demand for loan is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is maintained with a view to the nature of bank's liabilities. That is because depositors may demand funds in great volume without previous notice to banks; the investment must be of a type that can be marketed quickly with little or no shrinkage in value.

Investment on other company's shares and debentures: To mobilize the excess funds at the time of having least opportunity to invest those funds in much more profitable sector and also to meet the requirement of Nepal Rastra Bank's directives many commercial banks used to employ their funds to purchase shares and debentures of many other financial and non-financial companies. Nowadays, most of the commercial banks have purchased the shares of regional development bank, NIDC and other development banks.

Other use of funds: Commercial banks are obliged to maintain the certain level of balance with Nepal Rastra Bank and local currency balance in the vault of the bank as prescribed by the Nepal Rastra bank. Besides a part of the funds are used as bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery, etc.

Off-balance sheet activities: Off-balance sheet activities cover the contingent liabilities i.e.; Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities in balance sheet. Some good examples of these items are letter of credit (L. C.), letter of guarantee, commission, bills for collections etc. Nowadays, such activities are stressfully highlighted by some economists and finance specialists to expand the modern transaction of a bank. These activities are very important as they are the good source of profit to the bank, though they have risk.

2.1.6 Features of a Sound Investment Policy

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

Safety and Security: The bank should accept that type of securities, which are commercial, durable, marketable, and have high market prices. While accepting the securities, commercial banks apply the principle of MAST (M = Marketability, A = Ascertainability, S = Stability, and T = Transferability). The bank should not invest its funds in those securities, which are subject to too much depreciation and fluctuations because a little variation may impose to greater loss. It must never invest in funds into speculative businessman who may be bankrupt at once and may earn millions in a minute also.

Profitability: Volume of wealth can be maximized by maximization of return on the investments and lending. So, a commercial bank should invest its funds where it gets higher profit. The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

Liquidity: People deposit money at the bank with strong confidence that the bank will repay their money when they need. To maintain such confidence of depositors, the bank must keep this point in mind while investing or lending its excess funs in different securities. So, that it can meet short term obligations easily when they become due for payment.

Purpose of Loan: If borrower misuses the loan, he can never repay and bank will possess heavy bad debts. Therefore a very important question to be analyzed by a banker Is; Why is a customer in need of loan? Detailed information about the scheme of the project should be examined before lending.

Diversification: "A bank should not put all its eggs in a same basket". It should be careful not to make loan in only one sector. The bank must diversify its loan and investment on different sectors to minimize the risk. Diversification of loan helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies.

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

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

2.1.7 General Investment Policy

Nepal Rastra Bank (Central Bank of Nepal) is the regulatory authority of banking and financial sector in Nepal. The general investment policy of commercial banks is in accordance with the compliance of NRB Directives. To mobilize bank's deposit in different sectors of the different parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal framework by formulating various rules and regulations (prudential norms). These directives must have direct or indirect impact while making decision to discuss those rules and regulations which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment, etc. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and the counters, how much flexible and helpful the NRB rules are also important. But we discuss only those, which are related to investment function of commercial banks. The main provisions established by NRB (NRB Directives Manual 2003) in the form of prudential norms in above relevant area are briefly discussed here: -

A) Directives Relating to Single Borrower credit limit

With the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrowers to the bank loans, NRB has directed commercial banks to set an upper limit for single borrower limit. According to the directive, Commercial banks may extend credit to a single borrower or group of related borrowers the amount of Fund Based loans and advances up to 25% of the Core Capital and Non Fund Based off-balance sheet facilities like letters of credit, guarantees, acceptances, commitments is up to 50% of its Core Capital Fund. The banks are required to adjust as per new regulation in a phase wise manner as follows: -

Time Table	Fund Based Credit Limit	Non Fund Based Facilities Limit
By end of Ashad 2059	40% of core capital	75% of core capital
By end of Ashad 2060	25% of core capital	50% of core capital

Exemption in limit of credit and facilities

The exposure limits above shall not be applicable in respect of the following:

a) Credits and facilities extended against fixed deposit receipts, deposits placed with the bank, HMG securities, NRB Bonds as well as against unconditional guarantees issued by the World Bank, ADB etc.

b) Advances and facilities to be used for the purpose of importing specified merchandise by the following public corporation:

<u>Name of Corporation</u>	<u>Merchandise</u>
Nepal Oil Corporation	Petrol, Diesel, Kerosene, and L.P.G. gas.
Agriculture input Corporation	Fertilizer, Seeds.
Nepal Food Corporation	Cereals.

B) Directives Relating to Loan Classification and Loan Loss Provisioning

Effective from FY 058/59 (2001/2002), Banks should classify outstanding loans and advances on the basis of aging of Principle amount. Loans and Advances should be classified into the following four categories:

Pass : Loans and Advances whose principle amount are not past due and past due for a period up to 3(three) months shall be included in this category. These are classified and defined as Performing Loans.

Substandard : All loan and advances that are past due for a period of 3 months to 6 months shall be included in this category.

Doubtful : All loans and advances, which are past due for a period of 6 months to 1 year, shall be included in this category.

Loss : All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category. Loans and advances falling in the category of sub-standard, doubtful and loss class are defined as non-performing loan.

Here, if it is appropriate in the views of the bank management, there is not restriction in classifying the loan and advance from low risk category to high risk category. For instance, loans falling under Sub-standard may be classified into Doubtful or loss, and loans falling under Doubtful may be classified into Loss category. And the term Loans and Advance also include Bills Purchased and Discounted.

Loan Loss Provisioning

The loan loss provisioning, on the basis of the outstanding loans and advances and bills purchased classified as above should be provided as follows:

Classification of Loan	Loan Loss Provision
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

Loan loss provision set aside for performing loans is defined as General Loan Loss Provision and loan loss provision set aside for non-performing loan is defined as Specific Loan Loss Provision.

C) Requirement to Extend Loans & Advances to Productive and Priority Sector (including Deprived Sector)

Commercial banks are required to extend Loans and advances in the productive, priority and deprived sector as follows: -

Of The Total Advances

- 40% to Productive sector, including
- 12% to Priority sector, including
- 0.25 - 3% to Deprived sector.

Productive Sector credit: - Productive sector credit includes advances to Priority sector and Other Productive sector. Priority sector, in turn include deprived sector.

Priority Sector Credit: - Priority sector is defined to include micro and small enterprises, which help to increase production, employment and income as prioritized under the National Development Plans with an objective to uplift the loving standard of general public, the deprived and low income people by progressively reducing the prevalent unemployment, poverty, economic inequality and backwardness. Micro and small enterprises are classified into Agricultural Enterprises, Cottage and small industries and services. In addition, other business as specified by NRB from time to time is also included under micro and small enterprises. All credit extended to priority sector up to the limit specified by NRB are termed as Priority sector credit. Similarly, advances up to Rs. 5.00 Million extended by commercial banks to export oriented industries for import of raw materials and machinery's for the for the purpose of own consumption/ use is treated as priority sector lending. Commercial banks extend credit under priority sector program as specified by NRB time to time.

Businesses under Priority Sector Credit Program are: -

- Agriculture and Agro-based businesses
- Cottage and Small Industries
- Service Businesses (Computer, Tourism)
- Other Businesses as specified by NRB.

But as per new directive issued by NRB, the proportion of the mandatory 12% priority sector credit requirement on total loans and advances will be withdrawn gradually within next 5 years ie; up to FY 064/65 as per the schedule given below, however deprived sector credit requirement will stay.

Fiscal Year	Percentage
059/60	7% of total loan
060/61	6% of total loan
061/62	4% of total loan
062/63	2% of total loan
063/64	2% of total loan
064/65	0% (not necessary)

Deprived Sector Credit Program : - Deprived sector includes low income and particularly socially backward women, tribes, lower caste, blind, hearing impaired and physically handicapped persons and squatters' family. All credit extended for the operation of self-employment oriented micro-enterprises for the upliftment of economic and social status of deprived sector up to the limit specified by NRB is termed as "Deprived Sector Credit". Low-income person means:

- None of the member of the family has received permanent employment and has not received credit facility from the Banks/ Financial Institutions/NGO.
- Members of undivided family holding 6 Anna or 10 Dhur of land within the area of Metropolitan Corporation or Sub- Metropolitan Corporation and 20 Ropani or 1.5 Bigha of land in other areas and/ or members of undivided family who has been using the land belonging to Guthi as tenant and
- Annual per person income of up to Rs. 5,500.00.

It is considered as integral part of priority sector credit and this credit comprises micro-credit program and project also. It includes the advances up to 30,000.00 per borrower family. The deprived sector credit limit is determined by NRB from 0.25% to 3% of the total outstanding credit from bank to bank.

Following activities of commercial banks shall qualify to be included under deprived sector credit program:

(a) Direct investment by commercial banks in income generating employment oriented program.

(b) Investment made by the commercial banks in share capital of Rural Development Banks.(Previously, such lending were included in priority sector only)

(c) Advances to Rural Development Banks and other development banks engaged in the similar poverty alleviation programs.

(d) Advances to co-operatives, non-governmental organizations and small farmer co-operatives approved by NRB for carrying out banking transactions.

(e) Advances to the Micro -Finance institutions, Rural Development Banks and other financial institutions, Co-operatives and Non-Governmental Organizations approved by NRB for financial intermediation.

(f) Providing loan up to Rs. 100,000.00 to persons going for foreign employment without collateral has been arranged. Such loan provided by commercial banks will be eligible for inclusion under deprived sector credit.

Examination of the fulfillment of Priority/ Deprived sector lending shall be made at the end of each quarter (i.e. mid-Oct, mid-Jan, mid-Apr and mid-July on the basis of total outstanding loan and advances (except investment) as of immediately preceding six months. On the failure of fulfilling such lending, penalty in such shortfall amount at the maximum prevailing lending rate of the bank during the examination period shall be imposed under sub-section 2 of section 32 of NRB Act, 2012. If the Priority Sector lending is fulfilled, but the Deprived Sector is not, the penalty is imposed on shortfall amount and if both sector lending is not fulfilled, than penalty is imposed on greater shortfall amount for one sector only.

D) Directives Relating to Capital Adequacy Norms for Commercial Banks

Maintenance of the minimum capital fund

The total capital fund is the sum of core capital and supplementary capital. On the basis of the risk-weighted assets, the banks should maintain the prescribed proportion of minimum capital funds as per the following time-table.

Time Table	Required Capital Fund on the Basis of Weighted Risk Assets (%)	
	Core Capital	Capital Fund
For FY 2058/59	4.5%	9.0%
For FY 2059/60	5.0%	10.0%
From FY 2060/61	5.5%	11.0%

For the purpose of calculation of the capital fund, the capital of the banks is divided into the following 2 components and defined: -

Core Capital

The amounts under the following heads shall be included in the Core Capital:

(a) Paid Up Capital
(b) Share Premium
(c) Non-Redeemable Preference Shares
(d) General Reserve Fund

(e) Accumulated Profit and Loss Account

However, where the amount of Goodwill exists, the same shall be deducted for the purpose of calculation of the Core Capital.

Supplementary Capital

For the purpose of calculation of Capital Fund, the amount under the following heads, subject up to one hundred percent of the Core Capital, shall be included under the Supplementary Capital.

(a) General Loan Loss Provision:

(b) Exchange Equalization Reserve

(c) Assets Revaluation Reserve

(d) Hybrid Capital Instruments

(e) Unsecured Subordinated Debt

(f) Other Free Reserves not allocated for a Specific Purpose.

Total capital fund is defined as the sum of Core Capital and the Supplementary Capital.

E) Directives relating to Interest Rates

Repealed by circular no. Bai.Bya.Pa.Pa 83/059 dated 2059.4.9/25 July 2002. Accordingly banks are no longer required to comply with maintenance of Interest Spread (5%) effective the circular date.

F) Directives relating to Maintenance of Liquidity

Liquid assets as defined by Commercial Banking Act include Cash in vault, Balance held in Current Accounts with other banks, Balance held with Nepal Rastra Bank and others as specified by NRB. To ensure adequate Liquidity in the commercial banks, to meet the depositors' demand for cash at any time to inject the confidence in depositors regarding the safety of their deposited funds, following arrangements have been put into force by Nepal Rastra Bank effective 22 July 2002.

Prevailing Directives with respect to maintenance of Cash Reserve Requirement (CRR):

a)	Balance held with Nepal Rastra Bank	1. 7% of Current and Savings Deposit liabilities. 2. 4.5% of fixed deposit liabilities.
b)	Cash in Vault	2% of total deposit liabilities

G) Directives relating to investments in shares and securities by commercial banks

A) Arrangement as to implementation of Investment policy under approval of the Board of Directors

Banks should prepare written policy relating to investments in the shares and securities of other organized institutions. Such policies should be implemented only under the approval of the Board of Directors. There should be no restrictions as to Investment by the banks in the securities of HMG and securities issued by Nepal Rastra Bank.

B) Arrangement relating to Investment in shares and securities of organized institutions: -

I. Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution.

II. The amount of investment in shares and securities of any one organized institution in which the banks has financial interest should be limited to 10% of the paid up capital of such company and the cumulative amount of such investment in all the companies in which the bank has financial interest should be limited to 20% of the paid up capital of the bank.

III. The total amount of investment should be restricted to 30% of the paid up capital of the bank.

IV. Banks should invest in the shares and securities of organized institutions, which are already listed in the stock exchange or where arrangement exists for listing within one year.

V. Where the shares and securities are not listed within the period prescribed, provisioning equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve. The outstanding amount in such reserve should not be utilized for any other purpose till the said shares and securities of the organized institution are listed. The outstanding amount in Investment Adjustment Reserve should be included under supplementary capital.

Banks should not invest in any shares, securities and hybrid capital instruments issued by any banks and financial institutions licensed by Nepal Rastra Bank. Where such investment exists prior to issuance of this directive, such investment should be brought within the restrictive limitations imposed by this directive within 3 years, i.e. by the close of fiscal year 2060/61.

2.1.8 Investment Policy of NSBL

Nepal SBI Bank Ltd. is following the general investment policy set by Nepal Rastra Bank (Central Bank of Nepal); the regulatory authority of banking and financial sector in Nepal. So, the general investment policy of NSBL tends to be in accordance with the compliance of NRB directives. To mobilize bank's deposit in different sectors of the different parts of the nation to prevent them from the financial problems, central bank (NRB) has established a legal framework by formulating various rules and regulations (prudential norms). The directives formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment, etc., have direct impact to NSBL while making decision relating to investment functions.

2.2 Review of Related Studies

2.2.1 Review of Articles

The general investment policy for a commercial bank is as set by directives issued by Nepal Rastra Bank. So, the commercial banks are limited to certain boundaries and are not free to carry out investment activities on their own way. Many ideas exist supporting or refuting the NRB' role still remains unsettled. Although, different research works are carried out by different scholars within the various geographical region. Those studies and issues are reviewed in this section, which are related with investment policy and/or the area of the study.

Jackson (1975) conducted a study on commercial bank regulation structure and performance. The study was carried out to identify the determinants of commercial banks allocational efficiency. Both theoretical and empirical microeconomic analysis has applied to examine the competitive effects of banking influences. In this paper, the nature of banking was examined, showing that banks are essentially financial intermediaries that are engaged in greater competition than is commonly believed. Many theories of the firm as a bank are presented emphasizing efficiency-distorting forces such as liquidity provisions. Almarin Phillip's model of complex interaction between banking firms and other influences on observed performance was used to summarize banking theories.

For the empirical analysis purpose, data were collected by covering 1644 banks over the period 1969-1971. Regression analysis was used to measure the relationship among variables. As a conclusion, the study showed that, the relatively “desirable” banking performance is associated with several traits including bank asset size, non bank competition, low cash holdings, low labour cost, state non member basic status, multi-bank company legislation, national bank status, low time deposits and low equity capitalization. Demand levels and temporal variations also significantly affect the banking performance. Furthermore, the study showed that the commercial bank regulation, structure and performance are interrelated with each other.

Pradhan (1994) in his research “Financial Management Practices in Nepal” has studied about the major feature of financial management practices in Nepal. To address his issue, a survey of 78 enterprises was carried out by distributing a multiple questionnaire, which contained question on various aspects of financial management practices in Nepal. The study found that among of several Finance functions, the most important finance function appeared to be working capital management. The least important one appeared to be maintaining good relations with stakeholders. The finding reveals that banks and retained earning are the two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to whichever offers best interest rates. He further found that among the bank loans, bank loans of less than one year are popular in public sector where as bank loans of 1-5 years are more popular in private sector.

Thapa (1994) conducted a study on financial system of Nepal with the objective of presenting the investment policy and practices of commercial banks of Nepal. The major findings of the paper were that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. Out of the different commercial banks, Nepal Bank ltd. and Rastriya Banijya Bank are operating with a nominal profit and also turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount, through traditional off-balance sheet operations. On the contrary, they have got heavy burden of personnel and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit positions of these banks have been seriously affected. On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and share holders. Because of their effective influence for loan recovery; overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, attentiveness of these banks to modern off-balance sheet activities and efficient personnel management has added to the maximization of their profits.

Kishi (1996) in his article, "The changing face of the banking sector and the HMG/N recent budgetary policy" concludes that following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Limited and Rastriya Banijya Bank have also shown an improvement of non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice bringing an significant benefit to the poor are yet to be achieved as envisaged by the HMG/N.

Pradhan (1996) presented a short glimpse on investment in different sectors, its problem and prospects, through his article "Deposit mobilization, its problem and prospects". The article expressed that deposit is the life blood of any financial institution, be it commercial bank, finance company, co-operative or non-government organization. Further added, in consideration of 10 commercial banks and nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks, other organizations rely heavily on the business deposit receiving and credit disbursement.

In the light of this Mr. Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:

1) Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
2) Unavailability of the institutional services in the rural areas.
3) No more mobilization and improvement of the employment of deposits in the loan sectors.

4) Due to the lack of education most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

The study mentioned, deposit mobilization carried out effectively is in the interest of depositors, society, financial sector and the nation. Lower level of deposit raising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Shrestha (1997) conducted a study on role of commercial banks in Nepal. The study has pointed out some important activities and its present scenario. In his words these activities are to be studied and revised as soon as possible, otherwise these may be disaster for the sound and effective banking system. The article is written in Nepali language. The major findings of the study were:

- Possibility of capital flight: - In Nepalese perspective, capital flight became a major problem. Whatever capitals were constructed in Rana regime, were already flowed outside the country. Due to the mis-implementation of "Bhumi Sudhar" most of the constructed capital were also flowed away outside the country. Due to the unstable political situation, the possibilities of capital flight seem to be developed in high scale. In this controversial situation joint venture banks become the main source or medium of capital flight. Therefore this problem and situation should be seriously studied and analyzed so that corrective action can be taken as soon as possible.
- Minimum Deposit amount: - In these years, it can be seen that most of the commercial banks and other financial institutions have increased the minimum deposit amount (threshold). This policy may harass the lower level depositors. It also affects the banking habits of lower level depositors negatively. That is why this must also be analysed and implemented after doing long homework.
- Debt recovery and its effectiveness :- In these years, it can also be seen that effective debt recovery is also a great problem of banks due to the misinterpretation of use of loan more than this, a gap between banks and debtors (i.e. effective supervision). Therefore banks should use a team of

experts for effective evaluation of collateral and effective use of loan from the debtors side. This must be said a effective and crucial step towards the debt recovery from the government side that "Debt Recovery Act" is announced to be implemented during Ninth five years plan.

Shrestha (1998) published an article on the topic of portfolio management in commercial banks, theory and practice. The purpose of the study was

- To find out the investible assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability, etc.
- To find out the risk of the securities depending upon the attitude of investor toward risk.
- To develop alternative investment strategies for selecting a better portfolio which will ensure a trade-off between risk and return so as to attach the primary objective of wealth maximization at lower risk.

The study adopted two types of investment analysis techniques ie; fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instruments. In view of above aspect, following strategies were adopted:

1. Do not hold any single security i.e. try to have a portfolio of different securities. In clear sense, do not put all the eggs in the one basket i.e. to have a diversified investment.
2. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return but with added objective of wealth maximization.

The study highlighted following issues in the article. The portfolio management becomes very important both for individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to the following aspect:

- Higher return which is comparable with alternative opportunities available according to the risk class of investors.
- Certain capital gains.
- Good liquidity with adequate safety of investment.
- Maximum tax concession.
- Economic, efficient and effective investment mix.
- Flexible investment.

The study revealed following concluding remarks:

- The survival of the bank depends upon its own financial health and various activities.
- In order to develop and expand the portfolio activities successfully the investment management & methodology of a portfolio manager should reflect high standards and give their clients the benefits of global strengths, local insight and prudent philosophy.
- The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client base and to contribute in national economy.

Shrestha (1998) carried out a study on lending operation of commercial banks of Nepal and its impact on GDP. The objective of the study was to make an analysis of contribution of commercial banks' lending to the Gross Domestic Product (GDP) of Nepal. In her conclusion, there has been positive impact by the lending of commercial banks in various sectors of economy, except service sector investment.

Ghimire (1999) published his article on the topic of "Banijya Bank Haru Prathamikata Kshetra Ma Lagani Garna BhandaHarjana Tirna Tayar" in which he has mentioned that most of the commercial banks of Nepal are ready to pay the penalty in spite of investing on rural, priority sector, poverty sticken and deprived areas. In the directives of Nepal Rastra Bank it is clearly mentioned and directed that all the commercial banks (under NRB) should invest 12 % of its total investments to the priority sectors. Out of this 12 %, they should invest 3 % to the lower class of countrymen (deprived sector). However these commercial banks are unable to meet the requirements of NRB.

2.2.2 Review of Dissertations

Before this, several thesis works have been conducted by various students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization, capital structure, etc. Some of them, as supposed to be relevant for the study are presented below.

Bhattarai (1978) conducted a study on Lending Policy of Commercial Banks in Nepal with the objective to examine the lending policy of commercial banks. The study concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So, she recommended that banks should give emphasis on efficient utilization of resources.

Pradhan (1980) carried out a study on Investment Policy of Nepal Bank Ltd. The main objectives of the study was to find out the determinants of investment policy in commercial banks. The study revealed that there is a greater relationship between deposits and loans and advances and concluded that though loan and advances as well as deposits are in increasing trend, their increase is not in proportionate manner. Immense increase in deposits had led to little increase in loan and advances due to increase in the interest rates. His recommendation was to grant loans and advances without its lengthy process. The study also made a suggestion to enhance banking transactions up to rural sector of the kingdom.

Pokharel (1983) conducted a study on Investment pattern and policy of Rastriya Banijya Bank with the objective of:-

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

To recommend for the improvements in the investment policy.

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

The research findings of the study were:-

From the study of investment pattern of Rastriya Banijya Bank, it is observed that the investment is mainly towards the security of gold and silver.

From the study it has been revealed that there has never been any clear and specific investment policy. In fact the bank is running its business without having any definite direction, except to follow the directives issued by the Rastra bank from time to time in some specific matters.

- The deposit raised by the bank is not properly utilized. This also reflects the lack of definite policy of the Rastriya Banijya Bank.
- The effect of changes in interest rate has neither contributed to raise deposits nor has been favorable in investment extension.
- Time to time checking and supervision by the bank should be faithfully followed.

Shrestha (1993) conducted a study on Investment planning of commercial banks in Nepal with the objectives of:

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

The research was conducted on the basis of primary and secondary data of commercial banks.

The research findings of the study were summarized as :-

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratio is very high, greater than 100%.
- The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically same. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.
- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
- Investment in various sectors has a positive impact on the national income from their respective sectors.

- Lending in priority sector showed cottage and small industry sector sharing higher loans.
- Priority sector lending showed positive impact on the national income.

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

Khadka (1998) conducted a study on the investment policy of NABIL Bank Ltd. in comparison to other Joint venture Banks of Nepal with the objective of evaluating the liquidity, asset management efficiency and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other Joint venture Banks. The study was conducted through secondary data.

The research findings of the study were as follows:-

- The liquidity position of NABIL Bank Ltd. is comparatively worse than that of other JVBS. NABIL Bank has more portions of current assets as loans and advances but less portion as investment on government securities.
- NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBS.
- Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBS. The mean ratio of return on loan and advances of NABIL Bank Ltd. has been found slightly lower than that of other JVBS and the return has been found less homogeneous than that of other JVBS. Similarly the mean ratio of total interest earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBS.
- Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBS (ie; Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.).

- There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between deposit and total investment in case of both NABIL Bank Ltd. and other JVBS.

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

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

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

The research findings of the study were as follows:-

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

From the analysis of secondary data, following conclusions were drawn: -

- Nepal Grindlays Bank Ltd. has maintained consistent and successful liquidity than NABIL Bank Ltd. and Himalayan Bank Ltd.
- The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. is higher than the other JVBs. The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.
- Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on

government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL Bank Ltd. and Himalayan Bank Ltd. during the study period.

- It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd. and Himalayan Bank Ltd. It means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs ie; used to give priority to provide letter of credit, guarantee and others(eg:- trade finance) excessively than to others.
- The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd.
- The profitability position of Nepal Grindlays Bank Ltd. is higher than NABIL Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently.
- The volume of growth ratio of loan and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in increasing manner.
- From the analysis of growth ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio ie; they used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.
- The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

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

- To analyse the trend of investments in Private sectors for 10 years from 2047 B.S. to 2056 B.S.
- To analyse the trend of repayment in private sectors for 10 years from 2047 B.S. to 2056 B.S.

- To measure the effectiveness of the program in terms of the investment and repayment in rural and urban sector.
- To evaluate the banking procedures and services in disbursing loan in this sector.
- To provide package of suggestion based on this study.

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

The research findings of the study were :

- The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by Rastriya Banijya Bank.
- Trend analysis for 10 years shows the increasing trend of investment in priority sectors which shows that the commercial banks are giving due consideration to increase investment in priority sector.
- Trend analysis of repayment for 10 years shows that the repayment has also increased in the following years.
- Interest charged on the loan disbursed in this sector is fairly less than the interest charge on loans for other purposes. In addition to this, there is high overhead cost incurred for supervision, administration and others in this program.
- Regression analysis shows positive relation between investment and repayment.
- The Chi square test of effectiveness of program shows that the program is more effective in rural and semi rural areas as compared to the urban areas.
- Investment on agriculture is higher than investment on industry and service sector.
- The study revealed that the procedure of loan disbursing itself is complicated for the borrowers to understand it.
- In fact, if the supervisors make the scheduled supervision and inspection and the frequent contact with the borrowers, the chance of misuse of the loan can be minimized.

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

- To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI bank ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
- To analyse relationships between deposit and investments, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

The study was conducted through secondary data.

The research findings of the study were as follows :-

- Current ratios for both the Banks is satisfactory.
- Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in a high degree
- Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank Ltd.
- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank Ltd. are less than that of Nepal SBI Bank Ltd.

- The trend value of loan and advances to total deposit ratio is decreasing in case of both the banks. The trend value of total investment to total deposits ratio is also decreasing in case of both the banks.

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

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

The study was conducted on the basis of secondary data.

The research findings of the study were :-

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loans and advances to total assets ratio whereas NABIL Bank Ltd. has highest due to steady and high volume of loans and advances throughout the years.
- The ratio of investment to investment and loan and advances has measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks does not have deviated significantly.
- The loans and advances and investment to deposits ratio has shown that NABIL Bank Ltd. has deployed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.

- The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is highest in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Ltd. is the least due to the low share capital, reserves and surplus in its capital mix. But the volume contributed by Himalayan Bank Ltd. in case of loans and advances is highly appreciable as compared to its net assets. The volume of loans and advances contributed by NABIL Bank Ltd. is the greatest in five years of study period. The mean investment of NABIL Bank Ltd. is the highest but the investment on government securities of SCBNL is the highest.
- The portfolio analysis has revealed that the flow of loans and advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of all the banks in industrial sector is appreciable. The contribution made by Himalayan Bank Ltd. in industrial sector is the greatest and that of SCBNL is the least.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47 % of its total credit in general use and social purpose.
- The measurement of efficiency in lending has revealed that the loan loss provision to loans and advances analysis shows that NABIL Bank Ltd. has the highest mean ratio. According to Nepal Rastra Bank directive, the loan loss provision indicates the provision made against the performing loan (pass loan and sub-standard loan) only. It indicates that the volume of sub-standard loan in the loan mix of NABIL Bank Ltd. is higher and the volume of non-performing loan in the mix of NABIL Bank Ltd. is likely to increase in coming future.
- The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Ltd. and lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in Himalayan Bank Ltd. is the highest and that of SCBNL is the least.
- The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total expenses reflects the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best.

The performance of SCBNL is significantly better than other two banks in case of profitability. EPS is the highest in case of SCBNL.

CHAPTER III

RESEARCH METHODOLOGY

The study attempts to have an insight into the investment policy adopted by Nepal SBI Bank Ltd. (NSBL) and evaluate and analyze investment performance of NSBL. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose the chapter aims to present and reflect the methods and techniques those are adopted and followed in the research work. It includes the research design, population and sample, sources of data, data collection techniques, data analysis tools and limitations of the methodology.

3.1 Research Design

The specification of methods and procedures for acquiring information needed to structure or to solve problems is self-explicit in the study. Research design is an integrated framework of the whole study that guides the researcher in formulating, implementing and controlling the research work (Wolf & Pant, 2002). It, particularly, aims to meet the criteria of a good research design which ensures:

- The information obtained are relevant to the research problem.
- They are collected by objective and economical procedures.
- The research is conducted smoothly.
- Its reliability and validity is not questioned.

In other words, the study treated the Research Design as the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure.

This study employs descriptive and analytical research approaches. Descriptive research seeks to find out the fact by the help of sufficient data and information. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate investment policy of Nepal

SBI Bank Limited. To achieve the set objective of this study, the study emphasizes upon comparative analytical method and studies the changes in key variables (Investment) over time. The study is designed within the framework of case study research design. A case study research seeks to employ several techniques and sources of data for examining the current aspects of the phenomenon under study. Thus, the study is performed in and around the crux, to fulfill the research objectives.

3.2 Population and Sample

The term population for research means all the members of any well-defined class of objects or events. It refers to the industries of the same nature and its services and product in general (Wolf & Pant 1999, 75). Similarly, the sample is only the portion or subset of the universe/population. Hence all the groups, individuals and elements under study is the population and unbiased representation of the population is sample, in real sense. For the study purpose, total Commercial Banks (CBs) are taken as the population of the data and the bank under study constitutes the sample for the study. Nepal SBI Bank Limited has been selected as the sample for the study; even though there are 17 CBs functioning all over the kingdom and their stocks are traded actively in the stock market. For the sampling purpose, simple random sampling technique was used.

3.3 Sources of Data

The study is based on secondary data collected for regular time intervals and analyzes the trends in the past and uses such trends in order to make future prediction. So, the secondary source is the major source of data required for the research work. For this the data required for the analysis are directly obtained from the balance sheet and P/L A/c of concerned bank's annual reports

Supplementary data and information are collected from number of institutions and regulating authorities like:

- NRB Reports and Bulletins.
- Security Exchange Board
- Nepal Stock Exchange Ltd. (NEPSE)
- Ministry of Finance
- Economic Survey and National Planning Commission
- Various publications dealing in the subject matter of the study.

- Published and unpublished articles/reports from various sources
- Economic journals, periodicals, bulletins, magazines etc.
- Electronic data from websites

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

3.4 Data Collection Techniques

Mainly, the study is dominated by secondary data collected from the above mentioned sources. Primary data and information are also used in this research work, which were collected by using unstructured interview with concerned personnel of the commercial bank and Nepal Rastra Bank. Thus, no questionnaire was constructed and no specific method was used to collect the required data.

However, to collect reliable data other method such as formal and informal talks with the concerned authorities of the bank and observation and key informant method were used to obtain the additional information of the related problem.

3.5 Data Analysis Tools

Presentation of the collected data is the basic organization and classification of the data for analysis. The analysis of data has been done according to the pattern of data available. The collected raw data are first presented in systematic manner in tabular forms and processed manually as well as with the help of computer. The software; 'SPSS' is used for the computer added manipulation. In this research work, only descriptive tools are used to get the meaningful result of the collected data and to meet the research objectives. Financial ratios are the major tools for analysis. In addition to the financial ratios (tools), other simple mathematical and statistical (descriptive) tools also are used in this research.

Besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The major tools applied in this study are discussed in the ensuing section.

3.5.1 Financial Tools

Financial tools are used to obtain better insight into a firm's position and performance. Financial tools basically help to analyze the financial strength and weakness of a firm by properly establishing relationship between the items of financial statements. Ratio analysis is one of the powerful tools of financial analysis that have been used in the study. Among the all, following ratios which are the determinants of Investment Policy and Practices of the bank have been used in this study.

Liquidity Ratio: Liquidity is the important variable of investment decision. Liquidity ratios measure the short-run solvency of the firm. They are used to judge a bank's ability to meet short-term obligations or its current liabilities. From them, much insight can be obtained into the present cash solvency of the bank and its ability to remain solvent in the event of adversities by measuring the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

Following ratios are computed under liquidity ratios:

- Cash in vault to total deposit ratio
- Balance held with NRB
- Cash and bank balance to total deposit ratio

Single Borrower Credit Limit Ratio: This ratio is calculated with the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrowers to the bank loans. This ratio shows the relationship between the total loan and advances facility provided to a single borrower and the total core capital or internal sources of the bank. It is calculated by using the following model.

$$\text{SBCLR} = \frac{\textit{Single Borrower Credit Facility}}{\textit{Core Capital}} x100 \ldots \ldots \qquad \ldots \qquad (3.5.1)$$

Where,

SBCLR = Single Borrower Credit Limit Ratio

Core Capital = paid-up capital + share premium + non-redeemable preference share + general reserve + cumulative profit

Activity Ratios: Activity ratio measures the efficiency of the bank from various angles of its operations to utilize available funds, particularly short-term funds. These ratios are used to find out the efficiency, quality and the contribution of loans and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds: -

- Non-performing loans to total loans & advances ratio
- Loan loss provision to total loans and advances ratio

Loan & Advances Portfolio: It analyzes the portfolio behavior of loans and advances of the bank for the study period. The ratios of loans & advances granted to various sectors of economy to total volume of loans and advances have been measured. Under this topic the following ratios of Nepal SBI Bank Ltd. are evaluated:

- Private sector loans to total loans & advances ratio
- Purpose wise loan classifications
- Deprived Sector Credit Ratio

Core Capital Adequacy Ratio: Core capital adequacy ratio shows the relationship between the total core capital or internal sources and total risk adjusted assets. It is used to measure the adequacy of core capital and financial soundness from very close angle. It is calculated by using the following model.

$$\text{CCAR} = \frac{\textit{Core Capital}}{\textit{Total Risk Adjusted Assets}} x100 \ldots \qquad \ldots \qquad \ldots \qquad (3.5.3)$$

Where,

CCAR = Core Capital Adequacy Ratio

Core Capital = paid-up capital + share premium + non-redeemable preference share + general reserve + cumulative profit

Capital Adequacy Ratio: Capital adequacy ratio is the numerical relationship between total capital fund and total risk adjusted assets. It measures the adequacy of capital and financial soundness of a bank. Capital adequacy ratio is used to measure the adequacy of capital in the banks. It is worked out by using the following model.

$$\text{CAR} = \frac{Total\ Capital\ Fund}{Total\ Risk\ Adjusted\ Assets} x100 \ldots \quad \ldots \qquad \ldots \qquad (3.5.2)$$

Where,

CAR = Capital Adequacy Ratio

Total Capital Fund = Core capital + supplementary capital

Total Risk Adjusted Assets = On-balance sheet risk adjusted assets + Off-balance sheet risk adjusted assets

On-balance sheet and Off-balance sheet assets and their weights for adjustment are shown in App. 2

Asset Management Ratios: Asset management ratios help to disclose how efficiently the bank manages the resources at its edge. It measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The various ratios relating to asset and liability management, which are used to determine the efficiency of the concerned bank in managing its assets and efficiency in portfolio management, are: -

- Loan & Advances to total deposit ratio
- Total Investments to total deposit ratio
- Investment on shares and securities of organized institution to paid up capital ratio

Growth (Possibility) Ratios: To examine and analyze the expansion and growth of the banking business, following growth ratios are calculated:

- Growth ratio of total deposits
- Growth ratio of loan and advances
- Growth ratio of total investment

3.5.2 Statistical Tools

To achieve the objectives of the study some important statistical tools are used. In this study statistical tools such as mean, standard deviation, coefficient of correlation between two variables, coefficient of variation, trend analysis of important variables as well as hypothesis test (t-statistic) has been used, which are as follows.

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

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

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

N = Number of Pairs of Observations.

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

Standard Deviation: The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. Here, the standard deviation is used to find out the deviation in absolute term. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter **σ** (read as sigma).

The formulas to calculate the standard deviation are given below: -

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum x^2}{N}} \quad \ldots \quad \ldots \quad \ldots \quad \ldots \qquad (3.5.4)$$

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

n = no. of observations

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

Coefficient of Variation: The standard deviation calculated in the above formulas gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion based on the standard deviation, hence capable to compare two variables independently in terms of their variability. It is most commonly used to measure the variation of data and more useful for the comparative study of variability in two or more series or groups or distribution. Hence, it is undertaken to compare the variability in various data of the bank. Symbolically, the coefficient of variation is defined as:

$$CV = \frac{\sigma}{\bar{x}} \quad \ldots \quad \ldots \; \ldots \quad \ldots \qquad (3.5.5)$$

Here, σ = standard deviation

$\bar{x}$ = average or mean

Measures of correlation: Correlation refers the degree of relationship between (or among) two or more variables (i.e. Only one variable dependent and one or more variables independent). The correlation between the different variables of a bank is compared to measure the performance of these banks. If the two variables are so related that the change in the value of one independent variable results the change in the value of dependent variable then they are said to have ‘correlation’. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively. This tool analyzes the relationship between those variables of the bank which are helpful to make appropriate investment policy regarding deposit collection, fund mobilization and profit maximization. The Karl Pearson coefficient of correlation (r) is given by the following formula: -

$$\text{Coefficient of correlation} \quad (r) \quad = \frac{\sum xy}{N\sigma_x\sigma_y}$$

Where,

x = (X - X^1),

y = (Y - Y^1),

σ_x = Standard deviation of series X.

σ_y = Standard deviation of series Y.

N = Number of Pairs of Observations.

During the analysis of data, correlation coefficient is calculated by using the statistical formulas ‘CORREL’ on excel data sheet on computer.

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

The Karl Pearson coefficient of Correlation r always falls between –1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation coefficient reaches near to the value of zero, it is said that there is no significant relationship between the variables.

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

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

- Correlation between Deposits and Loans and Advances
- Correlation between investments and loans and advances
- Correlation between deposits and investments

Least Square Trend Analysis: Least square trend analysis has been used to find out the trend in investments, loans and advances and Deposits. The general equation used for linear trend is given below:

$$\hat{Y} = a + bX \quad \ldots \quad \ldots \quad \ldots \quad \ldots \qquad (3.5.6)$$

Where,

$\hat{Y}$ = Dependent variable

X = Coded time in year

a = Y- Intercept

b = slope

In the above model,

$$b = \frac{\sum XY - n\overline{X}\overline{Y}}{\sum X^2 - n\overline{X}^2}$$

$$a = \overline{Y} - b\overline{X}$$

3.6 Limitations of the Methodology

The study is carried out within the framework of descriptive research design. So, it is difficult to eliminate the limitations of the descriptive research design, in which the study as well as the methodology is bounded. Only a single unit of the population is taken for the study so it may not be free from the bias. Therefore, the study may not be able to represent the whole scenario.

Different models and tools which are used for data collection in the research work are not completely free from the criticisms. So, it also imposes to draw the line of limitation. Finally, the different tools are used to analyze the collected data, which are based on certain assumptions. So, reliability of the analysis depends upon the circumstances on which the models are based.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data collected from the different sources. As per the definition, the commercial bank is viewed as a financial intermediary which provides the financial products to its clients, in order to facilitate trade and commerce of the nation. Financial activities are necessary for the economic development of the country and commercial banking is the heart of financial system. Due to special role they play in the economy, they are heavily regulated by concerned authority i.e. Nepal Rastra Bank. Thus, the investment policy and practices are slightly different in these institutions. So, the study was carried out according with the provision of concerned authority and the presentation and analysis is undertaken in the same way.

4.1 Analysis of Liquidity Position of the Bank

A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawal, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long-run profitability of the bank. To measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated and a brief analysis of the same has been done as below.

4.1.1 Cash in Vault to Total Deposit Ratio

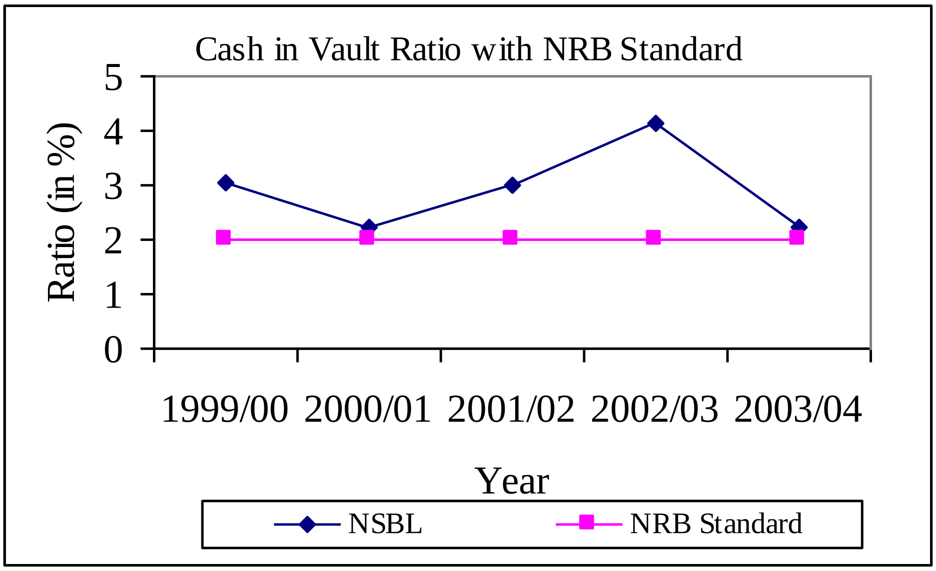
This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash in vault by total deposits. Nepal Rastra Bank has made a mandatory by issuing directives to maintain 2% of total deposit in the vault of the bank. (Detail in appendix No.3) . So, sufficient and appropriate cash reserve in the vault should be maintained.

Table 4.1: Cash in Vault to Total Deposit Ratio (in percentage)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBL	3.05	2.24	2.99	4.13	2.23	2.92	0.78	26.6
NRB Standard	2	2	2	2	2			

The Table 4.1 shows that the cash in vault to total deposit ratio of the bank has fluctuating trend. The highest ratio is 4.13% in 2002/03 and the lowest is 2.23% in 2003/04. The mean of the ratios for the study period is 2.92 and the C.V. between them is 26.6% on the basis of the C.V. it can be concluded that the ratios are variable and less consistent. Figure 4.1 exhibits the observed cash in vault ratio of the Nepal SBI Bank Ltd. with NRB standard within the study period of last five years.

Figure 4.1: Cash in Vault Ratio with NRB



As shown in Figure 4.1 the NRB standard is 2 percent of the total deposit for the study period. The observed cash in vault ratio is above the NRB standard in each year from 1999/00 to 2003/04. It indicates that the bank is running with the adequate liquidity during the study period

4.1.2 Balance Held with NRB

To ensure adequate liquidity in the commercial banks, to meet the depositors' demand for cash at any time, to inject the confidence in depositors regarding the safety of their deposited funds, Nepal Rastra Bank has put the directives to maintain 7% of Current and Saving Deposits and 4.5% of Fixed Deposit in NRB by the commercial Banks. The banks should strictly comply with the directives. (Detail in Appendix no 4) The following table observes the compliance of NRB directives by NSBL with regards to the maintenance of liquidity.

Table 4.2: Balance Held with NRB (in Million)

Bank	**FY**				
	1999/00	2000/01	2001/02	2002/03	2003/04
Balance with NRB	364.3	294.2	1177.5	892.3	578.3
Balance to be held with NRB	252.13	385.18	306.27	368.6	413.29

The above table shows that NSBL has maintained adequate liquidity by maintaining balance with NRB as per the directives. However the requirement is not fulfilled for the FY 2000/01. This indicates that the bank has exposure towards liquidity risk for FY 2000/01. Besides FY 2000/01, NSBL has maintained the requirement of NRB directives. This shows that the Bank is at ease to meet its short term obligation.

Figure 4.2: Balance Held with NRB with NRB Standard

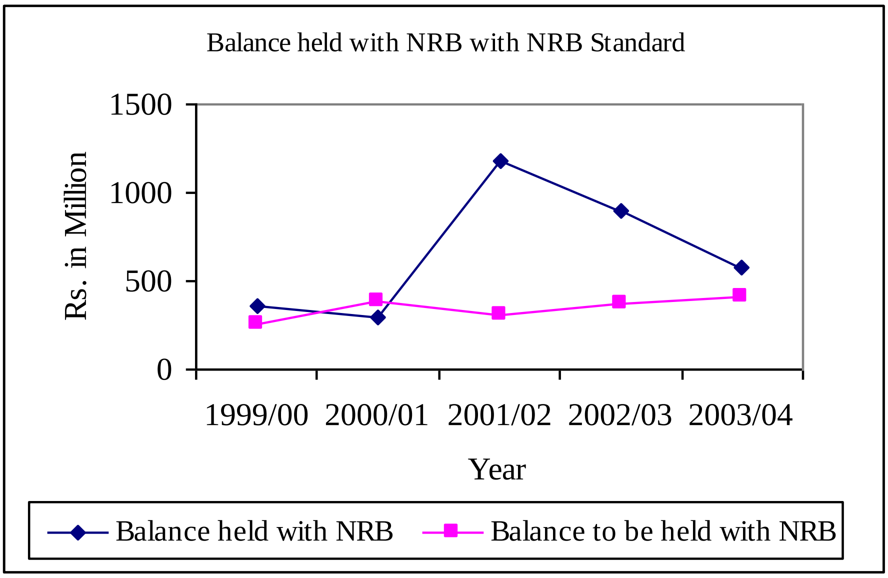


Figure 4.2 shows the observed balance held with NRB by the Nepal SBI Bank Ltd. with NRB standard within the study period of last five years.

As shown in Figure 4.2 the bank has maintained the balance with NRB as per directives except for the FY 2000/01. It indicates that the bank has maintained the standard of liquidity as prescribed by the NRB directives over the study period except for the FY 2000/01.

4.1.3 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to meet short term obligation. This ratio is computed by dividing cash and bank balance by total deposits. (Detail in appendix No.5) Both higher and lower ratios are not desirable. The reason is that if a bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, it may fail to make payment for the demands of the depositors. So, sufficient and appropriate cash reserve should be maintained properly.

Table 4.3: Cash and Bank Balance to Total Deposit Ratio of Nepal SBI Bank. (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBI	22.2310	35.479	25.182	20.4145	10.7161	22.80	8.92	39.13

The Table 4.3 shows that the cash & bank balance to total deposit ratio of Nepal SBI Bank Ltd. has fluctuating trend. The highest ratio is 35.479 % in 2000/01 and the lowest is 10.716 % in 2003/04. The mean of the ratios for the study period is 22.80 % and the C.V. between them is 39.13 %. On the basis of the C.V. it can be concluded that the ratios are variable and less consistent.

The above analysis helps to conclude that the cash & bank balance position of Nepal SBI Bank Ltd. with respect to deposits is better to serve its customers deposit withdrawal demands. It implies the better liquidity position of NSBI. In contrast, a high ratio of non-earning cash & bank balance may be unfit which indicates the banks inability to invest into short-term marketable security, treasury bills, etc ensuring enough liquidity which will help the bank to improve its profitability.

4.2 Analysis of Single Obligor Credit Limit

With the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrowers to the bank loans, NRB has directed commercial banks to set an upper limit for single borrower limit. As per NRB directives, the banks are required to adjust as per new regulation in a phase wise manner as follows: -

Time Table	Fund Based Credit Limit	Non Fund Based Facilities Limit
By end of Ashad 2059	40% of core capital	75% of core capital
By end of Ashad 2060	25% of core capital	50% of core capital

This ratio is calculated by dividing the total loans and advances facility provided to the single borrower by core capital of the bank.

Table 4.4: Core Capital of Nepal SBI Bank Ltd.

In million

Bank	FY				
	1999/00	2000/01	2001/02	2002/03	2003/04
NSBI	192.3	220.7	231.8	549.8	564.8

To make detail observation for the compliance of directives regarding single borrower credit is not feasible to our study. However, the corporate level inspection made by NRB observes those aspects and issues any discrepancies found therein. The comments made by NRB (Appendix No. 6, as published in annual reports of the bank) regarding the single borrower credit limit shows that the Bank has been crossing the single borrower credit limit over the study period time to time. This shows that the bank on time to time exposes towards higher risk by over concentration of bank loans to a few big borrowers.

4.3 Activity or Performing Ratios

In this section, the lending efficiency in terms of quality and turnover is measured. Here different ratios are used to analyze the lending efficiency of the bank. For this purpose the relationship of different variables of balance sheet and profit and loss account have been established. The following ratios are analyzed for this purpose.

4.3.1 Non-Performing Loans to Total Loans and Advances Ratio

Nepal Rastra Bank has directed the commercial banks to classify its loans & advances into the category of pass, sub-standard, doubtful and loss. Similarly, it has classified the pass loan as performing loans and other three types of loans as non-performing loans. Non-performing loans reflect the quality of assets that a bank is holding. This ratio measures the proportion of non-performing loans on the total volume of loans and advances. Higher ratio reflects the bad performance of the bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the non-performing loans by total loans and advances (detail in appendix no.7).

Table 4.5: Non-Performing Loans to Total Loans & Advances Ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/004			
NSBI	8.64	11.54	6.32	8.90	6.25	8.3300	2.21847	26.2268

The Table 4.5 exhibits that the ratios for the study period has decreasing trend with fluctuations over the years. The ratio ranges from 6.25% in 2003/004 to 11.54% in 2000/01 with an average of 8.330%. The C.V. between them is 26.227%, which indicates that the ratios are variable and are in decreasing trend. With regards to the Nepalese banking scenarios, having non-performing loan ratio in a single digit is said to be acceptable.

4.3.2 Loan-loss Provision to Total Loans and Advances Ratio

The ratio of loan loss provision to total loans and advances describes the quality of assets that a bank is holding. Nepal Rastra Bank has directed the commercial banks to classify its loans & advances into the category of pass, sub-standard, doubtful and loss to make the provision of 1, 25, 50 & 100 percentage respectively. Nepal Rastra Bank has classified the pass loan as performing loans and other three types of loans as non-performing loans. Loan loss provision set aside for performing loans is defined as General Loan Loss Provision and loan loss provision set aside for non-performing loan is defined as Specific Loan Loss Provision. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The low ratio signifies the good quality of assets in the total volume of loans and advances. The high ratio signifies the relatively more risky assets in the volume of loans and advances. The loan loss ratio shows how efficiently the bank manages its loans and advances and makes effort for timely recovery of loans. This ratio is calculated by dividing the loan loss provision by total loans and advances (detail in appendix no.8).

Table 4.6: Loan loss provision to total Loans & Advances ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBI	4.163	5.814	6.206	6.864	6.990	6.0078	1.1378	18.9390

The Table 4.6 exhibits that the ratios for the study period has increasing trend. The ratio ranges from 4.163 % in 1999/00 to 6.990 % in 2003/004 with an average of 6.0078 %. The C.V. between them is 18.939 %, which indicates that the ratios are variable and not consistent with the increasing trend.

4.4 Loans and Advances Portfolio

(Analyzing the Portfolio Behavior of Loans & Advances)

Commercial banks are required to extend Loans and advances in the productive, priority and deprived sector as mandatory of Nepal Rastra Bank. But as per new directive issued by NRB, the proportion of the mandatory 12% priority sector credit requirement on total loans and advances will be withdrawn gradually within next 5 years ie; up to FY 064/65, however deprived sector credit requirement will stay.

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

4.4.1 Private sector loans to total loans & advances ratio

This ratio measures the contribution of banks lending in private sector. For the purpose the total loans & advances has been categorized in to private sector lending and government sector lending. The liberalization of financial sector has aimed at active participation of private sector in economic activities. This ratio measures the volume of private sector activity in total economy in comparison to government sector activity. This doesn't mean that total government sector activity is measured by this ratio but this solely measures the loans and advances received by the government from commercial banks with loans and advances received by private sector. Tabulated value represents the proportion of loans and advances granted to private sector. While calculating this ratio private sector loans includes the amount of bills purchased and discounted. Higher ratio indicates the higher contribution made by the bank towards private sector and vice versa. This ratio is calculated by dividing private sector lending by total loans and advances (detail in appendix no.9).

Table 4.7: Private Sector Loans to Total Loans and Advances Ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBI	97.519	97.885	98.097	98.950	98.687	98.228	0.5851	0.59562

The Table 4.7 shows that the ratios are ranged from 97.519 % in 1999/00 to 98.950 % in 2002/03 with an increasing trend. The mean of the ratios is found to be 98.228 % with 0.596 % C.V. between them, which indicates that the ratios are almost consistent and not variable over the study period.

4.4.2 Purpose wise Loan Classifications

The total loans and advances have been classified into industrial, trading/commercial, priority, overdraft, service, and others. This classification explains the contribution made by the bank for different purposes. These classifications show the lending trend of bank for particular purpose (detail in appendix no.10).

Table 4.8: Purpose wise loan classifications of Nepal SBI Bank Ltd.

{Loans disbursed for different purposes to total Loans & Advances Ratio (In **%**)}

Purposes	FY					Mean	S.D.	C.V.
	1999/00	2000/01	2001/02	2002/03	2003/04			
Industrial	42.857	44.969	41.447	44.839	41.533	43.1287	1.7145	3.9752
Commercial	29.386	29.020	27.465	28.936	27.522	28.4660	0.9039	3.1754
Priority	11.732	9.995	17.467	9.966	17.503	13.3325	3.8573	28.9315
Service	11.537	11.664	10.053	11.630	10.074	10.9917	0.8484	7.7189
Others	4.488	4.352	3.568	4.629	3.368	4.0811	0.5724	14.0265
Total	100	100	100	100	100	-	-	-

The Table 4.8 explains NSBL's trend of lending for different purposes as percentage of total loans and advances. NSBL has mostly used its funds in industry and commercial sectors. In average, lending in industrial, commercial, priority sector, service and others sectors take the first, second, third, fourth and fifth place with mean ratios of 43.13%, 28.47%, 13.33%, 10.99% and 4.081% respectively in the lending portfolio of the bank. The lending in industrial sector is in fluctuating trend and the ratio ranges from 44.969% in 2001/02 to 41.447% in 2002/03. 3.975 % C.V. between the ratios over the study period signifies that the ratios are consistent and less variable. The lending in commercial sector shows the decreasing trend with the ratios ranging from the minimum 27.465% in 2001/02 to the maximum 29.386% in 1999/00. The C.V. between the ratios is 3.175%, which shows the ratios are consistent over the study period though they are in decreasing trend. The lending in priority sector shows fluctuating trend. The ratio ranges from the minimum 9.966% in 2002/03 to the maximum 17.503% in 2003/04 and the C.V. 28.932% shows the ratios are variable and not consistent during the study period. The lending to the service sector also shows the fluctuating trend with the fluctuations between them ranging from the minimum of 10.053% in 2001/02 to the maximum of 11.664% in 2000/01. The C.V. of 7.719% shows the ratios are consistent and not so much variable over the study period. The other sector lending shows little bit decreasing trend in fluctuating manner with the ratios moving around 4% during the study period.

Figure 4.3: Mean Ratios of Loans Disbursed for Different Purposes

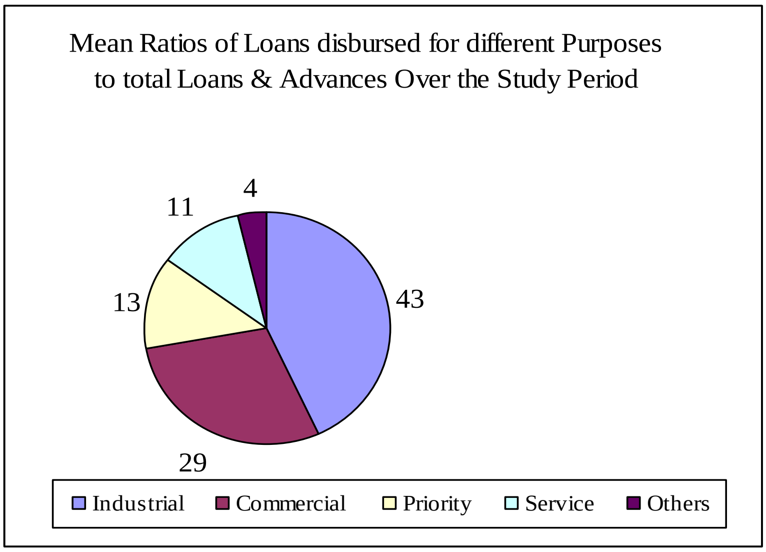


Figure 4.3 illustrates the mean ratios of loans disbursed for different purposes to total loans and advances over the study period.

4.4.3 Deprived Sector Credit

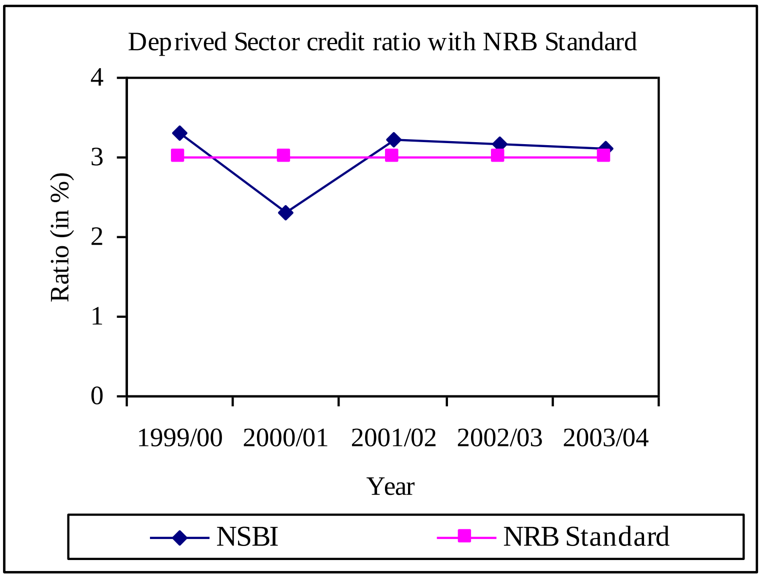
This ratio measures the contribution of banks lending in deprived sector. The liberalization of financial sector has aimed at active participation and upliftment of deprived sector in economic activities. Higher ratio indicates the higher contribution made by the bank towards deprived sector and vice versa. This ratio is calculated by dividing deprived sector lending by total loans and advances (detail in appendix no.11).

Table 4.9: Deprived Sector Credit to Total Loans and Advances Ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBI	3.2943	2.2934	3.2278	3.1749	3.0995	3.0180	0.4113	13.6278
NRB Standard	3.0	3.0	3.0	3.0	3.0			

The Table 4.9 shows that the ratios are ranged from 3.29 % in 1999/00 to 2.29 % in 2001/02 with a fluctuating trend, to meet the NRB requirement. The mean of the ratios is found to be 3.0180 % with 13.63 % C.V. between them, which indicates that the ratios are almost consistent and not variable over the study period. Figure 4.7 exhibits the observed deprived sector lending ratio of the Nepal SBI Bank Ltd. with NRB standard within the study period of last five years.

Figure 4.4: Deprived Sector Credit Ratio with NRB Standard



As shown in Figure 4.4 the NRB standard is 3% percent for each year. The observed deprived sector lending ratio of NSBL Ltd. is above the NRB standard in each year except in FY 2001/01. From the study it is seen that, the bank is complying the NRB directives till the study period except for FY 2000/01.

4.5 Capital Adequacy Analysis

Total capital fund means the amount invested by shareholders, creditors and the amount collected from the various free reserves maintained in a bank. Capital fund includes the amount of core capital and supplementary capital. Therefore, the total capital fund of a bank is the sum of core capital and supplementary capital.

4.5.1 Core Capital Adequacy Ratio Analysis

Core capital adequacy ratio is also known as core capital to total risk adjusted assets ratio, which measures the adequacy of internal sources or shareholder’s funds to support the banking activities. In real sense, it reflects the financial strength and soundness of a bank. A higher value of the ratio above the NRB standard shows the adequacy of internal sources and higher security to creditors and depositors. The lower value of core capital adequacy ratio with regard to the NRB standard indicates the lower is its internal sources.

Nepal Rastra Bank has provided the minimum standard of core capital adequacy ratio, in order to stabilize the capital and assets of a commercial bank. The Nepalese commercial banks are required to maintain the core capital adequacy ratio of 4%, 4%, 4.5%, 5% and 5.5% in years 1999/00, 2000/01, 2001/02, 2002/03 and 2003/04 respectively. Table 4.10 depicts the observed core capital adequacy ratio in aggregate and individual term over the study period. Table 4.10 presents the observed values of core capital adequacy ratio in Nepal SBI Bank Ltd. during the period of past five years.

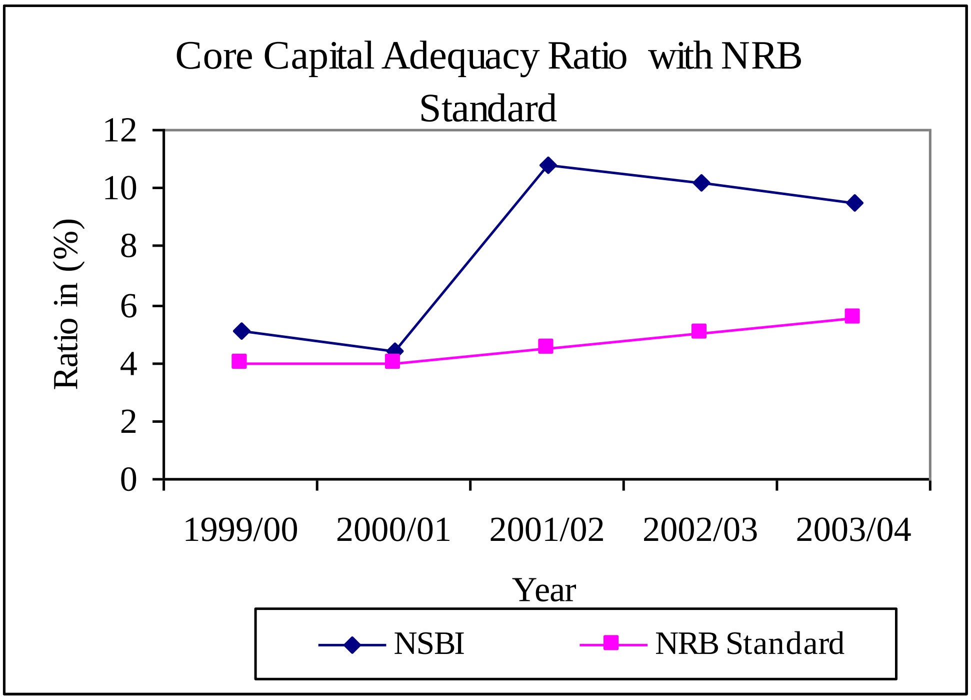
Table 4.10: Core Capital Adequacy Ratio (in percentage)

Bank	FY				
	1999/00	2000/01	2001/02	2002/03	2003/04
NSBI	5.08	4.43	10.83	10.16	9.47
NRB Standard	4	4	4.5	5	5.5

As shown in Table 4.10, the core capital adequacy ratio of NSBL is distributed from a minimum of 4.43% in year 2000/01 to maximum of 10.83% in year 2001/02. The ratio is in fluctuating trend. The changing pattern of the core capital adequacy ratio and the regularly increasing trend of core capital in absolute term (shown in table 4.4) provide the clear way for conclusion of the total risk adjusted assets of the banks is instable during the study period.

However, the core capital adequacy ratio of the bank is greater than the NRB standard in each year over the study period. The observed value of core capital adequacy ratio of the Nepal SBI Bank Ltd. is shown with NRB standard in figure 4.5

Figure 4.5: Core Capital Adequacy Ratio and NRB Standard



From the above Figure 4.5, it is clear that the core capital adequacy ratio of NSBL is above the NRB standard in each year during the period of 1999/00 to 2003/04. It means, the bank is applying adequate amount of internal sources of shareholder's funds with significant core capital adequacy ratio in all the years over study period.

4.5.2 Capital Adequacy Ratio Analysis

Capital Adequacy ratio is the measure of financial strength of a commercial bank. In the specific term, the capital adequacy ratio measures the adequacy of capital for smooth operation of a bank. Capital adequacy ratio above the NRB standard indicates the adequacy of capital and the ratio below the standard reveals the lack of adequate capital in a bank. Higher capital adequacy ratio, above the standard signifies the higher is its internal sources and higher ability to cushion operational and abnormal losses. Furthermore, higher capital adequacy ratio indicates sound and strong financial position and higher security to depositors. On the contrary, the low value of capital adequacy ratio with regard to the minimum requirement of NRB shows that the lower is its internal sources, comparatively weak financial position and lower security to depositors.

In Nepal, the central bank has fixed out the standard or minimum requirement of capital adequacy ratio (total capital fund to total risk adjusted assets or core capital plus supplementary capital to total risk adjusted assets) as 8%, 8%, 9%, 10% and 11% in the year 1999/00, 2000/01, 2001/02, 2002/03 and 2003/04 respectively. The Nepalese commercial banks have to adopt the directives of NRB and have to maintain the capital adequacy ratio as per the requirement of concerned authority. On the other hand, they have to maintain the industry norms and to utilize their resources in efficient way, which is really a complex job for commercial banks.

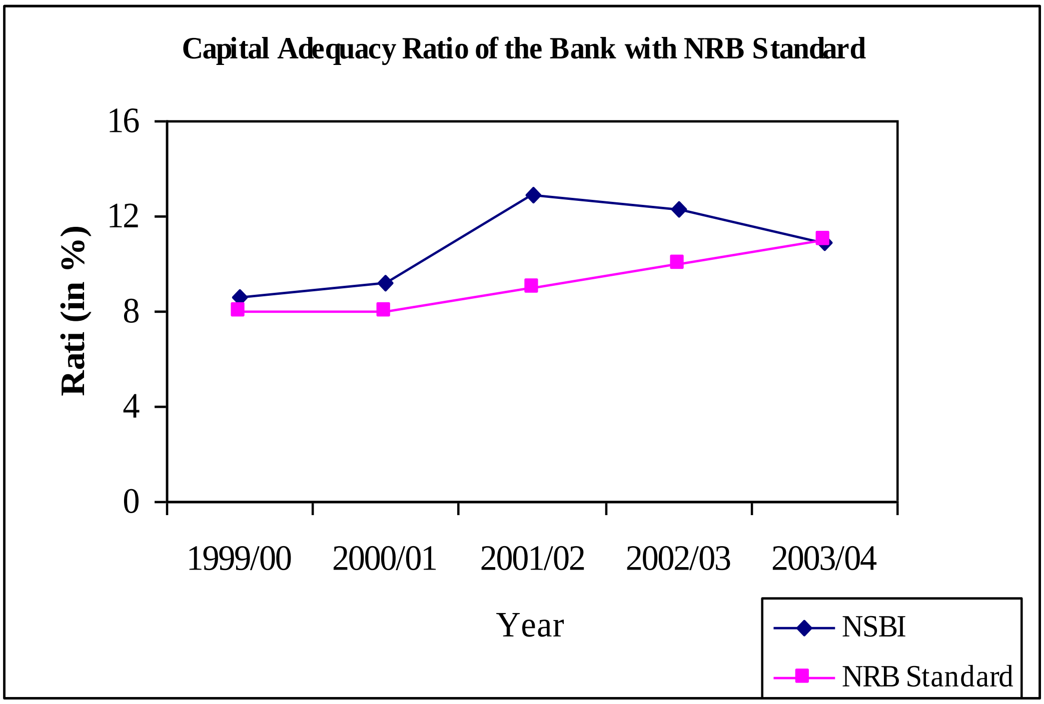
Table 4.11 presents the observed values of capital adequacy ratio in Nepal SBI Bank Ltd. during the period of past five years.

Table 4.11: Capital Adequacy Ratio (in percentage)

Bank	FY				
	1999/00	2000/01	2001/02	2002/03	2003/04
NSBI	8.60	9.20	12.86	12.34	10.95
NRB Standard	8	8	9	10	11

In the past five years, the capital adequacy ratio of Nepal SBI Bank Ltd. is distributed as a minimum ratio of 8.6% in year FY 1999/00 and a maximum ratio 12.86% in FY 2001/02. The ratio of the Bank is increasing continuously up to the FY 2001/02 and then decreasing from FY 2002/03. It means the ratio of the bank is instable in the period of FY 1999/00 to 2003/04. Figure 4.5 exhibits the observed capital adequacy ratio of the Nepal SBI Bank Ltd. with NRB standard within the study period of last five years.

Figure 4.6: Capital Adequacy Ratio of the Bank with NRB Standard



As shown in Figure 4.6 the NRB standard is 8, 8, 9, 10 and 11 percent in the FY 1999/00, 2000/01, 2001/02, 2002/03 and 2003/04 respectively. The observed capital adequacy ratio of NSBL Ltd. is above the NRB standard in each year from FY

1999/00 to 2002/03. However, it is lower by 0.05% in FY 2003/04. It indicates that the bank is running with the adequate capital (as per the NRB standard) during the study period except for FY 2003/04. Furthermore, the bank is financially sound and strong in this period from the viewpoint of capital adequacy except in the FY 2003/04.

4.6 Asset Management Ratios

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

4.6.1 Loan & Advances to Total Deposit Ratio

This ratio measures the extent to which the bank is successful to mobilize its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. This ratio is calculated by dividing loans and advances by total deposits (detail in appendix no.12).

We have, Loan & Advances to total deposit ratio = $\frac{Loan\,\&\,Advances}{TotalDeposits}$

Table 4.12: Loan &Advances to total deposit ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBI	78.36	63.10	82.44	73.07	76.78	74.75	7.3288	9.8045

The Table 4.12 shows that loan & Advances to total deposit ratio of the bank is highest in 2001/02 with 82.44% and lowest at 2002/03 with 73.07%. The mean of the ratios is 74.75 % with 9.805% C.V. between them, which shows that the ratios are satisfactorily consistent over the study period.

4.6.2 Total Investments to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial or non-financial organized institutions. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of portfolio management of bank assets, various factors such as excess availability of fund, liquidity requirement, central banks norms, etc, are to be considered in general. This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success to mobilize deposits in securities and vice versa. This ratio is calculated by dividing total investment by total deposit (detail in appendix no.13).

We have, Total Investment to Total Deposit Ratio = $\frac{TotalInvesment}{TotalDeposits}$.

Table 4.13: Total Investment to Total Deposit Ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBI	4.442	5.645	9.352	18.509	26.125	12.8145	9.2614	72.2730

The Table 4.13 shows that Investment to total deposit ratios of NSBI are in highly increasing trend during the study period. The highest ratio is 26.125 % in 2003/04 and minimum is 4.442 % in 1999/00 with mean ratio of 12.815 %. The C.V. of 72.27 % between them shows that the ratios are less consistent and more variable.

4.6.3 Investment in Shares and Securities of Organized Institutions

Loan and advances are major income generating assets of the bank. But there is high risk in advancing loan and advances. Investment activity involves the purchasing of securities issued by government and other institutions and purchasing of shares and debentures issued by other organized institutions. Though investment activities are safer than the loan and advances from risk point of view, their rate of return is lower than the return from loan and advances. From the risk point of view, investment activities are classified into two categories, investment on government securities and others. Investment on government securities is considered as risk free investment and other investments are considered as risky one. As per Directives of Nepal Rastra Bank, the total amount of investment of a commercial bank in shares and securities of organized institutions should be limited up to 30% of the paid up capital of the bank. This ratio is calculated by dividing total investment in shares and securities of organized institution by paid up capital of the bank (detail in appendix no.14).

We have, Investment in shares and securities to Paid up capital

$$\text{Ratio} = \frac{TotalInvesmentonS.S.}{PaidupCapital}$$

Table 4.14: Total Investment on Shares and Securities to Paid-up Capital Ratio (%)

Bank	FY					Mean	S.D.	C.V. (%)
	1999/00	2000/01	2001/02	2002/03	2003/04			
NSBI	7.42	6.18	4.21	4.21	4.19	5.24	1.49	28.39

The Table 4.14 shows that Investment on shares and securities of organized institution by the Bank is with in the frame of NRB directives i.e. below 30% of the Bank's Paid up Capital. The ratios are in decreasing trend during the study period. The highest ratio is 7.42 % in 1999/00 and minimum is 4.19 % in 2003/04 with mean ratio of 5.24 %. The C.V. of 28.39 % between them shows that the ratios are less consistent and more variable.

4.7 Growth Ratios

To examine and analyze the expansion and growth of the investment activities, following growth ratios are calculated in this part of the study. The higher ratios represent the better performance of the bank. Growth ratios are directly related to the fund mobilization and investments decision of the bank. This ratio represents how well the commercial banks are maintaining their investment practices. These ratios can be calculated by dividing the last period figure by the first period figure then by referring to the compound interest tables (detail in appendix no.15). Under these topic three types of growth ratios namely growth ratios of total deposits, Loan and advances, and total investments of Nepal SBI Bank Ltd. for the study period have been analyzed.

Table 4.15: Growth Ratio of Total Deposits (Rs. In Million)

Bank	FY					Growth Ratio* (%)
	1999/00	2000/01	2001/02	2002/03	2003/04	
NSBI	4535.73	6612.29	5572.47	6522.82	7198.33	12.2396

* Detail of calculation in Appendix no. 15

Figure 4.7: Deposits Trend over the Study Period

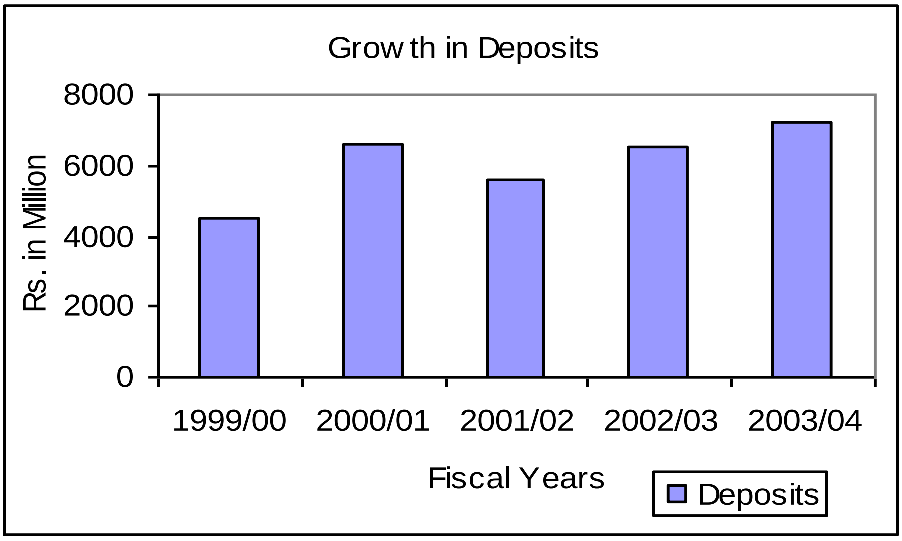


Table 4.16: Growth Ratio of Total Loan and Advances (Rs. In Million)

Bank	FY					Growth Ratio* (%)
	1999/00	2000/01	2001/02	2002/03	2003/04	
NSBI	3560.1	4176.3	4593.9	4766.1	5552.5	11.7523

* Detail of calculation in Appendix no. 15

Figure 4.8: Growth Trend of Loans & Advances Over the Study Period.

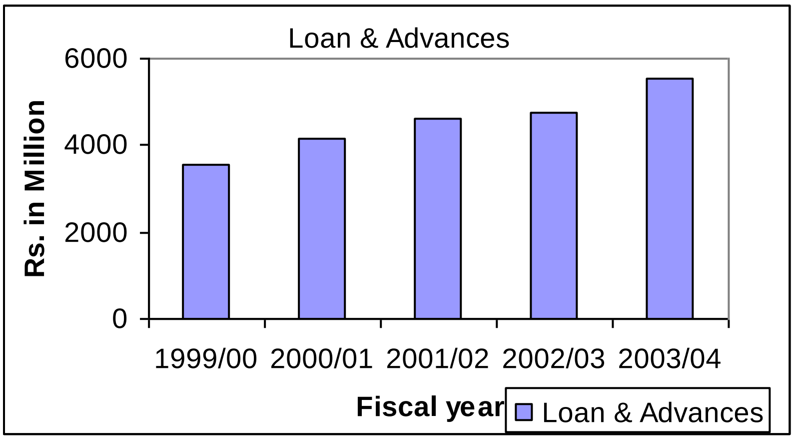
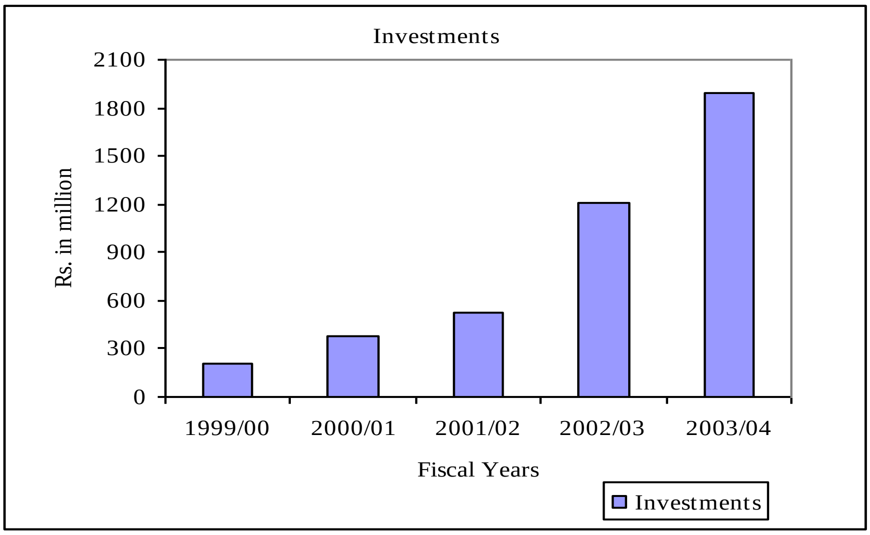


Table 4.17: Growth Ratio of Total Investments (Rs. In Million)

Bank	FY					Growth Ratio* (%)
	1999/00	2000/01	2001/02	2002/03	2003/04	
NSBI	201.8	373.6	521.1	1207.3	1889.4	74.9245

* Detail of calculation in Appendix no. 15

Figure 4.9: Growth Trend of Investments over the Study Period.



The Table 4.15 to 4.17 explains the growth ratios of total deposits, total loan and advances and total investments of Nepal SBI Bank Limited during the study period. The analysis shows that total deposit of the bank is in increasing trend with fluctuations over the years having net growth rate of 12.239% during the study period. Similarly loan and advances and total investments of the bank is in also increasing trend with the net growth rate of 11.752% and 74.925% respectively, during the study period.

4.8 Measuring Correlation between Different Variables of Investment Practices

4.8.1 Correlation between Deposits and Loans and Advances

The correlation between total deposits and loans and advances describes the degree of relationship between these two items. How a unit increases in deposits impact in the volume of loans and advances is measured by this correlation. Here, deposit is the independent variable and the loans and advances is the dependent variable (detail in appendix no.16).

Table 4.18: Correlation between Deposits and Loans and Advances

Correlation Coefficient **(r)**	P.Er.	6* P.Er.	Remarks
0.81959	0.09902	0.59413	**r > 6*P.Er**.

The Table 4.18 shows that the correlation coefficient (r) between deposits and loans & advances of the bank is 0.81959 and probable error multiplied by six is found to be 0.59413. Since r > 6*P.Er., and r is positive and nearby 1, it can be inferred that there is very strong positive correlation between deposits and loans & advances during study period.

4.8.2 Correlation between Investments and Loans and Advances

This measures the degree of relationship between investments and loans and loans and advances. This measure of correlation explains whether the bank has a rigid policy to maintain a consistent relationship between two assets or other factor such as seasonal opportunity, economic demand, NRBB directives, etc, have impact on the volume of these two variables. Since the volume of investment does not impact on loans and advances as every bank has first priority on loans and advances to investment. Theoretically, increase or decrease in the volume of loans and advances directly reduces or increases the level of the idle fund and this idleness of fund increases the investments. (Detail in appendix no.17)

Table 4.19: Correlation between Investments and Loans and Advances

Correlation Coefficient **(r)**	P.Er.	6* P.Er.	Remarks
0.93171	0.03979	0.23875	**r > 6*P.Er**.

The above table no.4.19 shows that the correlation coefficient (r) between investments and loans & advances of the bank is 0.93171 and probable error multiplied by six is found to be 0.23875. Since r > 6*P.Er., and r is positive and near by 1, it can be inferred that there is very strong positive correlation between investments and loans & advances during study period in Nepal SBI Bank Ltd.

4.8.3 Correlation between Deposits and Investments

The correlation between total deposits and investments describes the degree of relationship between these two items. How a unit increase or decrease in deposits impacts in the volume of investments is measured by this correlation coefficient. Here, deposit is the independent variable and investment is the dependent variable (detail in appendix no.18).

Table 4.20: Correlation between Deposits and Investments

Correlation Coefficient **(r)**	P.Er.	6* P.Er.	Remarks
0.7631186	0.1259823	0.7558936	**r > 6*P.Er**.

The Table 4.20 shows that the correlation coefficient (r) between deposits and investments of the bank is 0.7631186 and probable error multiplied by six is found to be 0.75589. Since r > 6*P.Er., and r is positive and near by 1, it can be inferred that there is positive correlation between deposits and investments during study period in Nepal SBI Bank Ltd.

4.9 Least Square Trend (Regression) Analysis:

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimation (or prediction) of one variable on the basis of the other variable(s). Here, we use time series analysis to predict the future trend. Predict (or estimation) is one of the major problems in almost all sphere of activities. So, it is the very important to the bank to estimate or predict the future trend of Loan & Advances, total investment etc.

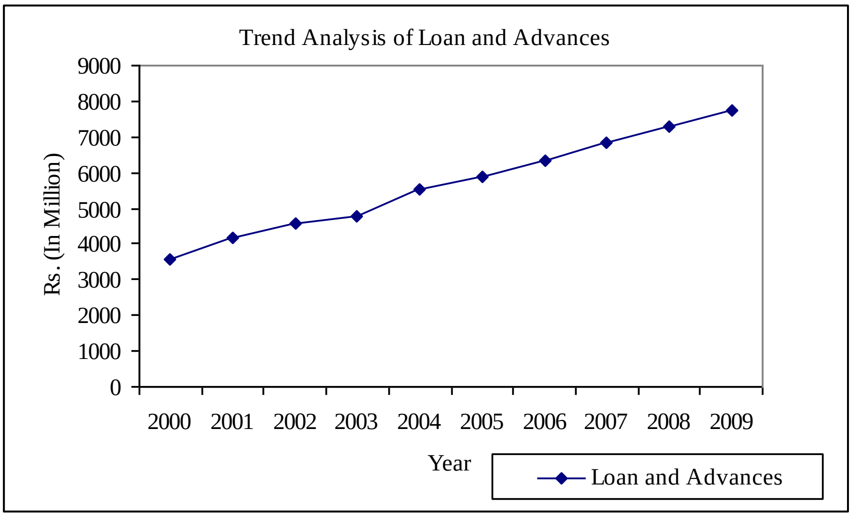
4.9.1 Trend Analysis of Loan and Advances

The trend analysis of Loan and Advances shows the future trend of NSBL' Loans and Advances up to the F/Y 2008/09 (detail in appendix no.19).

Table 4.21: Trend Analysis of Loan and Advances

Forecasted Values	
Fiscal Year	Loan and Advances
2004/05	5902.16
2005/06	6359.62
2006/07	6817.08
2007/08	7274.54
2008/09	7732.00

Figure 4.10: Trend Analysis of Loan and Advances.



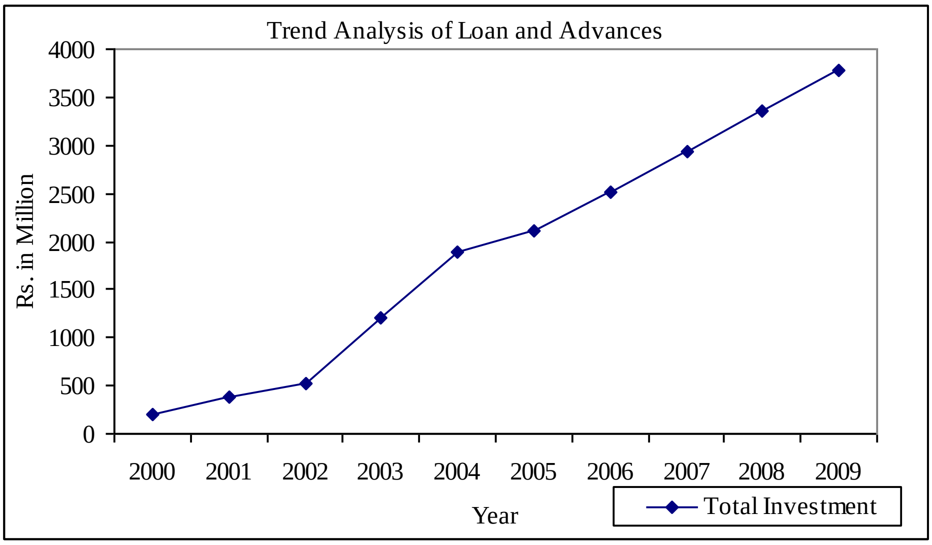
4.9.2 Trend Analysis of Total Investment

The trend analysis of Total investments shows the future trend of NSBL' Total Investments up to the F/Y 2008/09 (detail in appendix no.20).

Table 4.22: Trend Analysis of Total Investment

Forecasted Values	
Fiscal Year	Total Investments
2004/05	2101.31
2005/06	2522.20
2006/07	2943.09
2007/08	3363.98
2008/09	3784.87

Figure 4.11: Trend Analysis of Total Investment



4.10 Major Findings of the Study

The major findings of the study on investment policy and practices of Nepal SBI Bank Ltd. are as follows:

4.10.1 The cash in vault to total deposit ratio of the bank has fluctuating trend. The highest ratio is 4.13% in 2002/03 and the lowest is 2.23% in 2003/04. The mean of the ratios for the study period is 2.92 and the C.V. between them is 26.6%. On the basis of the C.V. it is seen that the ratios are variable and less consistent.

4.10.2 The balance held with NRB is found to be adequate as per NRB provisions over the study period. However, it is observed that the requirement is not fulfilled for the FY 2000/01.

4.10.3 The cash & bank balance to total deposit ratio of Nepal SBI Bank Ltd. has fluctuating trend. The highest ratio is 35.479 % in 2000/01 and the lowest is 10.716 % in 2003/04. The mean of the ratios for the study period is 22.80 % and the C.V. between them is 39.13 %. On the basis of the C.V. the ratios are variable and less consistent. More generally, the ratios are on declining trend.

4.10.4 From the analysis of single borrower credit limit, it is seen that the Bank has been crossing the single borrower credit limit over the study period time to time and not maintaining the NRB standard in this regard. This shows that the bank on time to time exposes towards higher risk by over concentration of bank loans to a few big borrowers

4.10.5 The Non-Performing loans to total loans & advances ratios for the study period have decreasing trend with fluctuations over the years. The ratio ranges from 6.25% in 2003/004 to 11.54% in 2000/01 with an average of 8.330%. The C.V. between them is 26.227%, which indicates that the ratios are variable and are in decreasing trend.

4.10.6 The Loan loss provision to total loans & advances ratios for the study period has increasing trend. The ratio ranges from 4.163 % in 1999/00 to 6.990 % in 2003/004 with an average of 6.0078 %. The C.V. between them is 18.939 %, which indicates that the ratios are variable and not consistent with the increasing trend.

4.10.7 The Private sector loans to total loans & advances ratios are ranged from 97.519 % in 1999/00 to 98.950 % in 2002/03 with an increasing trend. The mean of the ratios is found to be 98.228 % with 0.596 % C.V. between them, which indicates that the ratios are almost consistent and not variable over the study period.

4.10.8 The purpose wise classification of total loans & advances explains NSBL's trend of lending for different purposes. NSBL has mostly used its funds in industry and commercial sectors. In average, lending in industrial, commercial, priority sector, service and others sectors take the first, second, third, fourth and fifth place with mean ratios of 43.13%, 28.47%, 13.33%, 10.99% and 4.081% respectively in the lending portfolio of the bank. The lending in industrial sector is in fluctuating trend and the C.V. between the ratios is 3.975 %, signifies that the ratios are consistent and less variable. The lending in commercial sector shows the decreasing trend with the ratios ranging from the minimum 27.465% in 2001/02 to the maximum 29.386% in 1999/00. The C.V. between the ratios is 3.175%, which shows the ratios are consistent over the study period though they are in decreasing trend. The lending in priority sector shows fluctuating trend. The ratio ranges from the minimum 9.966% in 2002/03 to the maximum 17.503% in 2003/04 and the C.V. 28.932% shows the ratios are variable and not consistent during the study period. It is seen from the analysis that the Bank is not fulfilling the requirement of priority sector lending as per NRB directives on time to time. The lending to the service sector also shows the fluctuating trend with the fluctuations between them ranging from the minimum of 10.053% in 2001/02 to the maximum of 11.664% in 2000/01. The C.V. of 7.719% shows the ratios are consistent and not so much variable over the study period. The other sector lending shows little bit decreasing trend in fluctuating manner with the ratios moving around 4% during the study period.

4.10.9 The deprived sector credit ratios are ranged from 3.29 % in 1999/00 to 2.29 % in 2001/02 with a fluctuating trend. The mean of the ratios is found to be

3.0180 % with 13.63 % C.V. between them, which indicates that the ratios are almost consistent and not variable over the study period. During the study period, NSBL is found to be able to meet the NRB requirement of deprived sector credit.

4.10.10 The core capital adequacy ratio of NSBL is distributed from a minimum of 4.43% in year 2000/01 to maximum of 10.83% in year 2001/02. The ratio is in fluctuating trend. However, the core capital adequacy ratio of the bank is above than the NRB standard in each year over the study period.

4.10.11 In the past five years, the capital adequacy ratio of Nepal SBI Bank Ltd. is distributed as a minimum ratio of 8.6% in year FY 1999/00 and a maximum ratio 12.86% in FY 2001/02. The ratio of the Bank is increasing continuously up to the FY 2001/02 and then decreasing from FY 2002/03. It means the ratio of the bank is instable in the period of FY 1999/00 to 2003/04. Generally, the bank has maintained the ratio according with the NRB standard over the study period but it is observed that the capital adequacy ratio is not maintained for the FY 2003/04.

4.10.12 The loan & Advances to total deposit ratio of the bank is highest in 2001/02 with 82.44% and lowest at 2002/03 with 73.07%. The mean of the ratios is 74.75 % with 9.805% C.V. between them, which shows that the ratios are satisfactorily consistent over the study period.

4.10.13 The Investment to total deposit ratios of NSBI are in highly increasing trend during the study period. The highest ratio is 26.125 % in 2003/04 and minimum is 4.442 % in 1999/00 with mean ratio of 12.815 %. The C.V. of 72.27 % between them shows that the ratios are less consistent and more variable.

4.10.14 The analysis shows that Investment on shares and securities of organized institution by the Bank is with in the frame of NRB directives i.e. below 30% of the Bank’s Paid up Capital. The ratios are in decreasing trend during the study period. The highest ratio is 7.42 % in 1999/00 and minimum is 4.19 % in 2003/04 with mean ratio of 5.24 %. The C.V. of 28.39 % between them shows that the ratios are less consistent and more variable.

4.10.15 The analysis of the growth ratios of total deposits, total loan & advances and total investments of Nepal SBI Bank Limited during the study period shows that total deposit of the bank is in increasing trend with fluctuations over the years having net growth rate of 12.239% during the study period. Similarly loan and advances and total investments of the bank is in also increasing trend with the net growth rate of 11.752% and 74.925% respectively, during the study period.

4.10.16 The correlation analysis shows that the correlation coefficient (r) between deposits and loans & advances of the bank is 0.81959 and probable error multiplied by six is found to be 0.59413. Since r > 6*P.Er., and r is positive and near by 1, it can be inferred that there is very strong positive correlation between deposits and loans & advances during study period.

4.10.17 The correlation analysis shows that the correlation coefficient (r) between investments and loans & advances of the bank is 0.93171 and probable error multiplied by six is found to be 0.23875. Since r > 6*P.Er., and r is positive and near by 1, it can be inferred that there is very strong positive correlation between investments and loans & advances during study period in Nepal SBI Bank Ltd.

4.10.18 The correlation analysis shows that the correlation coefficient (r) between deposits and investments of the bank is 0.7631186 and probable error multiplied by six is found to be 0.75589. Since r > 6*P.Er., and r is positive and near by 1, it can be inferred that there is positive correlation between deposits and investments during study period in Nepal SBI Bank Ltd.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter includes three aspects of the study. First aspect of the study focuses on summarizing the fact-findings, second aspects of the study emphasizes to make concluding remarks upon them and the third aspect of the study focuses on making some useful suggestions and recommendations based on findings of the study.

5.1 Summary

The study was carried out as academic requirements for master's degree of business studies, on the topic of "Investment Policy and Practices: a case study of Nepal SBI Bank Ltd". The study was started with the objective to find out the fact about general investment policy and practices of commercial bank in Nepal. Because of, the commercial banks are growing rapidly in the Nepalese economy and showing the attractive base line in most recent period. The reason may be of their investment policy and practices. Thus, the interest was expressed to analyse the investment policy and practices with carrying a case study of Nepal SBI Bank Ltd. In addition with this, specific objectives of the study were to determine the variables of investment policy that measures practices and analyse the trend in investment, loan and advances of the banks in period of 1999/00 to 2003/04.

Various materials were reviewed in order to build up the theoretical foundation and to find out the clear destination of the research work. Meaning and functions of commercial banks, concept of investment, investment policy, some important terms related to the study and general investment policy (legislative provision by NRB) were reviewed as conceptual review. Besides, review of articles and review of dissertations were also included in research review section of the report.

The study has covered five years period from 1999/00 to 2003/04 A.D. It is concerned with the investment policy and practices of Nepal SBI Bank Ltd. The study was designed within the framework of descriptive and analytical research design and the analysis has been made in the same way. The required data and information were collected from secondary sources. In addition with this, primary data also are used in this research work which were collected by using unstructured interview and key informant method with concerned personnel. Financial ratios, simple mathematical and statistical tools have been implied to get the meaningful result of the collected data in this research work.

The analysis has been made with the comparative study between the general investment policy prescribed by NRB and the NSBL practices. The liquidity position of the bank with respect to deposit is seen in line with the NRB standard. Bank has time to time crosses the single obligor credit limit as set in NRB directives. The non-performing loans to total loan ratios are in decreasing trend whereas the loan loss provision of the bank is increasing in each year. The ratio of investment to total deposit is increasing. The Private sector loans to total loans & advances ratios are in increasing trend. It is observed that NSBL has mostly used its funds in industry and commercial sectors. However, the bank has maintained deprived sector credit requirement as per NRB standard. The core capital adequacy ratio of the bank is above than the NRB standard in each year over the study period. But, the capital adequacy ratio is not maintained for the FY 2003/04. The growth ratio of total investment is higher as compared to the growth ratios of deposit and loan and advances. There exists a strong positive correlation between deposit, loan and advances and investment of the bank.

5.2 Conclusions

Based on the findings, following conclusions have been drawn as a concluding framework of the study on Investment Policy and Practices of Nepal SBI Bank Ltd.:

5.2.1 The cash in vault to total deposit ratio is above the NRB standard in each year over the study period. It indicates that the bank is running with the adequate liquidity position to meet its short term obligation.

5.2.2 The balance held with NRB does not maintain the NRB standard for FY 2000/01. However, adequate NRB balance is maintained for rest of the study periods. This shows that bank has made investment in income generating asset rather maintaining the balance in FY 2000/01.

5.2.3 The cash & bank balance to total deposit ratio of Nepal SBI Bank Ltd. shows that there is very high proportion of cash and bank balance than the proportion of investment and also the inconsistency of ratios shows lack of specific policy to invest the additional idle funds to high income generating assets in the form of investment.

5.2.4 **C**rossing the single borrower credit limit set by NRB, shows that the bank on time to time exposes towards higher risk by over concentration of bank loans to a few big borrowers

5.2.5 The decreasing trend of non-performing loans and advances ratio helps to conclude that the bank is aware of Non-performing loans and adopting the appropriate policies to manage this problem and to increase the quality of asset.

5.2.6 The increasing nature of loan loss provision indicates that the quality of loans becoming degrading year by year i.e., it seems that amount of non-performing loans is increasing and possibility of default in future is increasing.

5.2.7 The Private sector loans to total loans & advances ratios show that the bank has the stable policy of advancing most of the loans to the private sectors and only a very small portion to the government sectors.

5.2.8 Purpose wise portfolio analysis of the loans and advances shows that the bank has given priority to industrial and commercial sector lending. Although the bank has lended about 13% loans on an average to the priority sector and is sufficient to fulfill the criteria of Nepal Rastra Bank, the ratio shows that the trend is variable but in increasing trend. The bank has given less priority to service sector lending and others.

5.2.9 The bank is able to meet the NRB requirement of deprived sector credit. It shows the bank’s prompt contribution towards the upliftment of deprived sector of the country.

5.2.10 Core capital adequacy ratio measured in terms of core capital to total risk adjusted assets is as per NRB standard. It means the bank is using adequate amount of internal sources or core capital in past five years. In this point of view the banks is financially sound and strong.

5.2.11 Capital adequacy ratio reveals that the bank is running with the adequate capital and the capital fund of the bank is sound and sufficient to meet the banking operation as per the NRB standard over the study period but it is observed that the capital adequacy ratio is not maintained for the FY 2003/04

5.2.12 The loan & Advances to total deposit ratio helps to conclude that the bank has efficiently mobilized its deposit in income generating activities.

5.2.13 Highly increasing trend of investment to total deposit ratio shows that the bank has given priority to investment activities to mobilize its idle funds.

5.2.14 Investment on shares and securities of organized institution by the Bank is with in the frame of NRB directives i.e. below 30% of the Bank's Paid up Capital which indicates that the bank is trying to abide the NRB regulation in regard of investment on shares and securities.

5.2.15 The growth ratio of total deposits, loan and advances and the investment show that the bank has been increasing its deposits collections more aggressively than disbursement of loan and advances. The growth rate of loans & advances is about 11.75% less than the rate of growth of deposits. But the high growth rate of investments over the years shows that the bank is employing safe landing procedure for investing its funds and it has not been considering investments as alternate source for income generations.

5.2.16 The correlation analysis shows that there is strong positive correlation between deposits, loan and advances and investment of the bank. It can be inferred that there is very strong positive correlation between deposits and loans & advances during study period.

5.2.17 The trend analysis of NSBL' for the next five year (up to 2008/09) shows that there is a trend of small positive increment on its Loan and advances and total investment. This shows that the bank has not been pleasingly successful to adopt the appropriate investment policy to make achieve high growth rate and generate high income from the available resources.

5.3 Recommendations

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

5.3.1 As the liquidity position of the bank is found to be high, especially high cash and bank balance, the bank is recommended to look upon new area of lending and investment. The rural economy has always been realizing the credit needs. To compromise between the liquidity and credit need of rural economy, the bank is highly recommended to expand its credit in this area. This helps in minimizing idle funds in business and at the same time contribute to the national economy.

5.3.2 Although the bank has been decreasing the proportion of non-performing loans to total loan and advances during the study period, the bank is advised to give more attention to decrease the level as it can to meet the international standards. The proportion of loan loss provision to total loans and advances is increasing regularly during the study period, which shows there is high probability of loan default in future. So the bank is recommended to lower the proportion of loan loss provision by increasing the quality of assets by strengthening the credit appraisal and follow-up measures.

5.3.3 The bank is advised to examine carefully from time to time the portfolio management strategies to maintain equilibrium in the portfolio of loans and investment and make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize the return. The bank has been lending more than 71% of its credit to industrial and commercial sectors only during the study period, but at present these sectors are not doing well. So the bank is recommended not to expand its business in this sector so heavily, instead it is advised to give more focus to increase its volume of credit to other sectors specially to retail financing. The bank has to concentrate on customer oriented lending policy to sustain in the competitive banking business.

5.3.4 The high volume of liquidity shows that the high degree of lending strength has been prevailing in all of the commercial banks including Nepal SBI Bank Limited. The lack of reliable lending opportunities and fear of losing the principle in rural sector has been keeping the bank to be less oriented toward the lending function. Hence it is recommended that the government and Nepal Rastra Bank should take appropriate action to initiate the commercial banks to attract to flow credit in rural economy so that we can expect the increase in the priority and deprived sector lending by the banks. Posing the compulsions by directives does not create long term healthy lending practices unless the commercial banks are not self-motivated to flow credit in this sector.

5.3.5 Capital adequacy ratio of the bank is sufficient as per the NRB standard. But the ratios are changing frequently over the study period and found lower than the NRB standard for the FY 2003/04. So, the recommendation is provided to maintain stable capital adequacy ratios in the bank which is the variable that determine investment policy and practices.

5.3.6 As the amount of investments made by the bank is found very little and also inconsistent during the period, the bank is recommended to increase the investments which help to utilize the idle funds into income generation as well as minimizes risk and also helps to maintain optimal level of liquidity. Increasing the amount of investment in government securities also helps the bank to maintain an equilibrium level of risk free and risky assets.

5.3.7 The very low growth rate as seen by the trend analysis of NSBL' for further five years projection (up to 2008/09), induce to suggest the bank to formulate & implement effective investment policy to achieve high growth and generate high profit, to sustain in the competitive banking environment.

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APPENDICES

APPENDIX 1

List of Commercial Banks, Population and Sample of the Study

S.N.	Name of the Banks	Estd. Year (B.S.)
1	Nepal Bank Ltd.	1994
2	Rastriya Banijya Bank Ltd.	2022
3	NABIL Bank Ltd.	2041
4	Nepal Investment Bank Ltd.	2042
5	Standard Chartered Bank Ltd.	2043
6	Himalayan Bank Ltd.	2049
7	Nepal SBI Bank Ltd. [#]	2050
8	Nepal Bangladesh Bank Ltd.	2050
9	Everest Bank Ltd.	2051
10	Bank of Kathmandu Ltd.	2051
11	Nepal Credit and Commerce Bank Ltd.	2053
12	Lumbini Bank Ltd.	2055
13	NIC Bank Ltd.	2055
14	Machhapuchre Bank Ltd.	2056
15	Kumari Bank Ltd.	2057
16	Laxmi Bank Ltd.	2058
17	Siddhartha Bank Ltd.	2058

[#] *Sample of the Study*

APPENDIX 2

List of On-balance Sheet and Off-balance Sheet Assets and Weights

S.N.	Particulars	Weights %
A	**On-balance Sheet Assets**	
1	Cash balance	0
2	Gold (Exchangeable)	0
3	Balance at NRB	0
4	Investment on HMG securities	0
5	Investment on NRB securities	0
6	Fully secured loans against own FDR	0
7	Fully secured loans against HMG securities	0
8	Balance at local banks and financial institutions	20
9	Fully secured loans against other banks FDR	20
10	Balance at foreign banks	20
11	Money at call	20
12	Loan against guarantee of A^+ rated international banks	20
13	Other investment at A^+ rated international banks	20
14	Investment on shares, debentures and bonds	100
15	Other investments	100
16	Other loans, advances and bills purchased/discounted	100
17	Fixed assets	100
18	Other assets	100
B	**Off-balance Sheet Assets**	
1	Bills collection	0
2	Forward foreign exchange contract	10
3	Letter of credit with maturity less than 6 months	20
4	Guarantee against CG of A^+ rated international banks	20
5	Letters of credit with maturity more than 6 months	50
6	Bid bond	50
7	Performance bond	50
8	Advance payment guarantee	100
9	Financial guarantee	100
10	Other guarantee	100
11	Irrevocable loan commitment	100
12	Contingent tax liability	100
13	Other contingent liability	100

APPENDIX 3

Cash in vault to total deposit ratio

Source: Banking and Financial statistics, Nepal Rastra Bank

Rs. In million

F.Y.	Total Deposits	Cash in Vault	Ratios (%)
1999/00	4543.2	138.6	3.05
2000/01	6618.4	148.5	2.24
2001/02	5572.3	166.6	2.99
2002/03	6522.17	269.6	4.13
2003/04	7232.1	161.2	2.23
Mean Ratio			2.9294
S.D.			0.7793
C.V.			26.602894

APPENDIX 4

Balance held with NRB

Source: Banking and Financial statistics, Nepal Rastra Bank

Rs. In million

F.Y.	Current Deposit	Savings Deposit	Fixed Deposits	Others	Total Deposits	Bal with NRB	Bal to be held with NRB
1999/00	951	1094.9	2420.3	77	4543.2	364.3	252.13
2000/01	2359.9	1259.5	2929.4	69.6	6618.4	294.2	385.18
2001/02	1086.7	1274.7	3132.7	78.2	5572.3	1177.5	306.27
2002/03	1300	1820.07	3337.6	64.5	6522.17	892.3	368.60
2003/04	1712.6	2024.2	3371.4	123.9	7232.1	578.3	413.29

APPENDIX 5

Cash and bank balance to total deposits ratio

Source: Banking and Financial statistics, Nepal Rastra Bank

Rs. In million

F.Y.	Cash and bank balance	Total deposit	Ratios (%)
1999/00	1010.0	4543.2	22.2310
2000/01	2348.2	6618.4	35.4799
2001/02	1403.2	5572.2	25.1822
2002/03	1331.6	6522.8	20.4145
2003/04	775.0	7232.1	10.7161
Mean Ratio			22.8047
S.D.			8.9231
C.V.			39.12835

APPENDIX 6

Inspection Report of NRB as published on Bank's Annual Report

Source: Annual Reports

नेपाल एसबिआई बैंक लिमिटेड
(स्टेट बैंक अफ इण्डियाको संयुक्त लगानीमा स्थापित)

एघारौं वार्षिक प्रतिवेदन
२०६०/६१

वार्षिक प्रतिवेदन प्रकाशित गर्न स्वीकृति प्रदान गर्ने क्रममा नेपाल राष्ट्र बैंकबाट दिइएका निर्देशनहरू

१. पटक पटक प्रति ग्राहक कर्जा सिमा नाघेर कर्जा प्रदान गरेको देखिएकोले कर्जा व्यवस्थापनमा विशेष ध्यान दिनु हुनुका साथै सिमा नाघेका कर्जाहरूलाई ६ महिना भित्र सिमामा ल्याई नियमित गर्नु हुन संचालक समितिको विशेष ध्यानाकर्षण गराइएको छ ।

नेपाल एसबिआई बैंक लिमिटेड
(स्टेट बैंक अफ इण्डियाको सहवर्ती)

दशौं वार्षिक प्रतिवेदन
२०५९/६०

१. बैंकद्वारा कर्जा प्रदान गर्दा प्रति ग्राहक कर्जा सिमामा रही प्रदान गर्नु हुन । साथै सिमा नाघेका कर्जाहरूलाई ६ महिना भित्र सीमामा ल्याउनु हुन ।

नेपाल एसबिआई बैंक लिमिटेड
(स्टेट बैंक अफ इण्डियाको सहवर्ती)

नवौं वार्षिक प्रतिवेद
२०५८/५

३. एउटै समूहलाई सीमाभन्दा बढी हुने गरी प्रवाहित भएको कर्जा २०५९ पौष मसान्तभित्र नियमित भए/भएनन्, नभएको भए आवश्यक Capital Charge गर्नु हुन ।

APPENDIX 7

Non-Performing Loans to Total Loans & Advances Ratio

Source: Annual Report

Rs. In million

F.Y.	Non-Performing Loans	Total Loan & Advances	Ratios (%)
1999/00	307.5926	3560.1	8.64
2000/01	481.945	4176.3	11.54
2001/02	290.3345	4593.9	6.32
2002/03	481.945	4766.1	8.90
2003/04	290.3345	5552.5	6.25
Mean Ratio			8.3300
S.D.			2.21847
C.V.			26.2268

APPENDIX 8

Loan Loss Provision to Total Loan & Advances Ratio

Source: Annual Report

Rs. In million

F.Y.	Loan Loss Provision	Total Loan & Advances	Ratios (%)
1999/00	148.21	3560.1	4.1631
2000/01	242.84	4176.3	5.8147
2001/02	285.14	4593.9	6.2069
2002/03	327.12	4766.1	6.8635
2003/04	388.17	5552.5	6.9909
Mean Ratio			6.0078
S.D.			1.1378
C.V.			18.9390

APPENDIX 9

Private Sector Loans to Total Loans & Advances Ratio

Source: Banking and Financial statistics, Nepal Rastra Bank

Rs. In million

F.Y.	Private Sector Loans	Total Loans & Advances	Ratios (%)
1999/00	3471.8	3560.1	97.5197
2000/01	4088	4176.3	97.8857
2001/02	4506.5	4593.9	98.0975
2002/03	4716.1	4766.1	98.9509
2003/04	5479.6	5552.5	98.6871
Mean Ratio			98.2282
S.D.			0.5851
C.V.			0.59562

APPENDIX 10

Purpose wise loan classification

Source: Annual Report

Rs. In million

Purpose	F.Y. 1999/00		FY 2000/01		FY 2001/02		FY 2002/03		FY 2003/04	
	Amt.	Ratio (%)	Amt.	Ratio (%)	Amt.	Ratio (%)	Amt.	Ratio (%)	Amt.	Ratio (%)
Industrial	1525.743	42.857	1878.022	44.969	1904.03	41.447	2137.0497	44.839	2306.109	41.533
Commercial	1046.183	29.386	1211.971	29.020	1261.72	27.465	1379.1331	28.936	1528.16	27.522
Priority	417.654	11.732	417.429	9.995	802.399	17.467	475.00323	9.966	971.844	17.503
Service	410.745	11.537	487.112	11.664	461.838	10.053	554.297	11.630	559.366	10.074
Others	159.775	4.488	181.77	4.352	163.912	3.568	220.621	4.629	187.019	3.368
Total	3560.10	100	4176.30	100	4593.90	100	4766.10	100	5552.50	100

Ratios of loans disbursed for different purposes to total loan & Advances (%)

Purposes	FY					Mean	S.D.	C.V.
	1999/00	2000/01	2001/02	2002/03	2003/04			
Industrial	42.857	44.969	41.447	44.839	41.533	43.1287	1.7145	3.9752
Commercial	29.386	29.020	27.465	28.936	27.522	28.4660	0.9039	3.1754
Priority	11.732	9.995	17.467	9.966	17.503	13.3325	3.8573	28.9315
Service	11.537	11.664	10.053	11.630	10.074	10.9917	0.8484	7.7189
Others	4.488	4.352	3.568	4.629	3.368	4.0811	0.5724	14.0265
Total	100	100	100	100	100	-	-	-

APPENDIX 11

Deprived Sector Credit Ratio

Source: Annual Reports

Rs. In million

F.Y.	Deprived Sector Credit	Total Loan & Advances	Ratios (%)
1999/00	117.28	3560.1	3.2943
2000/01	95.78	4176.3	2.2934
2001/02	148.28	4593.9	3.2278
2002/03	151.32	4766.1	3.1749
2003/04	172.1	5552.5	3.0995
Mean Ratio			3.0180
S.D.			0.4113
C.V.			13.627836

APPENDIX 12

Loan & Advances to Total Deposit Ratio

Source: Banking and Financial statistics, Nepal Rastra Bank

Rs. In million

F.Y.	Loan & Advances	Total Deposit	Ratios (%)
1999/00	3560.1	4543.2	78.3611
2000/01	4176.3	6618.4	63.1014
2001/02	4593.9	5572.2	82.4432
2002/03	4766.1	6522.8	73.0683
2003/04	5552.5	7232.1	76.7758
Mean Ratio			74.7499
S.D.			7.3288
C.V.			9.8045

APPENDIX 13

Total Investment to Total Deposit Ratio

Source: Banking and Financial Statistics, Nepal Rastra Bank

Rs. In million

F.Y.	Total Investments	Total Deposit	Ratios (%)
1999/00	201.8	4543.2	4.4418
2000/01	373.6	6618.4	5.6449
2001/02	521.1	5572.2	9.3518
2002/03	1207.3	6522.8	18.5089
2003/04	1889.4	7232.1	26.1252
Mean Ratio			12.8145
S.D.			9.2614
C.V.			72.2730

APPENDIX 14

Total Investment on shares and securities to paid up capital ratio

Source: Banking and Financial statistics, Nepal Rastra Bank

Rs. In million

F.Y.	Investment on shares & securities	Paid up capital	Ratios (%)
1999/00	8.9	119.9	7.42
2000/01	8.9	143.9	6.18
2001/02	17.9	424.9	4.21
2002/03	17.9	425.2	4.21
2003/04	17.9	426.9	4.19
Mean Ratio			5.24
S.D.			1.49
C.V.			28.39

APPENDIX 15

Growth Ratios

Source: Annual Reports

Rs. In Million

F.Y.	Deposits	Loans & advances	Investments
1999/00	4535.73	3560.1	201.8
2000/01	6612.29	4176.3	373.6
2001/02	5572.47	4593.9	521.1
2002/03	6522.82	4766.1	1207.3
2003/04	7198.33	5552.5	1889.4
Growth Ratios (%)	12.2396	11.7523	74.9245

Computation of growth ratio of total Deposits of Nepal SBI Bank Limited.

D_n = Total Deposits in the n^{th} year (2003/04) = 7198.33

D_o = Total Deposits in the initial year (1999/00) = 4535.73

g = Growth rate.

n = Total number of years

We have,

$$D_n = D_o(1+g)^{n-1}$$

$$\text{Or, } 7198.33 = 4535.73(1+g)^{5-1}$$

$$\text{Or, } g = \sqrt[4]{1.587028} - 1$$

$$= 1.1223961 - 1$$

$$= 0.122396$$

$$\therefore g = 12.2396\ \%.$$

Other growth ratios are calculated accordingly.

APPENDIX 16

Calculation of Correlation Coefficients between Deposits and Loans & Advances

Source: Annual Reports

Rs. In Million

F.Y.	Deposits	Loans & Advances	Correlation Coefficient (r)	P.Er.	6*P.Er.
1999/00	4535.73	3560.1			
2000/01	6612.29	4176.3			
2001/02	5572.47	4593.9			
2002/03	6522.82	4766.1			
2003/04	7198.33	5552.5	0.81959	0.09902	0.59413

<u>Calculation of Probable Error for correlation coefficient between Deposits and Loans & Advances</u>: -

P.Er. = 0.6745 × $\frac{1-r^2}{\sqrt{N}}$

Where, N = Number of Pairs of Observations = 5.

r = Correlation coefficient = 0.81959

Or, P.Er. = 0.6745 × $\frac{1-(0.81959)^2}{\sqrt{5}}$

= 0.09902.

Similarly probable errors for other correlation coefficients are also calculated accordingly.

APPENDIX 17

Calculation of Correlation Coefficients between Investments and Loans & Advances

Source: Annual Reports

Rs. In Million

F.Y.	Investments	Loans & Advances	Correlation Coefficient (r)	P.Er.	6*P.Er.
1999/00	201.8	3560.1			
2000/01	373.6	4176.3			
2001/02	521.1	4593.9			
2002/03	1207.3	4766.1			
2003/04	1889.4	5552.5	0.93171	0.03979	0.23875

APPENDIX 18

Calculation of Correlation Coefficients between Deposits and Investments

Source: Annual Reports

Rs. In Million

F.Y.	Deposits	Investments	Correlation Coefficient (r)	P.Er.	6*P.Er.
1999/00	4535.73	201.8			
2000/01	6612.29	373.6			
2001/02	5572.47	521.1			
2002/03	6522.82	1207.3			
2003/04	7198.33	1889.4	0.7631186	0.1259823	0.7558936

APPENDIX 19

Trend Analysis of Loan & Advances

Source: Banking and Financial Statistics, Nepal Rastra Bank

In Million

	Fiscal Year X	Loan and Advances Y	XY	X^2	Y^2
	0.0002000	3560.10	0.71	0.00000004000	12674312.01
	0.0002001	4176.30	0.84	0.00000004004	17441481.69
	0.0002002	4593.90	0.92	0.00000004008	21103917.21
	0.0002003	4766.10	0.95	0.00000004012	22715709.21
	0.0002004	5552.50	1.11	0.00000004016	30830256.25
SUM	0.001001	22648.90	4.53	0.0000002004	104765676.37
mean	0.000200	4529.78			

Forecasted Values	
Fiscal Year	Loan and Advances
2004/05	5902.16
2005/06	6359.62
2006/07	6817.08
2007/08	7274.54
2008/09	7732.00
2009/10	8189.46

Calculation of Trend Analysis (Regression Equation)of Loan and Advances

Regression equation of Y on X is given by,

Y = a + b X (i)

To, determine the values of 'a' and 'b' the following two normal equations are to be solved.

$\sum Y = Na + b\sum X$ - (ii)

$\sum XY = a\sum X + b\sum X^2$ - (iii)

Solving the two normal equations (ii) and (iii)

We get,

$a = \overline{Y} - b\,\overline{X}$ - (iv)

and $b = \dfrac{N\sum XY - (\sum X)(\sum Y)}{N\sum X^2 - (\sum X)^2}$ - (v)

Solving equation (iii) and (iv), we get

a = -911305.14 and b = 4574600002.77

Now, Substituting the values of 'a' and 'b' in equation (i) the regression equation of Y on X is:

$$Y = -911305.14 + 4574600002.77\ X$$

For 2005, ie. When X = 0.0002005, Y = 5902.16

When X = 0.0002006, Y = 6359.62

… so on.

Similarly trend analysis (estimated values) for other relations is also calculated accordingly.

APPENDIX 20

Trend Analysis of Total Investments

Source: Banking and Financial Statistics, Nepal Rastra Bank

In Million

	Fiscal Year X	Total Investments Y	XY	X^2	Y^2
	0.0002000	201.8	0.04	0.00000004000	40723.24
	0.0002001	373.6	0.07	0.00000004004	139576.96
	0.0002002	521.1	0.10	0.00000004008	271545.21
	0.0002003	1207.3	0.24	0.00000004012	1457573.29
	0.0002004	1889.4	0.38	0.00000004016	3569832.36
SUM	0.001001	4193.20	0.84	0.0000002004	5479251.06
mean	0.000200	838.64			

Forecasted Values	
Fiscal Year	Total Investments
2004/05	2101.31
2005/06	2522.20
2006/07	2943.09
2007/08	3363.98
2008/09	3784.87
2009/10	4205.76