

**A STUDY ON INVESTMENT POLICY OF  
COMMERICAL BANKS IN NEPAL  
(A Case Study of Nepal Investment Bank Limited)**

**Submitted By:**

**Suraksha Ojha**

**Kailali Multiple Campus**

**Campus Roll No.:32**

**Exam Roll No.:3270088**

**T.U.Regd. No.:7-2-327-327-2005**

**A Thesis**

**Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**

**Kathmandu**

**In the Partial Fulfillment of the Requirement for the Degree of  
Master of Business Studies (MBS)**

**2013**

# **DECLARATION**

I hereby declare that the work reported in this thesis entitled “**A study of investment policy of Commercial Banks in Nepal (A case study of Nepal Investment Bank Limited)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (MBS) under the supervision of Prof. Dr.Padam Raj Joshi.

**Suraksha Ojha**

**Researcher**

**Roll No.:3270088**

# **Acknowledgement**

In course of writing this thesis, I received co-operation, help & inspiration from several persons & friends. First of all, I am very much grateful to my thesis adviser Prof.Dr.Padam Raj Joshi; he not only supervised this work with his incisive comments & suggestions at different stages, but also took a keen interest in it and constantly encouraged me to complete this work. I think, without his valuable suggestions, this study would not have got its present shape.

The research is also benefited from assistance & encouragement of all my colleagues, staff of Library & Administration of Kailali Multiple Campus, and other teachers & Staffs I am also obliged to them all. Besides them, I am highly indebted to the personnel of NIBL for providing me the secondary data, without which the research was impossible. In this limited space, it is simply impossible to give the names of a large number of friends and well wishers who provided invaluable co-operation in different stages of writing this thesis. I wish to express my sincere thanks to them.

Finally, I would like to express my sincere gratitude to all the members of my family and relatives who inspired me in many ways to cope during the entire period of study.

**Suraksha Ojha**

## **TABLE OF CONTENTS**

Recommendation  
Viva-Voice sheet  
Declaration  
Acknowledgement  
Table of Contents  
List of Tables  
List of Figures  
Abbreviations

### **CHAPTER-1                    INTRODUCTION (1-5)**

1.1 Background  
1.2 Profile of Nepal Investment Bank Limited  
1.3 Statement of the Problem  
1.4 Objectives of the Study  
1.5 Significance of the Study  
1.6 Limitation of the Study  
1.7 Organization of the Study

### **CHAPTER-2                    REVIEW OF LITERATURE    (6-21)**

2.1 Conceptual Review  
    2.1.1 Regulation Monitory Roles of Central Bank  
    2.1.2 Meaning of Commercial Bank  
    2.1.3 Investment  
    2.1.4 Investment Policy of Bank  
2.2 Review of the Relevant Act  
    2.2.1 Review of NRB Directives  
2.3 Review of Journal and Articles  
2.4 Review of Thesis

## **CHAPTER-3**

## **RESEARCH METHODOLOGY (22-27)**

- 3.1 Research Design
- 3.2 Population and Sample
- 3.3 Source of Data and Data Collection Technique
- 3.4 Data Analysis
  - 3.4.1 Financial Tools
    - 3.4.1.1 Liquidity Ratios
    - 3.4.1.2 Activity Ratio
    - 3.4.1.3 Capital Adequacy Ratio
    - 3.4.1.4 Profitability Ratio
    - 3.4.1.5 Risk Ratio
    - 3.4.1.6 Growth Ratio
  - 3.4.2 Statistical Tools
    - 3.4.2.1 Coefficient and Correlation
    - 3.4.2.2 Trend Analysis
    - 3.4.2.3 Hypothesis

## **CHAPTER-4**

## **DATA PRESENTATION AND ANALYSIS (28-59)**

- 4.1 Financial Analysis
  - 4.1.1 Liquidity Ratio
  - 4.1.2 Assets Management Ratio (Activity Ratio)
  - 4.1.3 Profitability Ratio
  - 4.1.4 Risk Ratio
  - 4.1.5 Growth Ratio
- 4.2 Statistical Analysis
  - 4.2.1 Coefficient of correlation between Deposit and Loan and Advance
  - 4.2.2 Coefficient of correlation between Deposit and Total Investment
  - 4.2.3 Coefficient of correlation between Current Assets and Current Liabilities
- 4.3 Trend Analysis and Projection for Next Five Years
  - 4.3.1 Trend Analysis of Total Deposit
  - 4.3.2 Trend Analysis of Loan and Advance
  - 4.3.3 Trend Analysis of Total Investment
  - 4.3.4 Trend Analysis of Net Profit
- 4.4 Major Findings

## **CHAPTER-5 SUMMARY, CONCLUSION & RECOMMENDATIONS (60-63)**

5.1 Summary

5.2 Conclusion

5.3 Recommendations

**Bibliography (64-65)**

**Appendices**

## LISTS OF FIGURES

<b>No.</b>	<b>Particulars</b>
4.1	Cash and Bank to Total Deposit
4.2	Cash and Bank Balance to Current Assets Ratio
4.3	Investment of Government Securities to Current Assets Ratio
4.4	Loan and Advances to Current Assets Ratio
4.5	Total Investment to Total Deposit Ratio
4.6	Loan and Advances to total Working Fund
4.7	Investment on Government Securities to Total Working Fund
4.8	Investment on Share and Debenture to Total Working Fund Ratio
4.9	Loan Loss Ratio
4.10	Net Profit to Total Working Fund Ratio
4.11	Net Profit to Loan and Advances Ratio
4.12	Return to Equity (ROE)
4.13	Total Interest Earned to Total Working Fund Ratio
4.14	Total Interest Paid to Total Working Fund Ratio
4.15	Credit Risk Ratio
4.16	Trend Value of Total Deposit
4.17	Trend Value of Loan and Advances
4.18	Trend Value of Total Investment
4.19	Trend Value of Net Profit

## LISTS OF TABLES

### No. Particulars

- 4.1 Cash and Bank Balance
- 4.2 Cash and Bank Balance to Current Assets Ratio (%)
- 4.3 Investment of Government Securities to Current Assets Ratio
- 4.4 Loan and Advances to Current Assets Ratio
- 4.5 Total Investment to Total Deposit Ratio
- 4.6 Loan and Advances to Total Working Fund
- 4.7 Investment on Government Securities to Total Working Fund
- 4.8 Investment on Share and Debentures to Total Working Fund Ratio (%)
- 4.9 Loan Loss Ratio to Total Deposit
- 4.10 Non-Performing Loan
- 4.11 Net Profit to Total Working Fund Ratio (%)
- 4.12 Net Profit to Loan and Advances Ratio (%)
- 4.13 Return on Equity (ROE)
- 4.14 Total Interest Earned to Total Working Fund Ratio (%)
- 4.15 Total Interest Paid to Total Working Fund Ratio (%)
- 4.16 Credit Risk Ratio (%)
- 4.17 Growth Ratio of Total Deposit (%)
- 4.18 Growth Ratio of Loan and Advances
- 4.19 Growth Ratio of Total Investment
- 4.20 Growth Ratio of Net Profit
- 4.21 Trend value of Total Deposit of NIBL
- 4.22 Trend Value of Total Deposit of NIBL from 2066/67 to 2070/71
- 4.23 Trend Value of Loan and Advances of NIBL
- 4.24 Trend Value of Loan and Advances of NIBL from 2066/67 to 2070/71
- 4.25 Trend Value of Total Investment of NIBL
- 4.26 Trend Value of Total Investment of NIBL from 2066/67 to 2070/71
- 4.27 Trend Value of Net Profit of NIBL
- 4.28 Trend Value of Net Profit of NIBL from 2066/67 to 2070/71

## ABBREVIATIONS

%	=	Percentage
A/C	=	Account
AD	=	After the Death of Christ
ATM	=	Automated Teller Machine
BS	=	Bikram Sambat
CAR	=	Capital Adequacy Ratio
CCR	=	Cash Credit Ratio
CRR	=	Cash Reserve Ratio
FY	=	Fiscal Year
GOVT.	=	Government
HMG	=	His Majesty's Government
i.e.	=	That is
IMF	=	International Monetary Fund
JVB	=	Joint Venture Bank
L/C	=	Letter of Credit
LLP	=	Loan Loss Provision
MIS	=	Management Information System
NIBL	=	Nepal Investment Bank Ltd.
NIDC	=	Nepal Industrial Development Corporation
NRB	=	Nepal Rastra Bank
P/L	=	Profit and Loss
PE	=	Probable Error
RBB	=	Rastriya Banijya Bank
ROA	=	Return on Assets
ROE	=	Return on Equity
Rs	=	Nepalese Rupees
TU	=	Tribhuvan University
WADR	=	Weighted Average Deposit Rate
WALR	=	Weighted Average Lending Rate

# CHAPTER-1

## INTRODUCTION

### 1.1 Background

Nepal Rastra Bank (NRB), the Central Bank of Nepal was established in 1956 AD under Nepal Rastra Bank Act. 1955 to discharge the central banking responsibilities including guiding the development of the embryoning domestic financial sector. Central Bank is the supreme financial institution of the country. The government has empowered the Central bank by law to regulate, supervise and monitor the banking sector through the central bank. A sound and prosperous banking environment can be possible with the proper functioning of such power. The discussion of banks and others banking regulators will not be complete without the discussion of central bank. Like all central banks around the globe, Nepal Rastra Bank, probably has more impact on day to day activities of bank than any other governmental agencies. The primary job of a central bank is to carry out monetary smoothly and the supply of money and credit from that system contributes to the nation's economic goals.

As an autonomous body, it aims to stabilize the country's economy using different financial tools. Furthermore, it controls banking sector regulation, provision and market operation. NRB issues directives to the commercial banks, instructing them to fulfill its regulatory requirement of the country. The main function of the central bank is to guide the commercial bank, which are operating in the country. Central Bank neither accepts deposits from the public nor gives loan to the public. It is set up make sound monetary policy.

The main objectives of regulatory system of NRB are:

- Promote efficiency of commercial bank to operate in profit
- Ensure adequate fund to meet all the cash demands
- Maintain clear and fraud free financial transactions
- Record all financial transaction as per the banking rules

In Nepal Ministry of finance looks after the fiscal policy where central bank looks after the monetary policy, by issuing timely guidelines related to many aspects of banks including banking operations, currency, credit & deposits mobilization with a view to develop a secured & healthy banking system and to protect the interest of the deposits holders and for the economic development of the country. Following that guideline is required by banks. Most of the banks have been successful to earn profit from their deposit mobilization but no one of them seems to be able to invest their fund in more productive sector. To meet the requirement of NRB, bank must deposit certain percentage of their total deposit with NRB i.e.7% of current and saving deposit liabilities. Bank should have 2% minimum cash balance in their self vault of total currency of A/C held by the bank. The cash in vault should include only the local currency any foreign currency except clearing cheque etc. In banking business

the volume of credit extension much depends upon the deposits base of the bank. The deposit creating powers of commercial banks forces to raise the assets along with the liabilities side of the balance sheet. There are regular changes in this view in the modern banking industry. Thus, banks have evolved from relatively passive accepts of deposits. Deposits are one of the aspects of bank liabilities that management has been influencing through deliberate action. In regard to loan classification & provision all commercial banks are supposed to categorize the loans disbursed to the customers into different group on the basis of their past due periods. Each category of loan amount required certain percentage of it to be provision for probable loss. The provision amount is deducted from the profit. This is mainly to safeguard the money of depositors and to protect the bank from bankrupt. Similarly, according to the new amendment made on 2002, for a loan to be bad, the time period of past due is one year & more. If lays down various rules and regulation for the bank and bonus need to the various facilities to the banks. Similarly, NRB plays significant role to make commercial bank's mobilization of deposit in good, productive and profitable sector so that commercial banks can have sufficient liquidity and security.

### **1.2 Profile of Nepal Investment Bank Limited**

Nepal Investment Bank Ltd. is one of the leading commercial bank of the country, which was previously known as Nepal Indosuez Bank Ltd. It was established in 1986. Nepal Investment Bank Ltd. was a joint commercial enterprises between the credit Agricole Indosuez (one of the largest banking group in the worked) and the Nepalese. The French partner holding 50% of the capital of NIBL. The decision of Credit Agricole Indosuez to divest a group of comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Indosuez in Nepal Indosuez Bank Ltd.

The name of bank has been changed to Nepal Investment Bank Ltd. upon approval of banks' Annual general Meeting, Nepal Rastra Bank and Company Register Office". NIBL has total member numbers are 2 lakhs 70 thousand only.

NIBL is a company listed on the Nepal Stock Exchange with the following shareholding structure.

- A group of companies ( French partner, Agricole Indosuez) holding 50% the capital.
- Rastriya Barijya Bank holding 15% of the capital.
- Rastriya Beema Sansthan also holding 15% of the capital.
- The general public holding 20% of the capital.

NIBL started its operation from Durbar Marg office. The bank has experienced a dynamic growth up to date. Its objective is to provide more facilities to the customer and maintain a high quality assets portfolio to achieved strong and sustainable return and to continuously build shareholders value. It has expanded its services by establishing branch offices. To be the leading Nepali Bank delivering world class service through the blending of the sat-of-the technology and visionary management in partnership with competent and committed staff, to

achieve sound financial health with sustainable value additional to all our shareholders. Vision of the Investment Bank is to be the most preferred provider of financial service in Nepal.

### **1.3 Statement of the Problem**

Financial institutions assist in the economic development of the country. Commercial bank being the financial institution plays significant role of collecting scattered surplus funds and deploy these fund in the productive sectors as investment. Economic development of the country is directly related to volume of investment made and return obtained by the bank. Investment problem has become very serious of the least development country like Nepal. This is due to lack of sound investment policy of commercial bank.

Nepalese commercial banks have not formulated their investment policy in an organized manner. The implementation of policy is not effective. The credit extended by the commercial bank to agriculture and industrial sector is not satisfactory to meet the present growing need. Nepotism and political pressure also effects the investment decision of the commercial banks. Granting loan against insufficient deposit. Overvaluation of goods pledged, land and building mortgage, risk averting decision regarding loan recovery and negligence in recovery of overdue loan is same of the basic loopholes and the result of unsound investment policy sighted in the banks.

The guidelines in themselves are not important unless properly implemented. The rules and regulation are only the tools of NRB to supervise and monitor the financial institutions. NRB need to monitor the concerned authorities in order to ensure that they are being followed.

Non-performing loans is also one of the serious problem faced by the commercial banks. Non-performing loans can be the result of present condition of the country. Due to instable political condition, insecurity and lot many factors industries of Nepal are closing down and thus are the investment. Therefore, appropriate investment policy is the basic need of all the commercial bank as well as other financial institutions. The main focus of the statement of the problem is the matter related to the investment policy of the commercial banks and this study focus mainly on the loan and advances and investment in shares and securities.

- What is the trend of deposit collection of the selected commercial banks.
- What is the liquidity position of NIBL?
- What is the trend value position and its projection for next five year?

### **1.4 Objectives of the Study**

The basic objectives of this study are as follows:

- To analyze the trend of deposit collection and investment of commercial banks.
- To analyze the liquidity practice of NIBL.
- To determine the relationship between total deposit and loan & advance, total deposit and total investment.
- To make the trend value analysis of investment policy and its projection for next five years.

### **1.5 Significance of the Study**

The success and prosperity of the bank heavily depends upon the successful implementation and investment of collected resources, which develops the economy of the country. Good investment policy of the bank has positive impact on economic development of the country and vice-versa.

- The analysis on investment practice would help the bank to further improve the investment policy.
- This study would provide clear picture how bank is investing its collecting funds.
- This study will help NIBL to formulate the new investment policy.
- Moreover, it will prove to be an important value for the entire individual interested in commerce and banking field.

### **1.6 Limitation of the Study**

This study related to the study of NRB guidelines on investment policy of Nepalese commercial banks. It is required for the partial fulfillment of MBS degree. It is only mini research and hence is subject to some limitations, which are as follows:

- Though there are so many functions of commercial banks, this study focus only on the investment policy of commercial banks.
- This study is basically depends on secondary data. The annual reports published by the bankers are the major data for this research.
- Reports published by NRB, financial statement, articles, journals and publication are used.
- This study is limited to the case study of Nepal Investment Bank Ltd. only. This research does not reflect anything about other commercial banks of the country.
- A period of five years trend is considered. The study is made from 2007/08 to 2011/12 only. Research result is based solely the available data from the banks (published).
- Statistical tools are used for analysis. Draw back and weakness of those tools are the limitation in this study.

### **1.7 Organization of the Study**

This study has to be finished within the design offered by the research department of Tribhuwan University. Accordingly, the research is organized in the following five chapters.

**Chapter I** include the introduction of the main topic of the study like general background, profile of NIBL, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study along with other introductory framework.

**Chapter II** presents the review of available relevant studies. It includes the conceptual review, review of NRB directives, regulation monitory roles of Central Bank and review of the related books, journals, published and unpublished research works as well as thesis. On

this chapter meaning of commercial bank and the evolution, deposit & its type, loan & advances, investment policy of commercial bank and its investment policy etc are studied. It also includes the deposit mobilization of commercial banks.

**Chapter III** deals with the methodology of the study i.e. research carried out in this size and shape. For this purpose various financial and statistical tools are defined, which will be used for the analysis of presented data.

**Chapter IV** is the heart of the study. It deals with data presentation & analysis. Available data are presented in different tabular and other indicators. It is scrutinized by using a range of statistical tools.

**Chapter V** contains the major empirical findings of the study, conclusion, recommendation and suggestions are included in the basis of the study.

## CHAPTER II

# REVIEW OF LITERATURE

In this chapter, conceptual review, Role of the bank, Investment Policy of the commercial bank and review of the topic related books, journals, published and unpublished research works and thesis are described after reading the reliable sources.

### **2.1 Conceptual Review**

The word 'Bank' is originated from the Latin word 'Banca' and French word 'Banque' all of which means a 'bench'. The medieval European moneylenders and money exchanges used benches to display their valuables and coins. Later, when they were unable to meet their obligation, their benches were broken into pieces. Thus, the word 'bankruptcy' came from this circumstance. Bank as an institution is originated from Italy. The world's first bank was 'bank of Venice' established 1157 AD in Venice, Italy 'Bank of Barcelona' Spain bank of Geneva; Switzerland was established in 1401 AD and 1407 AD respectively. In England, banking began with the English Goldsmiths only after 1640. Bank of Amsterdam, Netherlands set in 1609 A was very popular 'Bank of Hindustan' known as the first bank in India was established in 1770AD. In Nepal, goldsmiths and merchants and merchants were the ancient bankers. In 1933 BS late Prime Minister Ranadip Singh took the first step towards the development of banking after establishing "Tejrath Adda". Tejrath Adda provided loan to the Government employee in low rates of interest, but did not collect deposit from public. Later, the Primary Minister Chandra Shamsher in 1957BS. Under took initiation in the setup of other branches outside the valley. Banking in a true sense was first established in Nepal on 30th Kartik 1994 BS named as Nepal Bank Ltd. The central Bank was established in 2013 BS. For developing banking sectors and to help the Government to formulate the monetary policies. In 2022 BS. Rastriya Banijya Bank as a second commercial bank was established. Similarly, Agriculture development bank was established in 2004 BS. Along with this trend, a new joint venture bank 'Nepal Arab Bank Limited' was set up in 2041 BS. After the restoration of democracy in Nepal these has been tremendous development in banking sector. It has played an important role in the economic development of the country. After the introduction of development Bank Act 2052, many development banks have been opened in various parts in Nepal. Since the number of banks is increasing, Nepal Rastra Bank is conducting a study whether or not country is being benefitted from them.

#### **2.1.1 Regulation Monetary Roles of Central Bank**

Shekhar and Shekhar (2002) stresses that it is very difficult to lay down each function of

central bank. A careful study of central bank operating in various countries would enable to draw certain board conclusion as to the fundamental function of a central bank as per observation made by the governor of the bank of England before the royal commission on Indian currency (1962AD), a central bank should be the holder of all reserves of other banks and branches over the country. Although the primary function of any central bank still remains to be issuing, they have different roles to play in the economic sphere of a country. Sometimes they act as the banker to the government and sometimes to the other financial institutions. The other times, they have a role to play as the leader of the last resort, an agent, an advisor, a custodian of the nations metallic reserves and a ultimate controller of volume of currency.

### **Banker's Banks**

The role of a central bank is that of a banker of the banks. It monitors and controls the functions of all the commercials banks operating in the country and on the other hand it assists them in various ways and guides the bank towards healthy competition.

### **Origin of Banking Policies**

All the banking policies of the country are laid down by the central bank of that country. For instance, NRB issues various directives for the commercial banks from time to time. For example, instructing them to fulfill its regulatory requirement on the minimum loan that needs to be provided to the priority sectors of the country. The priority sectors of the country comprise areas such as agriculture, small scale business and cottage industries.

### **Monitory Control**

In any country, it is only the central bank, which issues notes and coins required. It is issued only after careful analysis of the elements such as the rate of unemployment, inflation and economic growth.

### **Lender of Last Resort**

As the central bank is the banker's bank, it provides loans and advances to the commercial banks operating under it in times of emergency. In the cases, central bank plays the role of lender of the last resort.

### **Representative of International Institutions**

A central bank acts as the representative of the country when it comes in contact of international institutions like IMF and World Bank. The central bank seeks guidelines of such institutions then it comes to establishing the economy of the country.

### **2.1.2 Meaning of Commercial Bank**

Commercial bank Act 2031BS of Nepal has defined that" A commercial Bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for cooper active, agriculture, industries for such specific purpose". (*Commercial Bank Act, 2031 BS*) "Commercial Banks deal with other people money. They have to find ways of keeping their liquid assets so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily reliable. The depositors must be made to understand the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the draw for cash properly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and bankers cannot offers to keep a large profession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such way that can have adequate profits without sacrificing liquidity". (*Radhaswamy and Vasudevan; 1978: 23*) "Commercial Banks means a Bank which operates currency, exchange transaction, accept deposits, provide deposits, provides loans and perform dealing relating to commerce and other than those Banks which have been specified for the cooperatives agriculture, industry of likely any other specific objectives". (*NRB Act 2031*) "There are five main types of control on commercial banks. Some controls are desired to protect bank customers, others to promote monetary policy. First, banks in many countries may not accept more than a certain amount of deposit in proportion to the capital of the banks. The main purpose of this regulation is to ensure that the banks rather than their customers incur any losses if the banks lend money rashly. Secondly, banks generally have to keep cash and liquid deposits. This also ensures a certain standard of safety for the people depositing money with banks. Third, commercial Banks are occasionally called upon to invest part of their deposits in government securities. Fourth banks are often forbidden to anyone borrower. They are also forbidden to lend any money to some kinds of borrowers, for example managers. Finally, the governments of most countries have a system of bank inspection". (*World Book Encyclopedia; 1966:62*) Commercial Banks primarily aim to collect the deposit from the public who has surplus funds. A bank accepts deposits in the form of saving, current and fixed deposits. Furthermore it provides loan to the needy person. Banks advances loan against the security to the customers. Advancing loan is also known as the function of the deposit mobilization because banks give loan to the people from the deposit that it collects from the public overdraft, cash credit, Direct loans, Discounting Bills of exchange etc are various methods of advancing loans. Agency service is another function

of commercial banks. It includes payment of subscription, insurance premium collection of cheques, bills, salaries, pension, dividends, interest etc. For the service, the banks charge the certain amount of money to the customers. The commercial banks also average the remit money from one place to another by means of cheques, draft, wire transfer etc.

Regarding general utility service, commercial Banks perform the following services:

- Safe keeping of valuables
- Assist in foreign trade
- Making venture capital loans
- Financial advising
- Security brokerage service
- Investment banking and merchant banking

Hence, we can conclude that commercial Banks are those banks which perform all kinds of banking functions like accepting deposits, advancing loans, credit creation and agency function. They provide short term loan, medium term loans and long term loans to different business house and trading companies. Moreover, they move as per the directive given by the central bank so that the public or the customers of the bank may not undergone on loss of their hard earned money. For this reason, the central bank administers the government's regulations affecting commercial banks.

### **2.1.3 Investment**

"Generally investment means to flow cash in different sectors with profit motive. But, in the broad sense, investment means to sacrifice current rupee in the present and certain for the future rupees, which comes later and is uncertain. According to William F., Sharpe, Cordon T. Alexander and Jeffery V. Barley" Investment in its broad sense means the sacrifice of current dollars for future dollars. Two different alternatives i.e. time and risks are generally involved. The sacrifice takes place in the present and its magnitude as generally uncertain". (*Sharpe, Alexander and Barly; 1998: 1*)

"The word investment brings forth vision of profit, risk, speculation and wealth". (*Cheney and Edward; 2000: 65*) "The investment objective is to increase systematically the individual wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk ". (*Cheney and Moses; 2000: 23*) "In investment, decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out that investment decision affects the firms' value. The firm's value will increase if investments are profitable and added to the shareholders

wealth. Thus investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholders fund maximization. An investment also will also be the shareholders wealth, if it yields benefits in excess of the minimum benefits as per the opportunity cost of capital ". (*Pandey; 1999: 407*) Investment is concerned over managing the surplus resources in such a way that will maximize the investor's wealth. Resources should be utilized in such a way that it provides benefits to the owner by increasing the total assets and simultaneous providing benefits to the suppliers of the funds by letting the third party uses such resources. However, the investment is the procedural task. It must follow definite process. This definitely begins from the formulation of proper investment policy. Generally, policy is the role of further plan actions i.e. purposed to adopt regarding a particular field of activities. Investment policy may be different according to the objectives and nature of the organization but all the investment must be balanced as of risk return characters and suggested to invest at liquidity, safety and profitable sectors. Investment promotes economic growth and contributes to nation's wealth. People deposit their surplus money in the bank and bank may lend those collected funds to the various business and companies. These firms in return may invest in new factories and equipment to increase their production. As a result, investment raises the nation's living standard. Now days most companies issues stocks and bonds to raise the capital needed for business expansion instead of borrowing from the banks. Similarly government also bonds o obtain funds to invest in the projects like construction of dams, roads, bridges and schools etc. all such investment by individual business as well as government involve a sacrifice of present value to an expected future benefits and income which is probably uncertain.

#### **2.1.4 Investment Policy of Bank**

A bank is a legal organization, which can do nothing alone. Banks established without the aim of gaining profit is central bank. Other banks are inspired with the objects of earning profit and helping the economic development and finally to take the social responsibilities. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goals. "Investment policy involves determining the investor's objectives and the amount of his or her investable wealth. Because there is a positive relationship between risk and return for sensible investment strategies. It is not an appropriate for investors to say that his or his objectives are 'to make a lot of money'. What is appropriate for a investors in this situation is to state that the objectives is to attempt to make a lot of money while recognizing that there is some chance that large loses may be incurred. Investment objectives should be stated in terms of both risk

and return". (*Jack Clark Francis; 2002:10*) "A study on investment policy of Nepal Bank Ltd. in comparison to other joint venture banks of Nepal" Has recommended that "the banks must utilize depositor's money as loans and advance to get success in competitive banking environment. The largest items of the bank in the assets side is loans and advance. Negligence in administering this asset could be the main cause of liquidity crisis in the bank and one of the main reasons of banks failure". (*Khadka; 1998:43*)

**Some Investment Policies and Principles are as follow:**

**Principle of Safety**

A bank should pay special emphasis on safety. If the investment is unsafe, it is not good for the bank. There is no doubt of loss whether it is little or great, if the bank has not invested in safe sector. The bank should think it with must sensitively.

**Principle of Profitability**

The objective of commercial banks is to earn profit. It should select the most profitable Investment area so that it can be able to maximize the shareholders wealth. The profit of the commercial banks depends on the investment rate, volume of loan provided, maturity period and nature of investment.

**Principle of Liquidity**

Liquidity means the ability of the banks to pay cash in exchange of deposit. Banks should not forget the principle of liquidity while it is following its investment policy. A bank should be able to return the deposit when demanded by the depositors. For this bank needs liquid cash. If they invest the whole deposit as loans and advances. They cannot give it at the time of demand by the depositors. So, the commercial banks should try to move liquidity and profit together.

**Principle of Diversification**

A bank should not keep its eggs in the same basket and should invest in various fields. So, the bank can reduce the risks. If the investment is in various sectors, it will be successful in keeping it in balance.

**Principle of Marketability**

A bank should study the market and evaluate the goods which are taken as security. There should not be investment by taking the securities of such goods which are not salable in the market.

**Principle of National Interest**

A bank should adopt the principle of National Interest. Banks should follow the rules and

regulation as well as policy, directions given by the Nepal Rastra Bank. The banks should make its investment, which is suitable to the national interest and carries benefits to the society.

### **Principle of Legality**

Commercial banks should follow the directions provided by the NRB for the investment. Illegal securities will bring out many problems for the investors. Through illegal investment is eneficial for the short term, t hampers the bank at last and the bank may be bankrupted.

### **2.2 Review of the Relevant Act and NRB Directives**

All the commercial banks have to confirm to the act, provisions specified in the commercial bank act 2031 and rules and regulation formulated to facilitate the smooth running of commercial bank. "In the absence of any bank in Nepal the economic progress of the country was being hampered and cause inconvenience to the people for the betterment of the country, this law is here by promulgated for the establishment of the bank and its operations. Nepal Bank Act 1964 Nepal. As mentioned in this act. Commercial Banks will help in banking business by opening its branches in the different parts of the country. Central Bank NRB has established a legal frame work by formulating various rules and regulation to mobilize or invest the deposit of the bank in different sectors of the different parts of the nation, to prevent them from the financial problems. These directives must have direct or indirect impact while making decisions. Those rules and regulation are discuss while are formulated by NRB n terms of investment and credit to priority sector, deprived sector other institution, single borrower limit, CCR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment. Commercial Bank is directly related to the fact that how much fund must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch and countries. But we discuss only those which are related to investment function of the commercial bank. The provision established by NRB in the form of prudential norms areas follows.

#### **1. Provision for Investment in Productive Sector**

Being a developing country, Nepal needs to develop its infrastructure and other primary productive sectors like agricultural, industrial etc. NRB has directed commercial banks to extent at least forty percent of its credit to productive sector.

#### **2. Provision for Investment in Priority Sector**

NRB has directed commercial banks to extent at least twelve percent of its total outstanding credit to priority sector.

### **3. Provision for Investment in Deprive Sector**

Commercial banks are required to disburse credit to the deprived sector at the following stipulated ratio:

### **4. Provision for Single Borrower Credit Limit**

With the objectives to lowering the risk of over concentration of bank loans to a few big borrowers and to increase the access of small and middle size borrower to the bank loans. NRB directed commercial banks to seat on upper limit on the amount loan financed to an individual firm, Company or group of companies. Disbursing loan and advances to borrower's expose banks to mainly the three kinds of risk i.e. credit risk, yield risk and liquidity risk. There are two ways to reduce such risk: 1st one is to diversify the investment as much as one can so that the failures of one sector may not hampered the bank and the second one is limit the maximum amount of loan that can be provided to one borrower or a group of related borrowers so that bankruptcy of one group does not affect much to the performance or survival of the bank. The following is the provision made by NRB with respect to the single borrower limit.

Similarly, NRB has graded six joint venture banks now as a prestigious class 'A' Bank that are NABIL, SCBL, NIBLK, HBL, NSBI and NSBL. These banks have been kept outside the preview of the single borrower credit limit. Likewise, in the case of consortium financing. Commercial banks are permitted to extend an addition 10% credit above the limit fixed by the NRB as before. Nepal oil corporation, Agricultural inputs corporation and Nepal Food corporation further imports of petrol, diesel, kerosene, fertilizer and foodstuffs have been removed from the restriction of single borrower limit.

#### **Regulation Relating to Investment in Shares and Securities by Commercial Bank**

Banks shall prepare written policy relating to investment in the shares and securities of other organized institutions. Such polices shall be implemented only under the approval of the board of Directors. There shall be no restriction to invest in the securities of His Majesty's Government and the securities issued by NRB.

Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such company and the cumulative amount of such investment in all the companies in which bank has financial interest shall be limited to 20% of the paid up capital of the bank. The total amount of investment shall be restricted to 30% of the paid up capital of the bank. Any amount of investment made in excess of 30% of the paid of capital of the bank, for the purpose of calculation of the capital fund shall be deducted from the core capital fund.

Reserve money grew by 24.6% in the review periods. The reserve money had increased by 15.1% in the corresponding period of the previous year. A substantial growth of NFA of monetary authority contributed to a higher growth of reserve money has been reflected in the currency in circulation and deposits of commercial banks and financial institutions with the NRB.

Banks shall 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. Where the shares and securities are not listed within one year period, provisioning equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve. The outstanding amount in such Reserve shall not be utilized for any other purpose till they said shares and securities of the organized instruments are listed. Banks shall not invest in any shares, securities and Hybrid capital instruments issued by any banks and financial institutions licensed by NRB. The private sector credit of commercial banks expanded by a lower rate in the review period compared to that of the previous year. In the review periods, credit to the private sector expanded by the 27% compared to a growth of 29% in the corresponding period of the previous year. Of the credit disbursed to the private sector, the growth of credit to production, construction, metal production, whole sale and retail business and service sectors remained lower in the review period compared to that of the previous year. However, growth of credit to the transaction equipment production and fittings and consumable sector remained higher in the review period.

#### **1.1.1 2.2.1 Review of NRB Directives**

The world has witnessed many financial crises and devastating consequences due to huge financial and economic losses that resulted from each episode. Every crisis was sudden in onset and their magnitude of losses was much larger than expected. If we go back to the history, then on 3rd march 1997; the Asian crisis began in the form of liquidity problem of two finance companies. Later this spread over to other financial intuition within the Thai financial system. Simultaneously, crisis began to cover Malaysian, Indonesian and South Korean financial statement and loomed in the form of Asian crisis. So this Asian crisis appealed the whole world for regular and timely supervision and assessment of financial system, its soundness and vulnerabilities. This event forced the regulatory authorities for the enforcement of prudential measures in order to avoid further crisis review and revision in prudential regulations such as capital adequacy ratio, asset classification. Provisioning for impaired assets, exposures limit and enforcement of international accounting standard etc

have now become common issue all over the world since the late 1990s.

Similarly, in our country too, commercial banks could not recognize the importance of the quality credit and banking sector failed to witness the expected developments. Subsequently, the banking sector faced the problem of bad debts, overdue loans, accrued interest, accumulation of non-banking assets and excess liquidity in the banking system. In addition to these expected happenings new challenger were added to the Nepalese banking sector due to the adverse development in the domestic economy resulting from deteriorating peace and security situation and continuous persistence of natural calamities inside the country on one hand and the global recession primarily caused by international terrorism on the other. Viewing the need of structural reform amidst these adverse implications, NRB issued directives to run commercial banks in a healthy competitive manner to ensure the sustainable development of the overall banking system.

The financial sector reform of Nepal was initiated in mid 1980s. Since then NRB has been playing pioneer role in regulation, supervision and monitoring of commercial banks by issuing directives. At present the number of guidelines issued by NRB to commercial bank reaches sixteen, which are as follows. The provision of minimum capital fund to be maintained by the commercial bank. The provision of loan classifications and loan loss provisioning on the credit. The provision relating to limit on credit exposure and facilities to a single borrower, group of related borrowers and single sector of the economy. The provision relating to accounting policy and the structure of financial statements to be followed by the commercial banks. Regulation relating to minimization of risk inherent in the activities of commercial banks.

- The provision of institutional good governance to be followed by commercial banks.
- Time frame for implementation of regulatory directives issued in connection with
- Inspection and supervision of commercial banks.
- Regulation relating to investment in shares and securities by commercial banks.
- The provision of submission of statistical data to the NRB. Banking management
- Division and inspection and supervision division.
- Regulation relating to sale and ownership transfer of promoters shares.
- Regulation relating to, stringent blacklisting procedure for loan defaulters.
- The provision relating to compulsory deposited amount of NRB.
- Regulation relating to developing the branch office of commercial banks.
- Provision relating to interest rates.

- Provision relating to collection of financial sources.
- Provision relating to consortium financing.

### **2.3 Review of Journal and Articles**

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

Shrestha, (1990) in the article entitled "*Commercial Banks Comparative Performance Evaluation*" concluded that joint venture banks are operationally more efficient than the commercial banks. The joint venture banks have achieved better performance by using sophisticated technology, skilled manpower and providing modern banking facilities where as commercial banks have been burdened by the government policy of rural branching and financing PES having no reimbursement capacity . Local commercial banks have a numbers of loopholes like absence of modern global balance sheets, absence of precise classification of loans and observe of people of development of computer networks. Moreover problems from socio-economic political system on one hand spectrum and that of issues and challenges from JVB commanding significant banking business on other spectrum.

Pradhan, (1996) has highlighted following problems of deposit mobilization in Nepal: Most of the Nepalese people do not go for saving in institution manner, due to the lack of good knowledge. They prefer their saving in the form cash or ornaments. Reluctance to deal with institutional system is due to lower level of understanding about financial organization process and so on.

Pyakuryal, (1987) in his article writes, "The present changing context of the economy calls for a sustained revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore, the task of utilization of resources is as much crucial as the mobilization. The under utilization of resource not only results in loss of income but also goes further to discourage the collection of deposits".

Kishi, (1996) in his article, concludes that "following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two governments controlled banks, Nepal Bank Ltd. and Rastriya Banijya Bank has also shown

an improvement of non-performing loans and is taking steps to adopt improved technology. However, higher economic growth with social justice bringing a significant benefit to the poor is yet to be activated as envisaged by the NG”.

#### **2.4 Review of Thesis**

Several thesis works have been conducted by various student regarding different aspects of commercial banks. They have importantly elaborated and addressed various aspects or activities of commercial banking such as financial performances, lending practices, investment policy, interest rate structure, resource mobilization, capital structure, etc. Some of them as to be relevant for the study „topics“ are presented below:

Khadka, (2000) conducted a study on "*A Study on the Investment Policy of NABIL Bank Ltd. in comparison to Other Joint Venture Banks of Nepal*" with the objective of:

- a. To evaluate the liquidity, assets management efficiency and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other joint venture Banks.
- b. To discuss fund mobilization and investment policy of NABIL Bank Ltd. in respect to its fee-based off-balance sheet transactions and fee-based balance sheet transactions in comparison to other JVBS.
- c. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and total deposits and net profit of NABIL Bank Ltd. in comparison to other JVBS.
- d. To find out the relationship between deposits and total investment, deposits and loan and advances, and net profit and outside assets of NABIL Bank Ltd. In comparison to other JVBS.

The study was conducted using secondary data. The research findings of the study are as follows:

- a. 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.
- b. NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBS.
- c. Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBS. The mean ratio of return on load 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.

- b. 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 (i.e.; Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.).

Shahi, (2001) conducted a study on "*Investment Policy of Commercial Banks in Nepal*" with the main objectives of:

- a. To evaluate the liquidity, assets management efficiency and the profitability and risk position of Nepal bank limited to the joint venture banks.
- b. To discuss fund mobilization and investment policy of Nepal bank limited in respect to its fee based off-balance sheet transaction and fund based on-balance sheet transaction in comparison to the joint venture banks.
- c. To find out the empirical relationship between various important variables i.e.; deposits, loan and advances, investment, net profit, etc. and compare them with the Joint Venture banks.
- d. To analyze the deposit utilization trend and its projection for next five years of the Nepal bank limited and compare it with that of Joint Venture banks.

The research was conducted mainly on the basis of the secondary data. The research findings of the study are as follows:

- a. The liquidity position of NBL is comparatively better than that of the JVs. Highly fluctuating liquidity position shows that the bank has not formulated any stable policy. It can also be conducted that NBL has more portions of current assets as loan and advances but less portion as investment on government securities.
- b. The mean ratio of loan and advances to total deposit of NBL is slightly lower than that of the JVBS. Likewise NBL's ratios seem to be more variable than that of the JVBS. The mean ratio of total investment to total deposit of NBL is lower than that of the JVBS. The mean ratio of investment on government securities to total working fund of NBL is slightly lower than that of the JVBS. The mean ratio of total off-balance sheet operation to loan and advances of NBL is found significantly lower than that of JVBS. So it was concluded that NBL is comparatively less successful in on –balance sheet as well as off-balance sheet operations than that of the JVBS. It hasn't followed any definite policy with regard to the management of its assets.
- c. Profitability position of NBL is comparatively not better than that of the JVBS. It

indicates that NBL must maintain its high profit margin in future.

- d. There is comparatively higher risk in NBL than that of the JVBs regarding various aspects of the banking function.
- e. From the analysis of different growth ratios it can be concluded that NBL has not been more successful to increase its sources of funds, i.e. deposits and mobilization of it. i.e., loan and advances and total investment. Similarly it seems to have failed to maintain high growth rate of profit in comparison to that of other JBBs.
- f. High portion of cash and bank balance in NBL shows its negligence and infancy in its best utilization. It has not considered the cost of fund and its opportunity costs. Higher percentage of loan ratios shows that NBL is weak in credit collection. There is absence of a sound credit collection policy. NBL has not followed innovative approach toward lending. Poor quality of loan due to lack of necessary skills of project appraisal, improper collateral evaluation, irregular supervision, etc. is a severe problem for the bank's success.

Bhandari, (2004) has conducted a study on “*Investment Policy of Commercial Banks with special reference to Nepal SBI Bank Ltd.*” with the objectives of:

- a. To evaluate the liquidity, asset management, efficiency, portfolio management and profitability position of the bank.
- b. To analyze adopted utilization and its relationship with total investment and net profit of the bank.
- c. To determine the growth rate of the bank in terms of deposit, loans, and advances, investment and probability of the bank.
- d. To determine the proportion of loan-loss provision to total loans and advances and to evaluate the non-performing assets position of the bank.
- e. To determine the proportion of the investment made by the bank in risky and risk-free assets and to evaluate the off-balance sheet operation of the bank.
- f. To suggest measures to improve the investment policy of the bank.

The research was conducted mainly on the basis of secondary data. The research findings of the study are summarized as follows:

- a. Liquidity position of the bank is good enough to meet the short-term obligation but shows the lack of additional fund management to income generating assets.
- b. Similarly the bank does not seem to have proper policy to increase the fee-based OBS transaction in comparison to loan and advances.

- c. Bank should careful of Non-performing loans and adopting the appropriate policies to solve the problem although bank has been able to reduce this NPA proportion significantly to total loan advances forthcoming year after 2001.
- d. Despite this Bank has been able to meet the NRB obligations it does not have accepted prioritized priority sector in loaning even it was in increasing trend.
- e. Because of decreasing profitability scenario over the year's accounts investment policy adopted by the bank is not appropriate and it does impact in the growing process negatively. Despite the substantial increment to the amount of loans & advances, profitability has not increased enough shows the lack of overall investment policy in income generating sectors.

Pandit, (2006) has conducted a research entitled "*Investment Policy Analysis of Joint Venture Bank*" with special references to NSBIL and EBL.

The objectives of the study are follows:

- a. To evaluate the liquidity management, assets management, efficiency, profitability position, risk position and investment practices of NSBIL, BOKL and EBL.
- b. To find out the relationship between deposit and total investment deposit and loan and total investments deposit and loan advances and net profit and outside assets.

In this study, major findings have been follows:

- a. NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL and BOKL has not been satisfactory.
- b. NSBL's loans and advance to total deposited ratio is lower than EBL and BOKL. It doesn't seem to follow any definite policy regarding the management of its assets.
- c. The profitability position of all the banks is not satisfactory the banks haven't adopted sound investment policy in utilizing their surplus funds.
- d. BOKL and EBL are exposed to high credit risk and capital risk.
- e. NSBIL and BOKL have not been successful to increase their sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit.
- f. There is significant relationship between deposits and total investment of BOKL and EBL but the same is not significant of NSBIL.

Joshi, (2007) conducted a study on "*Investment Policy of Commercial Banks in Nepal, a comparative study of Everest Bank Ltd. With NABIL bank Ltd. and Bank of Katmandu*" with the objectives of:

- a. To discuss fund mobilization and investment policy of EBL, NABIL and BOK Ltd.
- b. To evaluate the liquidity, efficiency and profitability and risk position.
- c. To evaluate the growth ratios of loan & advance, total Investment with other financial variable.
- d. To analyze the trend of deposit utilization towards total investment and loan & advances.
- e. To conduct hypothetical test to find whether is significant difference between the various important ratios of EBL, NABIL and BOKL.

In this study, major findings are as follows:

- a. The liquidity position of the EBL is comparatively better than NABIL and BOKL. EBL has the highest cash and bank balance to total deposits, cash and bank balance to total current assets ratios. NABIL has the lowest liquidity position than out of other two banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan and advances.
- b. From the analysis of assets management ratio on activity ratio, it can be concluded that EBL has comparatively or in between successful in compared to NABIL and BOKL. The total investment of EBL is in between in compared to other two banks.
- c. In the study, loan & advances to total deposit is higher in BOKL. But the coefficient of Variation is higher in EBL.
- d. In analysis of profitability, total investment earned to total outside assets of EBL is lowest at all. But overall analysis of profitability, EBL has average profitability ratio. EBL is average profitable in comparisons to other banks i.e. NABIL and BOKL. From the view point of risk ratio. EBL has higher capital risk ratio but average of credit risk ratio in compared of NABIL and BOKL.

## CHAPTER - III

# RESEARCH METHODOLOGY

Methodology refers together data and tools employing and using in its interpretation discussion this section under the heading namely Research design, population and sample, nature and sources of data and financial and statistical tools for analysis of data. It includes the various sequential steps to be adopted by a researcher defining problem in solving problems. Hence it is also regarded as the methods, process and steps. It helps the researcher to support the study is realistic term with sound empirical analysis.

In this chapter the various methods are discussed and presented in such a way that can be used for the analysis of collected data. Various four sections are shown, namely research design, population and sample, source and data collection techniques and finally analytical tools are used in study.

### **3.1 Research Design**

Research design is the arrangement of condition for collection and analysis of data in a manner that aims to relevance to the research with economy in procedure.

Research design is the plan, structure and strategy and investigation conceived so as to obtain answer to research question and control variance (*Wolf and Pant; 1975:43*).

A well settled research design is necessary to fulfill the objectives of the study. It means definite procedure and technique that guide to study and propound ways for research viability. This study is made to evaluate the impact of NRB guidelines to the commercial banks. It follows the historical and analytical research design.

The research is historical as it has used the past data, description as the data has been described for their change observed under the various aspect the data has been analyzed with the use of various tables and figures. It has utilized path the qualitative and quantitative data as the study has been made to evaluate the impact of NRB guidelines.

### **3.2 Population and Sample**

It means choosing number of population from among available set. These are altogether 32 commercial banks operating all over Nepal up to July, 2012. For this study, one commercial bank is taken as the sample i.e. NIBL. The impact of directives issued by NRB investment policy procedure of the bank is studied. Hence, 32 commercial banks are regarded as population and one commercial bank is taken as sample for the study because the study has been made only by few researchers. As per to collect accurate and total information to carry out these thesis effectively and efficiency.

### **3.3 Source of Data and Data Collection Techniques**

Source refers to point from which data are collection. The data, used to this study are secondary of nature. The data are collected from the financial of commercial banks from annual reports, various websites, magazines sounds, newspaper; directives of NRB, annual report of NRB etc are also regarded as the important source.

### **3.4 Data Analysis**

The study should be analytical. Various financial and statistical tools are used to execute the analysis.

#### **3.4.1 Financial Tools**

Financial tools are used to evaluate the financial condition and performance of the companies, various ratios are used for the study. An arithmetical relationship between two figures is known as ratio. It is computed by dividing one items of relationship with the other. Ratio analysis is important technique of interpretation and analysis of financial statement through mathematical expression to achieve financial performance of a company. It may be defined as the mathematical expression of the relationship between two accounting figures. Hence, ratio analysis can be defined as the analysis of financial statement with the help of ratios.

As we know there is various type of ratio. We have grouped these ratios into five types i.e. Liquidity, Activity, Profitability, Risk and Growth ratios. None of single ratio gives us accurate information about financial condition and performance of a firm. Hence, we are analyzing a group of ratios to make reasonable judgment. Following ratios are calculated from the calculated data.

##### **3.4.1.1 Liquidity Ratios**

The ability of a firm to meet its short term, obligation is known as liquidity. It reflects the short term financial strength of business, current and quick ratios are calculated for this purpose. Current ratio shows the relationship between current assets and current liabilities where as quick ratio shows the relationship between quick assets and current liabilities. Quick ratio can be obtained by deducting the stock and prepaid from current assets.

Under this, following ratios are calculated:

- NRB Balance to Total Deposit
- NRB Balance to Current and Saving Deposit
- NRB Balance to Fixed Deposit
- Total Liquidity to Total Deposit

### **3.4.1.2 Activity Ratios**

It is also known as resource management ratio. It shows the relationship between sales and resources. Thus, it reflects the degree of effectiveness in the use of resource or funds by a firm. Following ratios are calculated:

- Credit to Total Deposit
- Investment to Total Deposit
- Credit and Investment to Total Deposit
- Term Deposit to Total Deposit
- Credit to Government Enterprises to Total Credit
- Credit to Private Firm to Total Credit
- Loan Loss Ratio

### **3.4.1.3 Capital Adequacy Ratios**

Capital is the wealth that a bank employed for the production. Banks with the high capital fund and high capital adequacy ratios are said to be strong because even in the deserted situation. They will be in a position of relation money of deposition. The certain long-term projects financing, preference is placed on capital fund to total deposit. The purpose of keeping adequate capital is to predict the interest of the deposition and creditors by making bank keep risk-free assets and by increasing that capital. Following ratios are calculated:

- Capital to Total Deposit
- Capital to Total Credit
- Capital to Total Assets

### **3.4.1.4 Profitability Ratios**

Profit maximization is the objective of each and every business concern. A profitability ratio is related to profit. It shows the overall efficiency of the business concerns. The earning capability of business is measured by profitability ratio. Following ratios are calculated:

- Net Profit to Total Working Fund Ratio
- Net Profit to Loan and Advance
- Net Profit to Total Credit
- Interest Earned on Total Outside Assets

### **3.4.1.5 Risk Ratios**

There is always risk in the business. Risk ratio is very essential element. Risk ratio measures the risk associated with the banking variables. Banks arises capital, accepts deposit and finally grants the loan. These entire things come along with the risk. A bank must consider

the risk associated with it. Higher the ratio, higher will be profit and vice versa. The following ratios are calculated:

- Credit Risk Ratio
- Interest Risk Ratio
- Optional Risk Ratio

### 3.4.1.6 Growth Ratios

Growth ratios always related to the fund mobilization and investment management of commercial banks. It represents, how well the commercial bank maintains the economic and financial position. Under this topic, following ratios are analyzed:

- Growth Ratio to Total Deposit
- Growth Ratio of Loan and Advances
- Growth ratio of Total Investment
- Growth Ratio of Net Profit

### 3.4.2 Statistical Tools

Following statistical tools are used to measure efficiency and effectiveness of the banks.

#### 3.4.2.1 Coefficient and Correlation

In profitability theory and statistics, correlation indicates the strength and direction of a linear relationship between two random variables. In general, statistical usage, correlation and co-relation refer to the departure of two variables from independent. In this broad sense these are several coefficient, measuring the degree of correlation, adopted to the nature of data. A no. of different coefficient is used for different situation.

The correlation coefficient  $P_{xy}$  between two random variables X and Y with expected value

$\mu_x$  X and  
 $\mu_y$  Y and standard deviation

$\sigma_x$  and  $\sigma_y$  defined as:

$$P_{xy} = \frac{\text{cov}(x,y)}{\sigma_x \sigma_y} = \frac{\sum(x-\mu_x)(y-\mu_y)}{\sigma_x \sigma_y} / =$$

Where  $\Sigma$  is the expected value operator and cov means co variance. Since,  $\mu_x = \Sigma(x)$ ,

$\Sigma x^2 = \Sigma(x^2) - \Sigma^2(x)$  and likewise for y. We may also write as,

$$P_{xy} = \frac{\Sigma(xy) - \Sigma(x)\Sigma(y)}{\sqrt{\Sigma(x^2) - \Sigma^2(x)} \sqrt{\Sigma(y^2) - \Sigma^2(y)}}$$

$$\text{Probable error or P.E (v)} = 0.6745 \times \frac{1-r^2}{N}$$

In our study, coefficient of correlation has been used to find out the relationship between the following variables:

- Correlation analysis between deposit and loans and advance
- Correlation analysis between deposit and investment
- Correlation analysis between outside assets and net profit

### 3.4.2.2 Trend Analysis

The term "Trend Analysis" refers to the concept of collecting information and attempting to spot a problem, or trend, in the information. In some field of study, the term trend analysis has more formally defined meaning.

Although trend analysis is often used to predict future events, it could be used to estimate uncertain events in the past, such as how many ancient king probably ruled between two dater, used on data such as the averages year which other known king reigned.

Trend analysis is an analysis of firm's financial ratio overtime used to estimate the like hood of improvement of deterioration in its financial condition. It is important to analyze trend in ratios as well as their absolute level, for trend give clues as to whether a firm's financial condition is likely to improve or to deteriorate. In our study the trend of following are studied.

- Trend analysis Total deposit
- Trend analysis total loans and advance
- Trend analysis of total investment
- Trend analysis of total net profit

Let, the trend line between the dependent variable g and independent variable x i.e. time be represented by:

$$y = a + bx$$

Where

a= y intercept or value of y when x

b=slope of trend line or amount of change that comes in y for a unit change in x

### 3.4.2.3 Hypothesis

A hypothesis (from Greek) consists either have a suggested explanation for a phenomenon or of a reasoned proposal suggesting a possible correlation between multiple phenomena. The scientific method requires that one can test a scientific hypothesis. Even though the words "hypothesis" and "theory" are often used synonymously in common and informal usage, a scientific hypothesis is not the same as a scientific theory. In farming a hypothesis, the investigator must not currently know the outcome, of a potentially satisfying test or that it

remains reasonably under continuing investigation. Only in such cases does the experiment, test or study potentially increase the probability of showing the truth of a hypothesis.

Here, test of hypothesis; tool is used to measure the significance of relation between two variables of banks. We are using T-test for this test of hypothesis. Following test of hypothesis will be done:

- Test of hypothesis on loan and advances to deposits
- Test of hypothesis on investment to deposits
- Test of hypothesis on return on loan and advance ratio
- Test of hypothesis interest earned to total outside assets

## CHAPTER - IV

# DATA PRESENTATION AND ANALYSIS

This chapter contains role of NRB along with the secondary data to calculate financial ratios. The impact and implementation of directives of NRB to commercial banks are studied through questionnaire, interview, interaction and direct observation.

NRB has made changes in its directives such as accounting policies, risk minimization and corporate governance policies. Commercial banks are also considered as the source of national income because NRB is playing a very crucial role for the development of commercial banks i.e. directly relates with economic growth of the nation.

The collected data have analyzed and presented in the form of table. For this purpose analysis and interpretation are categories into following headings:

### 4.1 Financial Analysis

Various financial ratios are calculated and allayed which are related to the study. Ratios related to the fund mobilization and investment are prepared and shown as per our report. It has tried to compare the ratios with the total commercial banks published in the NRB statistical report. The important ratios studied for this purpose are given below:

#### 4.1.1 Liquidity Ratio

Liquidity ratio reflects the short term financial strength of the business. These ratios are used to know the capacity of the concern to repay its short term liability. The ability of the firm to meet its current obligation is studied under these ratios. Commercial banks must maintain it's satisfactory liquidity position to satisfy the customer for immediate need without impact on long run profit which provides the channel to measure of liquidity.

#### **Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)**

Cash and bank balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposit measure the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio, the greater will the ability to meet sudden demand of deposits, but every high ratio is not desirable since bank has to pay interest on deposits. This will also maximum the cost of fund to the bank.

We have,

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

Cash and bank balance to total deposit ratio of NIBL from the fiscal year 2007/08 to 2011/12 are given in below table no.

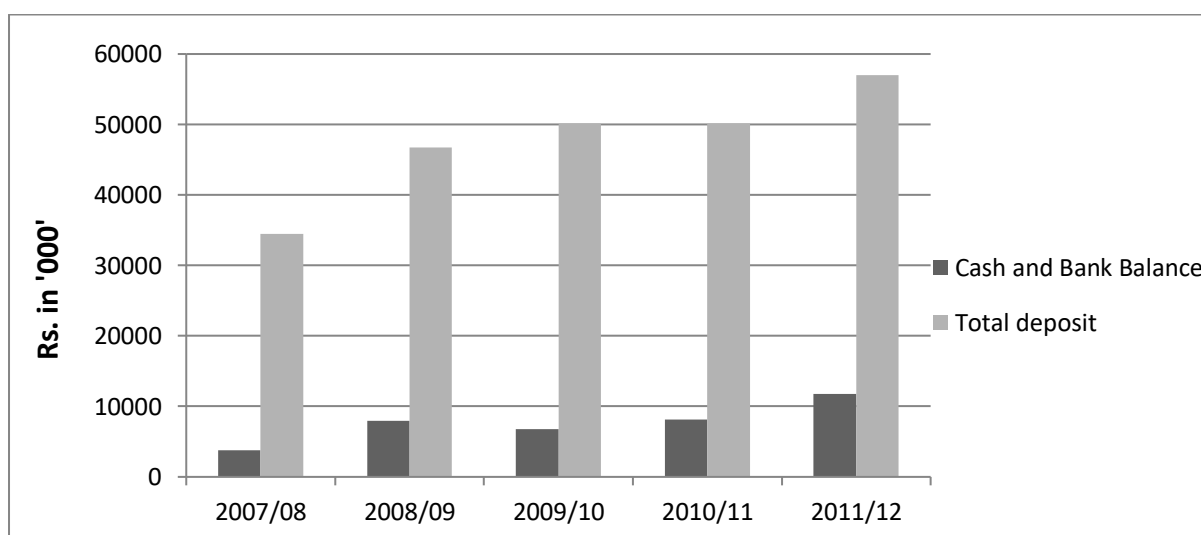
**Table 4.1**  
**Cash and Bank Balance to Total Deposit**

(NPR in Millions)

Year	Cash and Bank Balance	Total Deposit	Ratio%	%change in yearly
2007/08	3754	34452	10.896	-
2008/09	7918	46698	16.955	55.64
2009/10	6816	50094	13.606	19.75
2010/11	8140	50138	16.235	19.32
2011/12	11803	57010	20.703	-27.52
Mean			15.679	

Above table 4.1 depicts the total cash and bank balance to total deposit. The ratios are in fluctuating trends as 10.89% in year 2007/08 similarly 16.95%, 13.60, 16.24, 20.70 in FY 2008/09, 2009/10, 2010/11, 2011/12. The ratio % is decreasing trend. The mean ratio is 15.68%. The ratio is higher in year 2011/12 and lower in the year 2007/08. Similarly, growth rate increased to 55.64 in the year 2008/09 and change in yearly % is fluctuating trend.

**Figure 4.1**  
**Cash and Bank Balance to Total Deposit**



#### **Cash and Bank Balance to Current Asset Ratio**

This ratio shows the banks liquidity capacity on the basis of cash and bank balance that is the most liquidity asset. Higher ratio indicates the bank's ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance to current assets ratio is such a manner that it should have the adequate cash for the customers demand against deposit when

required and less interest is required to be paid against the cash deposit.

We have,

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

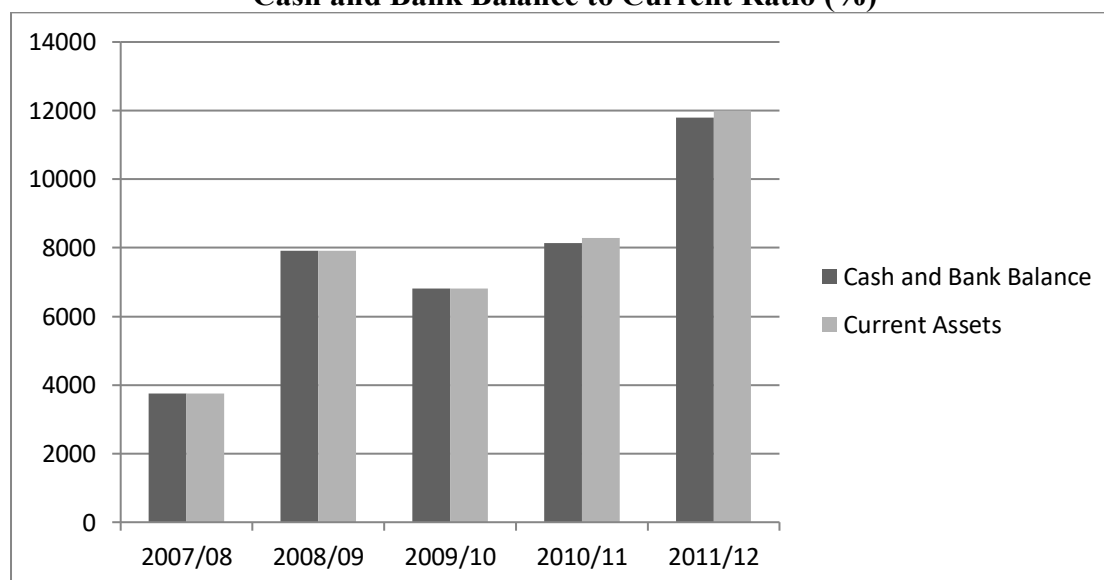
The table no. 4.1 shows the cash and bank balance to current assets ratio of NIBL from the fiscal year 2007/08 to 2011/12.

**Table 4.2**  
**Cash and Bank Balance to Current Ratio (%)**

Year	Cash and Bank Balance	Current Assets	Ratio%	%change in yearly
2007/08	3754	3754	100	-
2008/09	7918	7918	100	0
2009/10	6816	6815	100.01	0.01
2010/11	8140	8289	98.20	1.80
2011/12	11803	12009	98.28	0.08
	Mean		99.30	

In the table 4.2, the ratio are in fluctuating trend, the mean ratio of cash and bank balance to current asset ratio is 99.30%. The ratio of cash and bank balance to current assets is higher in FY 2009/10 and lower ratio in FY 2010/11. In the FY 2010/11 the percentage change is highest than other FY year and % change in yearly is fluctuating trend.

**Figure 4.2**  
**Cash and Bank Balance to Current Ratio (%)**



### **Investment on Government Securities to current Assets Ratio**

The commercial banks are interested to invest their collected funds in various government securities issued by government. The government securities are the safest place to make investment. But the government securities are not so much liquid as cash and bank balance. They can be easily sold in the market or they can be convert into cash in other ways. The

main purpose of this ratio is to examine that portion of commercial Banks current assets that is invested on different Govt. securities.

We have,

$$\text{Investment of Government Securities to current Assets Ratio} = \frac{\text{Investment on GS}}{\text{Current Assets}}$$

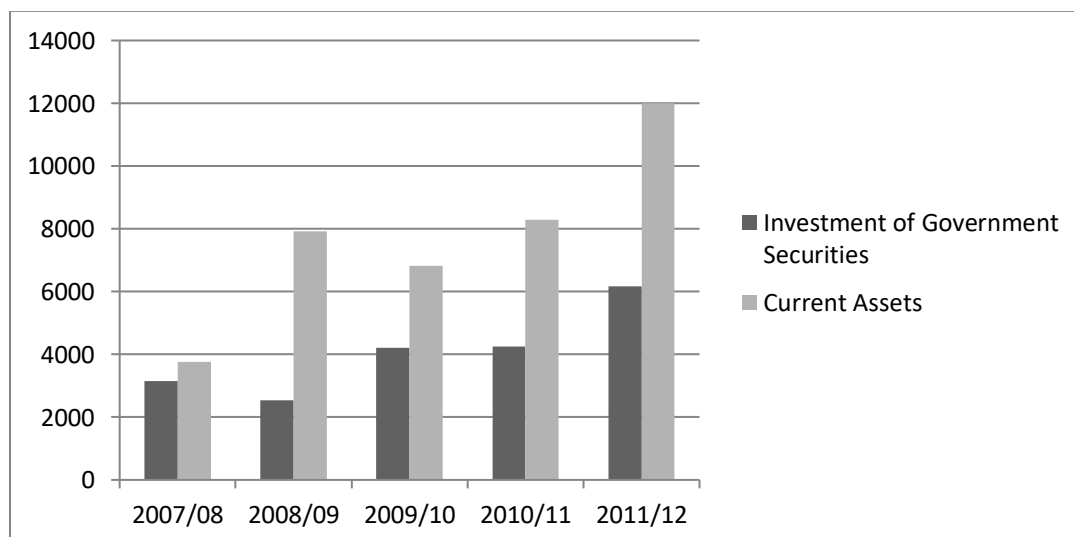
The table no. 3 show the ratio of investment on Govt. Securities to current assets for the fiscal years form 2007/08 to 2011/12.

**Table 4.3**  
**Investment of Government Securities to Current assets**

(NPR in Millions)				
Year	Investment of Government Securities	Current Assets	Ratio%	%change in yearly
2007/08	3155	3754	84.04	-
2008/09	2531	7918	31.97	-61.96
2009/10	4202	6815	61.66	92.86
2010/11	4245	8289	51.21	-16.95
2011/12	6168	12009	51.36	0.29
	Mean		56.05	

The above table 4.3 shows that NIBL have made higher investment in government securities in year 2011/12 i.e. 51.36 of current assets. In the five year study NIBL had made lower investment in the year 2008/09 i.e. 31.97 only of the current assets % change in yearly in FY 2009/10 is highest. Again, in FY 2010/11 is decrease to -16.95 in the base year% change in yearly is in negative trend.

**Figure 4.3**  
**Investment of Government Securities to Current assets**



## Loan and Advance to Current Asset Ratio (%)

Loan and advance are also include in current assets of commercial banks because generally it provides short term loan, advances, overdraft, cash credit, local and foreign bill purchase and discounted. To make a high profit mobilization its fund in the best way, a commercial bank should be invested as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those utilized deposits funds and may lose some earning, but high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its load and advances in appropriate level to find out position of current asset, which is granted as loan and advances.

We have,

$$\text{Loan and Advances to Current Asset Ratio (\%)} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

The table below shows the ratio of loan and advance to current assets of NIBL for five years from 2007/08 to 2011/12.

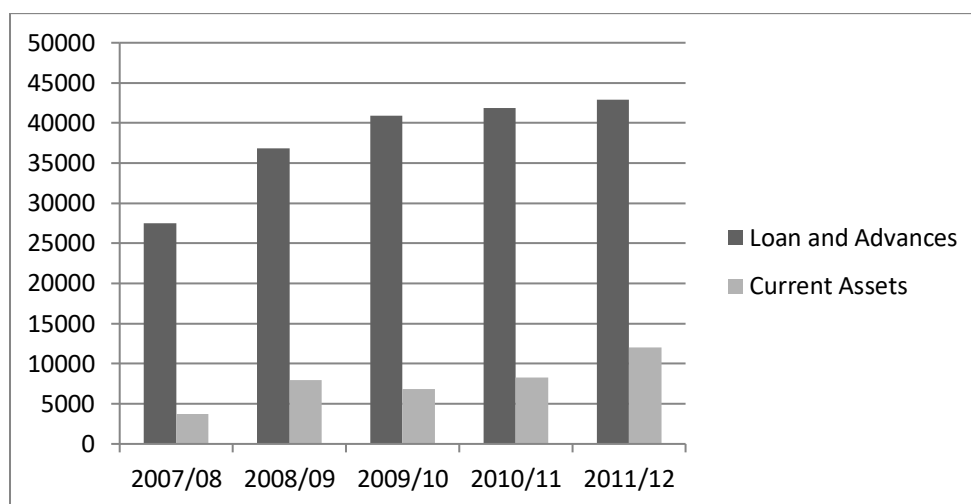
**Table 4.4**  
**Loan and Advances to Current assets Ratio**

(NPR in Millions)

Year	Loan and Advances	Current Assets	Ratio%	%change in yearly
2007/08	27529	3754	7.33	-
2008/09	36827	7918	4.65	-36.56
2009/10	40948	6815	6.01	29.25
2010/11	41887	8289	5.05	-15.97
2011/12	42906	12009	3.57	-29.31
	Mean		5.32	

The above table 4.4 shows the mean ratio of loan and advance to current assets is 5.32%. During the five year study NIBL have recorded higher ratio of 7.33% in FY 2007/08 and lower ratio in 3.57% in FY 2011/12 which is less than mean value and FY % change in yearly is negative. The % change in yearly 29.25 which is highest % change in FY 2009/10. This shows loan and advance to current asset ratio of NIBL are in increasing and decreasing trend. In other words, It can be said that NIBL has followed the fluctuating trend in loan and advance to current asset ratio.

**Figure 4.4**  
**Loan and Advances to Current assets Ratio**



#### 4.1.2 Assets Management Ratio (Activity Ratio)

Asset management ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. A commercial bank must manage its asset properly. So as to earn high profit, the following ration reveals how the NIBL has managed its resources efficiently.

#### Total investment to Total Deposit Ratio

A commercial bank mobilizes its collected deposits by investing its fund in different securities by Government and other financial or non financial institutions. This ratio measure the extent to which the bank are able to mobilize their deposits on investment in various securities. A high ratio indicates the success in mobilizing deposit in securities and vice-versa.

We have,

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

The table below investment to total deposit ratio for fiscal year from 2007/08/to2011/012

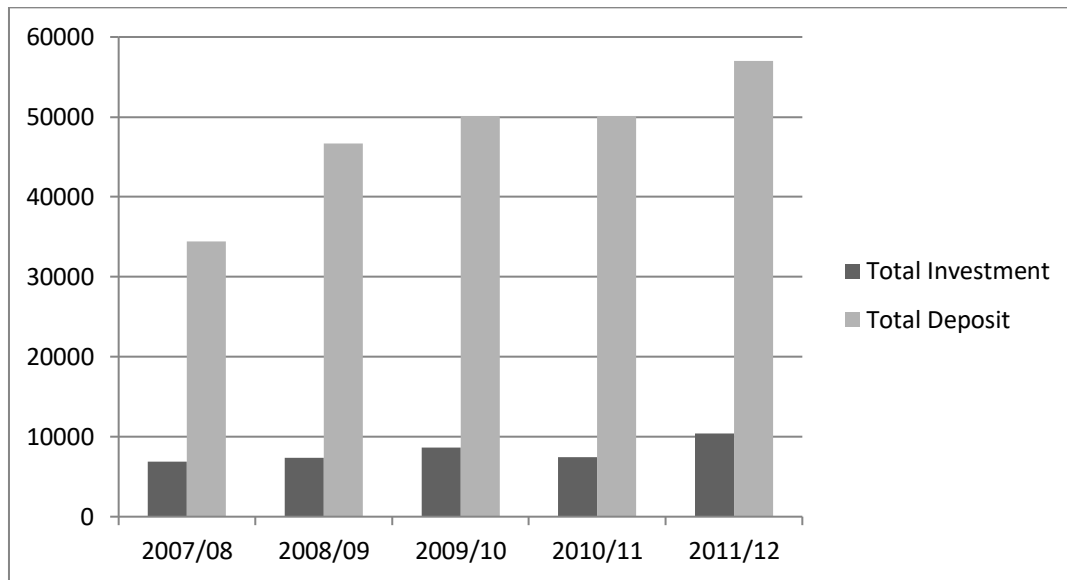
**Table 4.5**  
**Total Investment to Total Deposit Ratio**

(NPR in Millions)				
Year	Total Investment	Total Deposit	Ratio%	%change in yearly
2007/08	6874	34452	0.20	-
2008/09	7399	46698	0.16	-20
2009/10	8638	50094	0.17	6.25
2010/11	7423	50138	0.15	-11.76
2011/12	10438	57010	0.18	20

	Mean		0.172	
--	------	--	-------	--

In the above table 4.5 shows that total investment and total deposit of NIBL. The higher ratio of 0.20% is recorded in the FY 2007/08. Again in the FY 2010/11 the ratio is lower i.e. 0.15 which is less than mean ratio. The mean ration is 0.172%. Yearly change in % decreased by 20%. But in FY 2009/10 change in % or growth rate increase i.e. (6.25%). But again the FY 2010/11 the growth rate decreased by 11.76% and in next FY 2011/12 growth ratio is increased by 20%. This reveals that total investment of NIBL has maintained the fluctuating trend in respect of total deposit. NIBL has been able to utilize the total deposit as investment.

**Figure 4.5**  
**Total Investment to Total Deposit Ratio**



**Loan and Advances to Total Working Fund Ratio**

Working fund plays very important role in income generation through its funds mobilization in the form of loan and advances. Commercial bank must be very careful in mobilizing in total assets. As loan and advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of resources loan and advances and vice versa.

We have,

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

The table below is the five year ratio of loan and advance to total \_\_\_\_\_

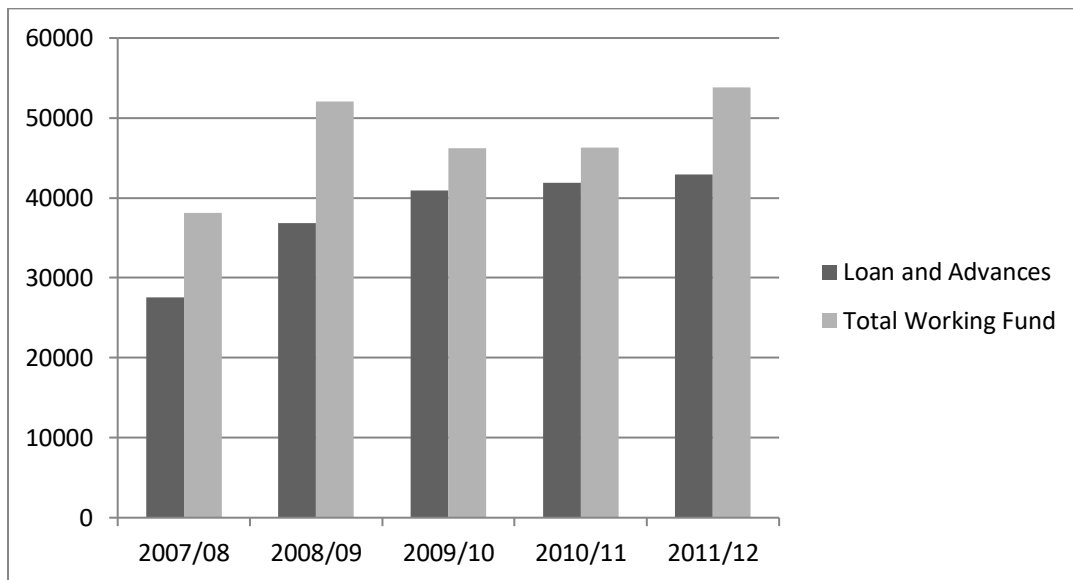
**Table 4.6**  
**Loan and Advance to Total Working Fund**

(NPR in Millions)

Year	Loan and Advances	Total Working Fund	Ratio%	%change in yearly
2007/08	27529	38104	72.25	
2008/09	36827	52084	70.71	-2.13
2009/10	40948	46212	88.61	25.32
2010/11	41887	46261	90.54	2.18
2011/12	42906	53835	79.70	-11.98
	Mean		80.36	

The above table 4.6 exhibits the increasing and decreasing trend. The mean ratio of the loan and advances to total working fund is 80.36 in the five year study. NIBL have recorded higher ratio of 90.54 in the FY 2010/11 and lower ratio is 70.71 in the FY 2008/09. In FY 2008/09 ratio decrease to 70.71%. The growth rate is higher in the FY 2009/10 i.e. 25.32%. In the FY 2008/09 and 2011/12 the growth ratio is negative. The growth ratio trend is also fluctuating. This show the NIBL has recorded the fluctuating trend of loan and advances in respect of total working fund. This too exhibits that NIBL has been utilize approx 50% of the working as loan and advances.

**Figure 4.6**  
**Loan and Advance to Total Working Fund**



**Investment on Government Securities to Total Working Fund Ratio**

Bank should diversify the risk, so that bank should not invest it's all deposit in loan and advances and other credit. From the liquidity and security point of view bank, a government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its income. A high ratio indicates better mobilizing of funds as invest on Government securities and vice versa.

We have,

Investment on Government Securities to Total Working Fund Ratio=

$$\frac{\text{Investment in Government security}}{\text{Total Working Fund}}$$

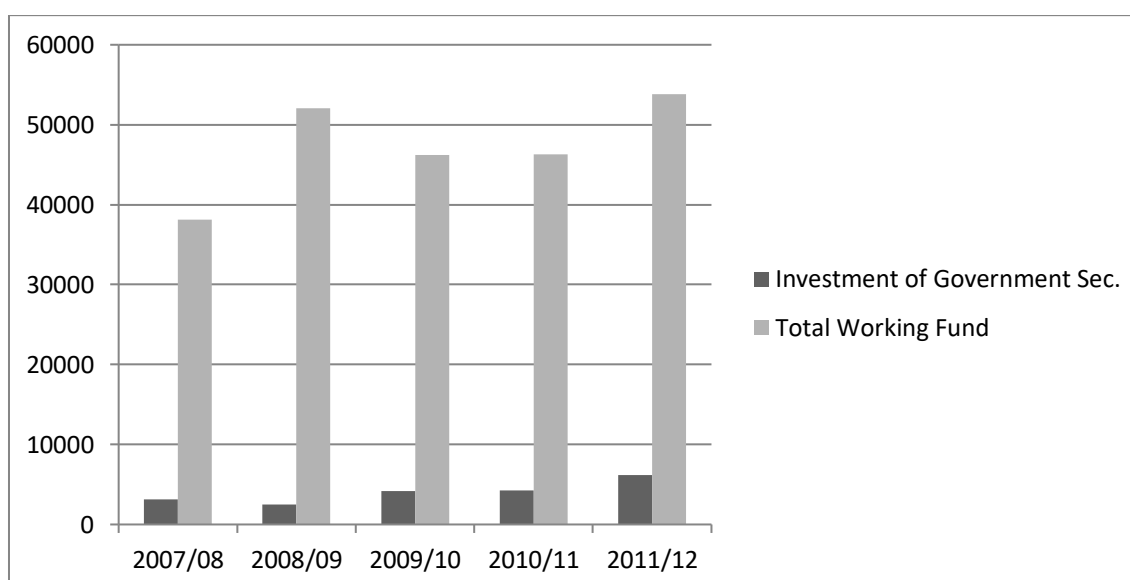
The table below is the ratio if investment on government securities to total working fund for five years from 2007/08 to 2011/12

**Table 4.7**  
**Investment of Government Securities to Total Working Fund**

(NPR in Millions)				
Year	Investment of Government Sec.	Total Working Fund	Ratio%	%change in yearly
2007/08	3155	38104	8.28	
2008/09	2531	52084	4.86	-41.31
2009/10	4202	46212	9.09	87.12
2010/11	4245	46261	9.18	0.92
2011/12	6168	53835	11.46	24.86
	Mean		8.57	

The above table No. 4.7 reveals the increasing decreasing trend. In the five year study, the higher ratio is recorded in the FY 2011/12 i.e. 11.46% and lower of 4.86 in the FY 2008/09 which is less than mean ratio. The mean ratio of investment in government securities to total working fund is 8.57%. Maximum growth in investment in government securities is 87.12 in the FY 2009/2010. In the FY 2010/11 and 2011/12, the yearly change in % is 0.92 and 24.86% respectively. In base year, the change in % or growth rate of ratio is negative i.e. – 41.31. This clearly shows that ratio of it has fluctuating trend. NIBL has only limited percentage of total working fund in government securities.

**Figure 4.7**  
**Investment of Government Securities to Total Working Fund**



#### **Investment on share and Debentures to Total Working Fund Ratio**

Total investment has been down into two part i.e. investment on shares and debentures. Now a day, a commercial bank is interested to invest its fund not only on government securities but also shares and debentures of other different types of companies. Most of the commercial

banks in Nepal have purchased shares of regional development banks. But some of these have purchased the shares of other companies too.

Investment on shares and debenture to total working fund ratio reflect the extent on which the banks are successful to mobilize their total assets on purchase of shares of shares and debentures of other companies to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debenture out of total working fund and vice-versa.

We have,

Investment on Share Debentures to Total Working Fund Ratio=

$$\frac{\text{Investment on share debentures}}{\text{Total Working FUnd}}$$

The table below is the ratio if investment in shares and Debentures to Total working fund from 2007/08 to 2011/12

**Table 4.8**

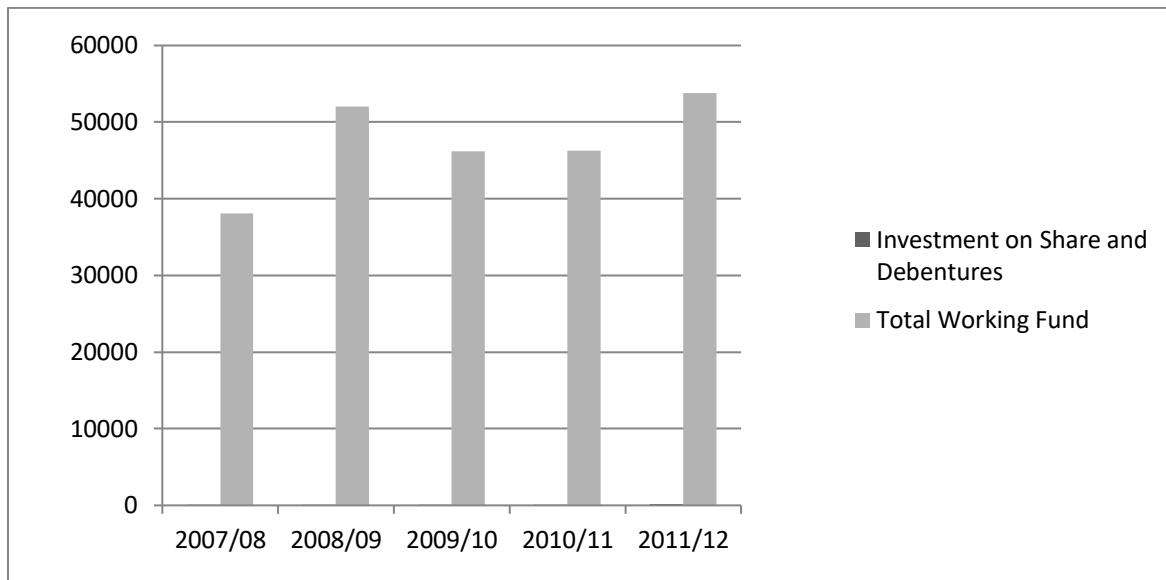
**Investment on Share and Debentures to Total Working Funds Ratio (%)**

(NPR in Millions)

Year	Investment on Share and Debentures	Total Working Fund	Ratio%	%change in yearly
2007/08	59	38104	0.15	
2008/09	64	52084	0.12	-20.64
2009/10	66	46212	0.14	16.23
2010/11	72	46261	0.16	8.98
2011/12	174	53835	0.32	107.67
	Mean		0.18	

The above table No. 4.8 clearly shows that ratios of investment in share and debenture to total working fund have fluctuating trend. In the FY 2011/12 it has maintained the higher ratio of 0.32% and lower ratio is 0.12% in FY 2008/09 which is less than mean ratio. The change in % or growth rate of ratio increased to maximum of 107.67 in the FY 2011/12. In the FY 2008/09 the % change in yearly is negative. NIBL has only limited fund in share and debenture with respect to total working fund.

**Figure 4.8**  
**Investment on Share and Debentures to Total Working Funds Ratio (%)**



### **Loan Loss Ratio**

The ratio of Loan loss provision to total loan and advance describes the quality of assets that the commercial banks are holding loan loss provision is the summation of provision made against all types of loans as per the NRB direction. The NRB directives direct to make the provision of 1%, 25%, 50% and 100% for good loans. Sub standard loans, doubtful loans and bad loans respectively. Loan loss provision, in fact is the cushion against future contingency created by the default of the borrowers. This loan loss provision occupies the larger shares in the total provision presented in the profit and loss provision occupies the larger shares in the total provision presented in the profit and loss a/c and definitely decrease the profit of the bank. The more of the loan loss provision, suggest two definite things more of total loan and advance or more of bad loan. Since, according to NRB directives, 1% provision is to provide for all good loans too. It does acquire a huge portion of the total loan loss provision is to be provided for all good loans too. It does acquire a huge portion of the total loan loss provision. The lower ratio signifies the good quality of assets in the total volume of loan and advances. Similarly the higher rations signifies relative more risky assets the volume of loans and advance and also possibility of increment of nonperforming loan in future.

We have,

$$\text{Loan loss Ratio} = \frac{\text{Loan Loss Provision}}{\text{Loan and Advance}}$$

The table below shows the loan loss ratio of NIBL for five year from 2007/08 to 2011/12.

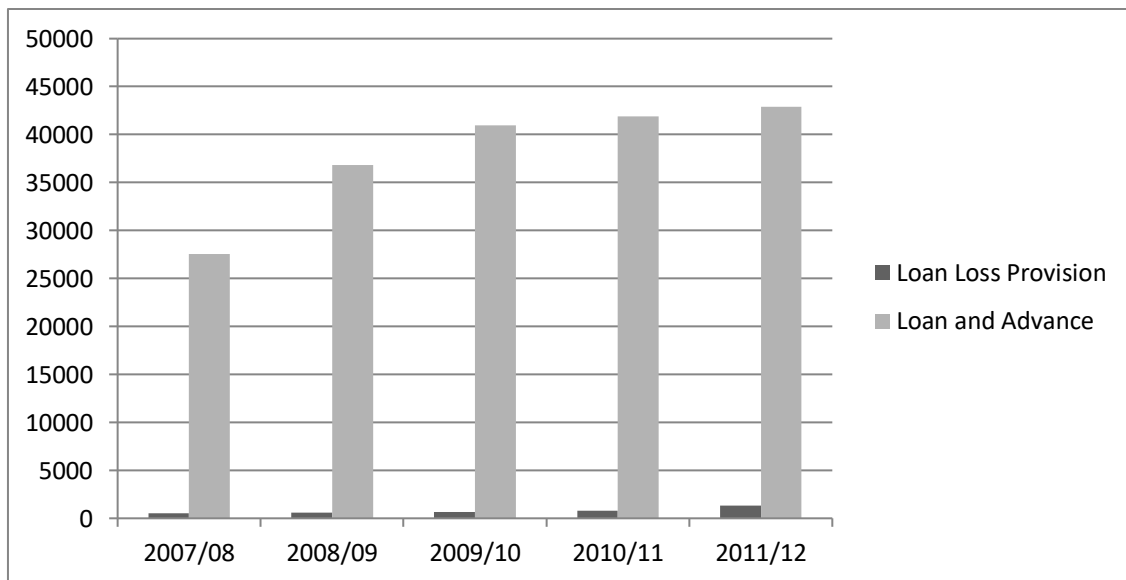
**Table 4.9**  
**Loan Loss Ratio**

(NPR in Millions)

Year	Loan Loss Provision	Loan and Advance	Ratio%	%change in yearly
2007/08	532	27529	0.019	-
2008/09	586	36827	0.016	-15.79
2009/10	630	40948	0.015	-6.25
2010/11	792	41887	0.019	26.67
2011/12	1296	42906	0.03	57.89
	Mean		0.0198	

The above table No. 4.9 shows the loan loss provision of NIBL has fluctuating trend. The mean ratio is 0.0198%. In the FY 2011/12 higher ratio of 0.03% and lower ratio of 0.015% in FY 2009/10. The loan loss provision ratio increased by 26.67% in five year study which is the higher ratio. Lower loan provision represents better performance of the bank. In this regards, NIBL is not uniform and less stable. The performance of NIBL in terms of recovery of loan is not satisfactory and effort should be made for timely recovery of loan.

**Figure 4.9**  
**Loan Loss Ratio**



### Non Performing Loan

Non-Performing Loan consists of loans and advances except good loans. It is that part of loan and advance that should be looked upon carefully for the timely recollection of the repayment. According to NRB directives, pass loan, restructure loan, sub-standard, doubtful and bad loans are categorized under non-performing loans. Non-performing loans are in fact is very crucial problems of banks. They require extra efforts for collection of repayment. They also create large amount of loan loss provision according to NRB directive.

The table below shows the non performing loan of NIBL for five year from 2007/08 to 2011/12

**Table 4.10**  
**Non-Performing Loan**

(NPR in Millions)

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Total loan loss provision	532	586	630	792	1269	761.8
1. Pass loan	275	381	421	416	416	381.8
2. Restructure	5	5	3	-	-	2.6
3. Substandard	15	3	14	5	160	39.4
4. Doubtful	10	6	5	2	90	22.6
5. Loss	227	191	187	369	603	315.4

### 4.1.3 Profitability Ratio

Profitability Ratio is very helpful to measure the overall efficiency of operation of financial institutions. Profit is the indicator of efficient of a bank. The banks acquire profit by providing different services to its customers of by making investment of different kinds. Sufficient profit is must to have good liquidity in need of development fund, overcome the future contingencies and need fixed internal obligation for a bank. Profitability ratios measure the efficiency of bank. Higher the profit ratio, the higher will be the efficiency of the bank.

### Return on Total Working Fund Ratio

It measure the profit earning capacity by utilizing available resources i.e. total assets return will be higher if the banks working fund is well managed and are efficiently utilized, minimization of taxes within the legal framework will also improve the return.

We have

$$\text{Return on Total working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

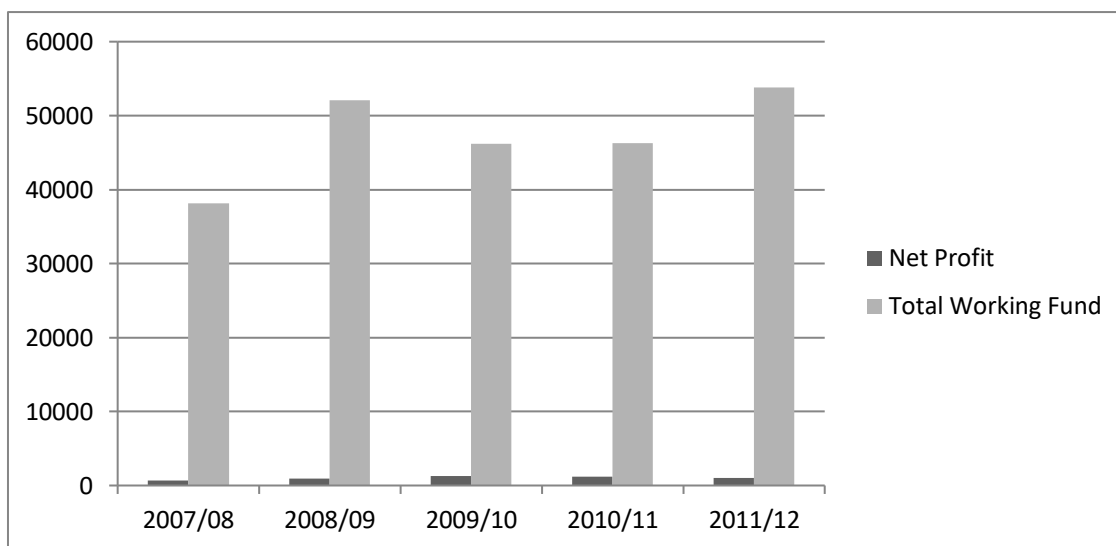
**Table 4.11**  
**Net Profit to Total Working Fund Ratio (%)**

(NPR in Millions)

Year	Net Profit	Total Working Fund	Ratio%	%change in yearly
2007/08	697	38104	1.83	
2008/09	901	52084	1.73	-5.43
2009/10	1266	46212	2.74	58.36
2010/11	1176	46261	2.54	-7.21
2011/12	1039	53835	1.93	-24.08
	Mean		1.65	

The above table No. 4.11 shows that net profit to total working fund ratio fluctuating trend. In the five year study, highest ratio of 2.74 in FY2009/10. In the FY 2009/10 it in increasing trend and FY 2008/09, 2010/11 and 2011/12 it ratios are decreasing trend. The growth rate increased to 58.36 in the FY 2009/10. The growth rate ratio is also fluctuating trend. This exhibits that net profit of NIBL is not stable and it is inconsistent.

**Figure 4.11**  
**Net Profit to Total Working Fund Ratio**



#### **Return on Loan and Advances Ratio**

Return on loan and advances ratio measures the earning capacity of the commercial bank on its deposits mobilized on the loan and advances. Mostly loan and advances includes loan cash credit, overdraft bills purchased and discounted.

We have,

$$\text{Return on loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

The table below is the return on loan and advances ratio for five years.

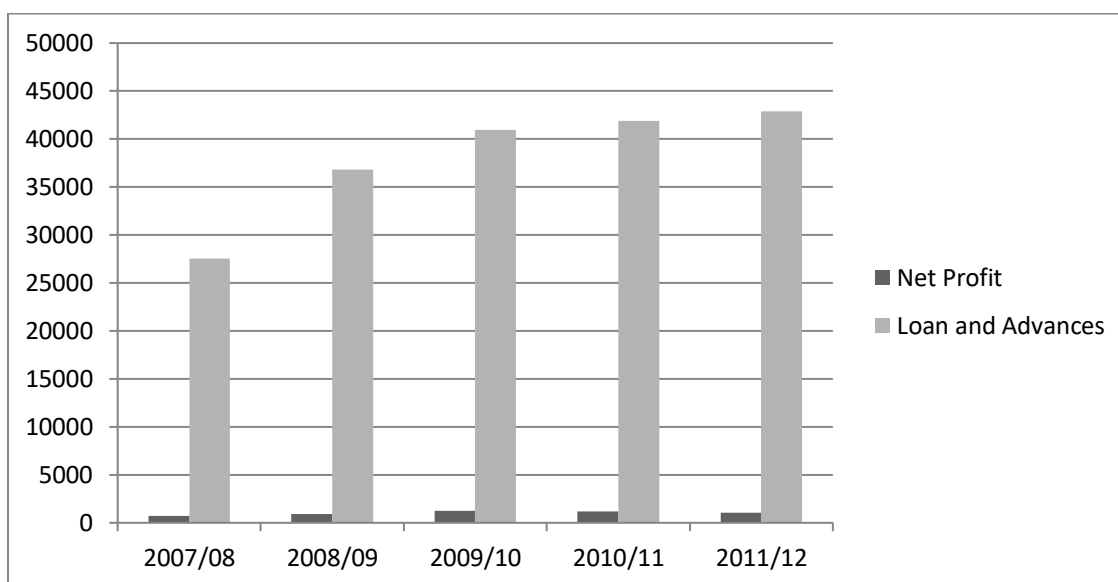
**Table 4.12**  
**Net Profit to Loan and Advances Ratio (%)**

(NPR in Millions)

Year	Net Profit	Loan and Advances	Ratio%	%change in yearly
2007/08	697	27529	0.025	-
2008/09	901	36827	0.024	-4
2009/10	1266	40948	0.031	29.17
2010/11	1176	41887	0.028	-9.68
2011/12	1039	42906	0.024	-14.29
	Mean		0.026	

The above table No. 4.12 clearly shows that ratio is in increasing and decreasing trend. NIBL has higher ratio of 0.031% in the FY 2009/10. The lowest ratio of 0.024% in the FY 2008/09 and 2011/12. In FY 2011/12 the ratio decreased by 14.29. It reveals that change in % ratio or growth rate are in fluctuating trend. Net profit in respect to loan and advance is unstable and NIBL is not able to earn much from loan and advances.

**Figure 4.12**  
**Net Profit to Loan and Advances Ratio**



### Return on Equity (ROE)

If the bank can mobilize its equity capital properly, they earn high profit. Equity capital is the own capital of the bank. The return on equity capital measures the extent to which a bank is successful to mobilize its equity. Higher ratio indicates the sound investment policy for the mobilization of its equity capital.

We have,

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

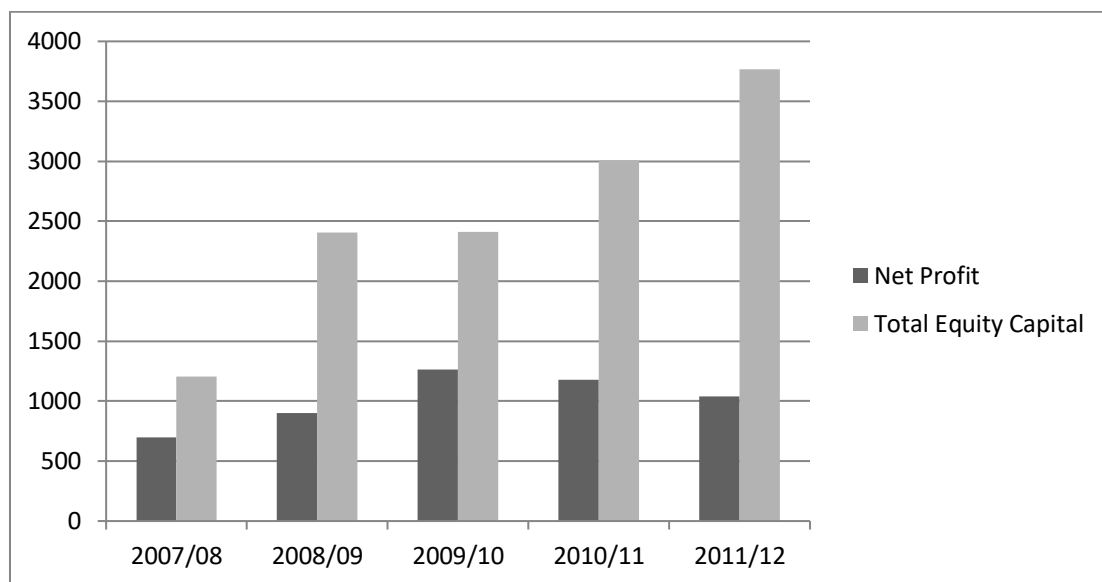
The table below shows the ROE of NIBL for five years in which 2007/08 to 2011/12.

**Table 4.13**  
**Return on Equity (ROE)**

(NPR in Millions)				
Year	Net Profit	Total Equity Capital	Ratio%	%change in yearly
2007/08	697	1203	0.58	-
2008/09	901	2407	0.37	-36.21
2009/10	1266	2409	0.53	43.24
2010/11	1176	3011	0.39	26.42
2011/12	1039	3766	0.28	-28.21
	Mean		0.43	

In the above table No. 4.13 total equity is increasing trend. The higher ratio of 0.58% in FY2007/08, the lower ratio is in FY 2011/12 i.e. 0.28% which is less than mean ratio. The mean ration of net profit to total equity capital is 0.43. Yearly change in % or growth rate is in fluctuating trend. In FY 2008/09 and FY2011/12 the change in % is decreased by 36.21% and 28.21% respectively in the FY 2009/10 and 2010/11, the growth rate ratio is increased by 43.24% and 26.42% respectively. The shows that NIBL has efficiently utilizes its equity capital and effort should be done to utilize the equity capital to earn more profit.

**Figure 4.12**  
**Return on Equity (ROE)**



**Total Interest Earned to Total Working Fund Ratio**

Total interest earned to total working fund is very helpful and significant. This reflects the extent on which the banks are capable to mobilize their total to generate high income as interest. A high ratio is an indicator of high earning power of the banks on its total working fund and vice-versa this ratio is calculated by dividing total interest earned by total working funds.

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Funds}}$$

The table below is the total interest earned to total working fund ratio from 2007/08 to 2011/12.

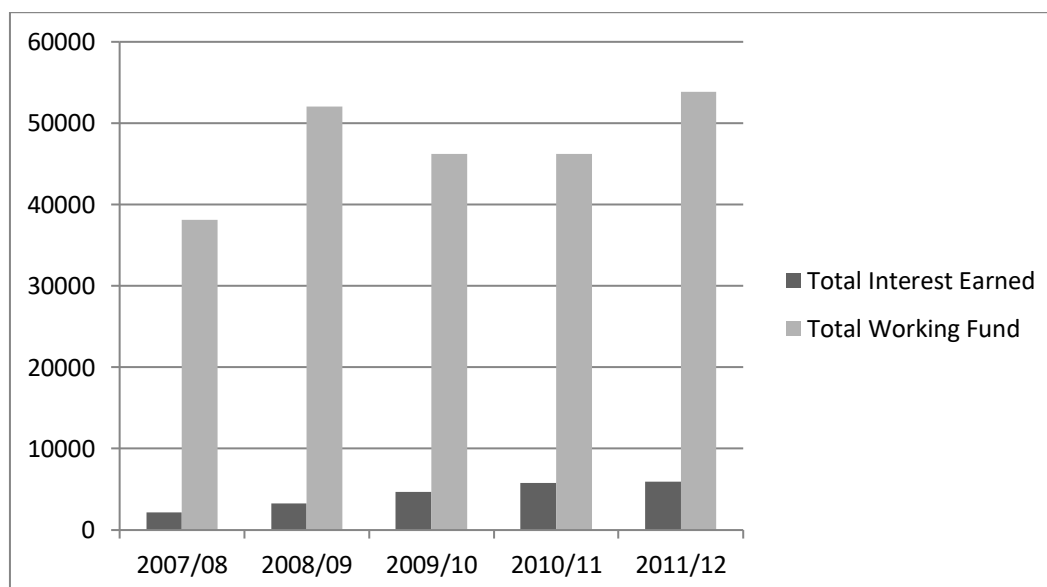
**Table 4.14**  
**Total Interest Eared to Total Working Fund Ratio (%)**

(NPR in Millions)

Year	Total Interest Earned	Total Working Fund	Ratio%	%change in yearly
2007/08	2194	38104	5.76	
2008/09	3267	52084	6.27	8.94
2009/10	4653	46212	10.07	60.52
2010/11	5803	46261	12.54	24.58
2011/12	5982	53835	11.11	-11.42
	Mean		9.15	

In the above table No. 4.14, the higher ratio of recorded in the FY 2010/11. In the succeeding year i.e. FY 2008/09 and 2009/10 the ratio is increased by 8.94% and 60.52% respectively . The mean ratio total interest earned to total working fund ratio is 9.15%. The lower of 5.76 is recorded in the FY 2007/08 which is less than the mean ratio. The higher growth ratio is recorded in FY 2009/10. This shows that growth rate ratio is in fluctuating trend. Since total working fund is decreasing trend, it is not sound good for the bank. So, the NIBL should carefully utilize its fund to earn interest.

**Figure 4.14**  
**Total Interest Eared to Total Working Fund Ratio (%)**



#### **Total Interest Paid to total Working Fund Ratio**

Interest paid is the expenses of the every bank. This ratio measures the percentage of total interest expenses and its interest on fixed deposit, call deposits, saving deposits and total interest on borrowing with respect total working fund. A high ratio indicates the higher interest expenses on total working fund and vice versa.

We have,

$$\text{Total interest paid to Total Working fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

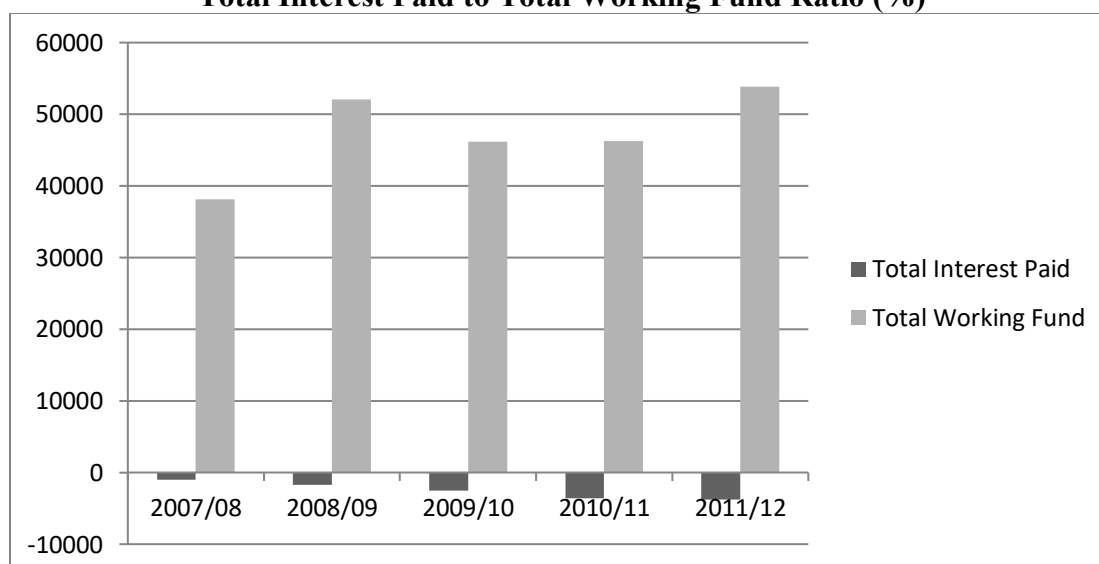
The table below is the ratio interest paid total working fund for five year from 2007\08 to 2011/12

**Table 4.15**  
**Total Interest Paid to Total Working Fund Ratio (%)**

(NPR in Millions)				
Year	Total Interest Paid	Total Working Fund	Ratio%	%change in yearly
2007/08	-992	38104		
2008/09	-1686	52084		
2009/10	-2553	46212		
2010/11	-3620	46261		
2011/12	-3814	53835		
	Mean			

In the above table no. 4.15, the ratio of 2.163 is recorded in the base year of the study. In the FY 2062/63 the ratio increased and in the FY 2063/64 the ratio also increased. In the FY 2065/66 the ratio is higher i.e. 26.10% and higher % change in yearly in this year. The mean ratio of total interest paid to total working fund is 8.41%. In the FY 2064/65 is lower i.e. -24.46%. This clearly reveals that total interest paid against total working fund is in fluctuating trend. Interest paid is the expenses of the every bank. A high ratio indicates high interest expenses on the total working fund which does not sound good for the bank and vice versa.

**Figure 4.15**  
**Total Interest Paid to Total Working Fund Ratio (%)**



#### 4.1.4 Risk Ratio

Risk always sticks with return. If there is return, risk will definitely be there. Higher the risk, higher will be the return. Risk is very closely associated with investment possibility of risk has made the investment a challenging last. A bank has to take high risk if it expects high return on its investment. There, bank has to accept and risk ratio measures the level of risk.

## Credit Risk Ratio

This ratio is very important to a bank scrutinize the project i.e the risk involved in it to avoid default or non-payment of loan before making investment on them. Bank makes investment by utilizing its collected fund. The credit risk ratio measures the risk behind making investment or granting loan. Actually, the proportion of non-performing assets shows credit risk ratio in total loan and advance of a bank, but unavailability of related data the ratio is calculated with the help of loan and advances and total assets

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

The table below shows the credit risk ratio of NABIL for five years from 2061/62 to 2065/66

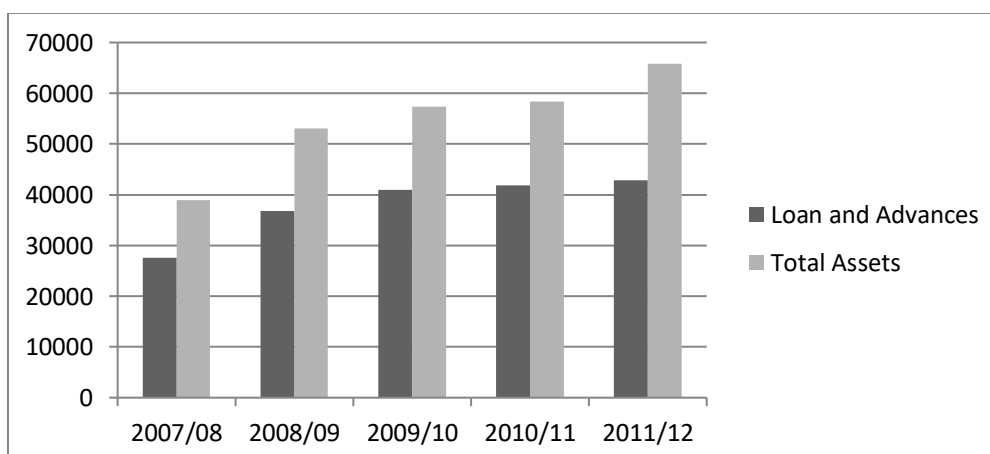
**Table 4.16**  
**Credit Risk Ratio (%)**

(NPR in Millions)

Year	Loan and Advances	Total Assets	Ratio%	%change in yearly
2007/08	27529	38873	0.71	-
2008/09	36827	53010	0.69	-2.82
2009/10	40948	57305	0.71	2.9
2010/11	41887	58356	0.72	1.41
2011/12	42906	65756	0.65	-9.72
	Mean		0.696	

In the above table No.4.16, the credit risk ratio is calculated by dividing total loan and advances by total assets. NIBL has maintained the higher ratio 0.72% in the 2010/11 and lower of 0.65% in the FY 2011/12. In the base year the ratio is maintained at 0.71%. The mean ratio of credit risk is 0.696%. Growth rate or percentage of credit risk increased by 2.9 in the FY 2009/10. Similarly, in the FY 2011/12 growth rate ratio is negative -3.72. This shows that credit risk ratio of NIBL is fluctuating trend.

**Figure 4.16**  
**Credit Risk Ratio (%)**



#### 4.1.5 Growth Ratio

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. It represent how well the commercial bank is maintaining the economic and financial position. Under this topic, four types of growth ratios are studies, which are as follows.

1. Growth ratios of total deposit
2. Growth ratio of total loan and advances
3. Growth ratio of total investment
4. Growth ratio of total net profit

**Table 4.17**  
**Growth Ratio of Total Deposit (%)**

(NPR in Millions)

Growth Ratio	Total Deposit	%change in yearly
2007/08	34452	-
2008/09	46698	35.55
2009/10	50094	7.27
2010/11	50138	0.088
2011/12	57010	13.71
	Mean	11.32

The above table No.4.17 represents the total deposit growth rate ratio of NIBL. The total deposit in the base year is Rs.34452 and last year of the study the deposit increased to Rs.57010. Although the total deposits are increasing trend, the ratios are in fluctuating trend. The yearly change in % or growth rate is maximum in the year 2008/9. In FY 2010/11 the ratio is lowest i.e -0.088. In the average, the growth rate ratio of total deposit is 11.32%. This shows that ddeposit collection ratio of NIBL are fluctuating trend.

**Table 4.18**  
**Growth Ration of Loan and Advances**

(NPR in Millions)

Year	Loan and Advance	%change in yearly
2007/08	27529	-
2008/09	36827	33.78
2009/10	40948	11.19
2010/11	41887	2.29
2011/12	42906	2.43
	Mean	9.94

The above table No.4.18 represents the growth rate ratio of Loan and Advance of NIBL. In the FY 2009/10 the change in % or growth rate ratio of Loan and advance increased by 11.13% than other years. In the succeeding year, the growth ratio decreased to 2.29%. The

average growth rate ratio of loan and advance is 9.94%. Even though the loan and advance are in the fluctuating trend.

**Table 4.19**  
**Growth Ratio of Total Investment**

(NPR in Millions)

Year	Total Investment	%change in yearly
2007/08	6874	-
2008/09	7399	7.64
2009/10	8638	16.75
2010/11	7423	-14.07
2011/12	10438	40.62
	Mean	10.19

The above table No.4.19 represents the growth rate of total investment of NIBL. In the FY 2009/10, the early change in % increased by 16.75% but in the succeeding year the growth ratio of total investment decreased to -14.07%. In the last year of the study the ratio increased to 40.62% than the previous year. This shows that growth rate ratio of NIBL is in fluctuating trend.

**Table 4.20**  
**Growth Ratio of Net Profit**

(NPR in Millions)

Year	Net Profit	%change in yearly
2007/08	697	-
2008/09	901	29.27
2009/10	1266	40.51
2010/11	1176	-7.11
2011/12	1039	-11.65
	Mean	10.20

The above table No.4.20 represents the yearly change in % or growth rate ratio of net profit of NIBL. Net profit of NIBL is maximization in the FY 2009/10 of the study of i.e 1266. In other years % change in yearly is decreasing order. It is not satisfactory and this clearly exhibits that the growth rate of net profit of NIBL is decreasing order.

From the above analysis, the performance of NIBL regarding deposit collection, granting loan and advance and investment policy is not satisfactory.

## 4.2 Statistical Analysis

Under this chapter, Karl Person's coefficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, current assets and current liabilities and total assets and net profit. Karl Pearson's coefficient between the variable have been tested with the help of probable.

#### **4.2.1 Coefficient of Correlation between Deposit and Loan and Advances**

Deposits have played a very important role performance of a commercial bank and side-by-side loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposits and loan and advances measure the degree of relation between these two variables. In this analysis, deposit is independent variables (X) and loan and advances are dependent variable (Y). The main objectives of computing 'r' coefficient of correlation between these two variables is to justify whether deposits are significantly used as loan and advances in the proper way or not.

According to appendixes-1 calculation, I found that coefficient of correlation 'r' between total deposit and total loan and advance is 0.97. It represent that there is high degree of positive correlation between these two variables. Similarly, considering the value of 'r' i.e. 0.97 and comparing it with probable error P.E. i.e. 0.0178. We found that 'r' is greater than probable error, which reveals that value of 'r' is significant relation between total deposit and loan advance of NIBL.

The above analysis, we can conclude that there is positive and significant relationship between total deposit and total loan and advances. This indicates that NIBL has mobilizes their deposit efficiently and proper way as loan and advance.

#### **4.2.2 Coefficient of Correlation between Deposit and Total Investment**

Coefficient of Correlation between deposit and total investment measures the degree of relation between these two variables. In this analysis, deposit is independent variables (X) and total investment is dependent variable (Y). The main objectives of computing 'r' coefficient of correlation between these two variables is to justify whether deposits are significantly used as investment I the proper way or not.

According to appendixes-2 calculation, I found that coefficient of correlation 'r' between total deposit and total investment is 0.808. It represents that there is high degree of positive correlation between these two variables. Similarly, considering the value of 'r' i.e. 0.808 and comparing it with probable error P.E. r i.e. 0.628. We found that 'r' is greater than the value of 6 times P.E.r, which reveals that value of 'r' is significant. In other words, there is significant relationship between total deposit and total investment.

The above analysis, we can conclude that there is positive and significant association between total deposit and total investment of NIBL. This exhibits that NIBL has good investment policy to invest their deposit.

#### **4.2.3 Coefficient of Correlation between Current Assets and Current Liabilities**

Coefficient of correlation between current assets and current liabilities measure the degree of relation between these two variables. In this analysis, a current asset is independent variables (X) and current liabilities are dependent variable (Y). The main objective of computing 'r' coefficient of correlation between these two variables is to justify whether there is significant relationship between these two variables or not.

According to appendixes-3 calculation, I found that coefficient of correlation 'r' between current assets and liabilities is 0.868. It represent that there is high degree of positive correlation between these two variables. Similarly, considering the value of 'r' i.e. 0.868 and comparing it with probable error 6P.E.r i.e. 0.446. We found that 'r' is greater that the value of probable error that value of 'r' is significant. In other words, there is significant relationship between current asset and current liabilities.

The above analysis, we can conclude that there is positive and significant association between current assets and current liabilities of NIBL as value of 'r' is greater than probable error.. This indicates that NIBL has efficiently utilizes its current assets and current liabilities.

### 4.3 Trend Analysis and Projection for Next Five Years

A commercial Bank may grant loan and advances, invest in government securities and share and debenture of other companies. The main objectives of this topic trend analysis of deposit collection , its utilization and net profit of NIBL are forecasted for next five years. The projections are based on the following assumptions.

1. The main assumption is that other things will remain unchanged.
2. The forecast will be true only when the limitations are square methods are carried out.
3. The bank will run in present position.
4. The economy will remain in the present stage.
5. Nepal Rastra Bank will not change its guidelines to commercial banks

#### 4.3.1 Trend Analysis of Total Deposit

Under this topic, the trend values of deposit of NIBL has been calculated for five years from 2007/8 to 2011/12. And forecast for next five years from 2012/13 to 2016/17. The table no.28 and 29 shows the trend value of total deposit for ten years from 2007/8 to 2011/12.

**Table 4.21**  
**Trend value of Total Deposit of NIBL**

Year	Total Deposit (Y)	X=t-2000	X <sup>2</sup>	XY	Y <sub>c</sub> =a+bx
2007/08	34452	-2	4	-68904	37967.2
2008/09	46698	-1	1	-46698	42822.8
2009/10	50094	0	0	0	47678.4
2010/11	50138	1	1	50138	52534
2011/12	57010	2	4	114020	57689.6
	ΣY=238392		ΣX <sup>2</sup> =10	ΣXY=48556	

$$a = \frac{\sum Y}{N} = \frac{238392}{5} = 47678.4$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{48556}{10} = 4855.6$$

The equation of Straight line trend is  $Y_c = a + bx$

$$Y_c = 47678.4 + 4855.6 \\ = 52534$$

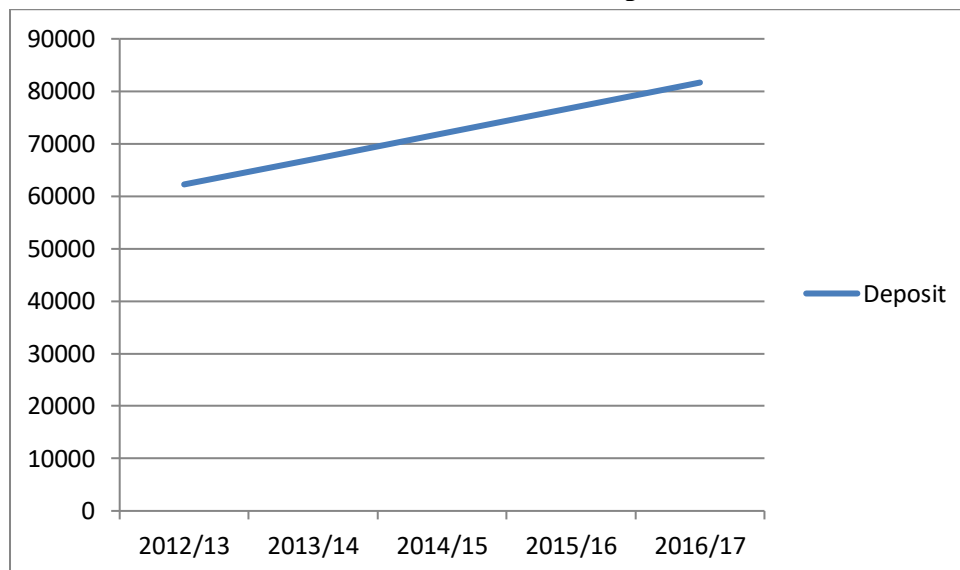
**Table 4.22**  
**Trend Value of Total Deposit of NIBL from 2012/13 to 2016/17**

Year	X=t-2000	$Y_c = a + bx$
2012/13	3	62245.2
2013/14	4	67100.8
2014/15	5	71956.4
2015/16	6	76812
2016/17	7	81667.6

(NPR in Millions)

The above tables no.4.21 and 4.22 show that trend values of total deposits are increasing trend. The trend value of total deposit is 57689.6 in the year 2011/12. If other things the same, the total deposit of NIBL will 81667.6 in the year 2016/17 which is highest deposit among the study period. The total deposit of NIBL will be high in 2016/17 as trend value is increasing.

**Figure 4.16**  
**Trend Value of Total Deposit**



### 4.3.2 Trend Analysis of Loan and Advances

Here the trend values of loan and advances of NIBL has been calculated for five years from 2007/8 to 2011/12 and forecast for next five years from 2012/13 to 2016/17. The table no. 30 and 31 shows the trend value of loan and advances for ten years from 2007/8 to 2016/17.

**Table 4.23**  
**Trend Value of Loan and Advances of NIBL**

(NPR in Millions)

Year	Loan and Advances (Y)	X=t-2000	X <sup>2</sup>	XY	Y <sub>c</sub> =a+bx
2007/08	27529	-2	4	-55058	40515.6
2008/09	36827	-1	1	-36827	44097
2009/10	40948	0	0	0	47678.4
2010/11	41887	1	1	41887	51259.8
2011/12	42906	2	4	85812	54841.2
	ΣY=238392		ΣX <sup>2</sup> =10	ΣXY=35814	

$$a = \frac{\sum Y}{N} = \frac{238392}{5} = 47678.4$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{35814}{10} = 3581.4$$

The equation of Straight line trend is  $Y_c = a + bx$

$$Y_c = 47678.4 + 3581.4$$

$$= 51259.8$$

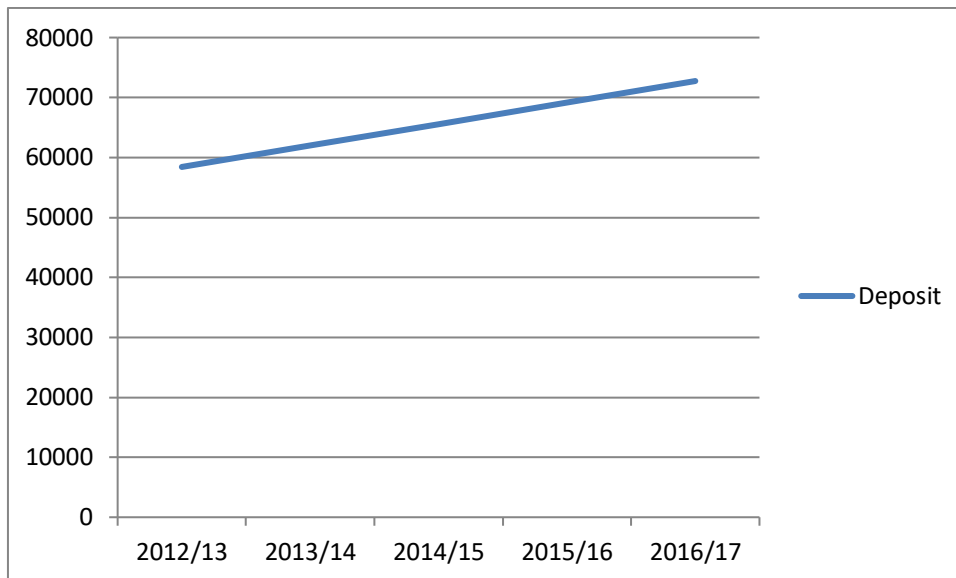
**Table 4.24**  
**Trend Value of Loan and Advances of NIBL from 2012/13 to 2016/17**

(NPR in Millions)

Year	X=t-2000	Y <sub>c</sub> =a+bx
2012/13	3	58422.6
2013/14	4	62004
2014/15	5	65585.4
2015/16	6	69166.8
2016/17	7	72748.2

The above tables no.4.23 and 4.24 show that trend value of loan and advances are in increasing trend. The trend value of loan and advances is 54841.2 in the year of 2011/12. If other things remain the same, the loan and advances of NIBL will 72748.2 in the year of 2016/17 which is the highest loan and advances among the study period. The loan and advances of NIBL is better and is in increasing trend. The calculated trend values of total loan and advances of NIBL as fitted in the trend line given.

**Figure 4.24**  
**Trend Value of Loan and Advances**



### 4.3.3 Trend Analysis of Total Investment

Under this topic, the trend values of total investment of NIBL has been calculated for five years from 2007/8 to 2011/12 and forecast next five years from 2012/13 to 2016/17. The table no. 32 and 33 shows the trend value of total investment for ten years from 2007/8 to 2016/17.

**Table 4.25**  
**Trend Value of Loan Investment on NIBL**

(NPR in Millions)

Year (t)	Total Investment (Y)	X=t-2000	X <sup>2</sup>	XY	Y <sub>c</sub> =a+bx
2007/08	6874	-2	4	-13748	6724
2008/09	7399	-1	1	-7399	7439.2
2009/10	8638	0	0	0	8154.4
2010/11	7423	1	1	7423	8869.6
2011/12	10438	2	4	20876	9584.8
	40772		10	7152	

$$a = \frac{\sum Y}{N} = \frac{40772}{5} = 8154.4$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{7152}{10} = 715.2$$

The equation of Straight line trend is  $Y_c = a + bx$

$$\begin{aligned} Y_c &= 8154.4 + 715.2 \\ &= 8869.6 \end{aligned}$$

**Table 4.26**  
**Trend Value of Total Investment of NIBL from 2012/13 to 2016/17**

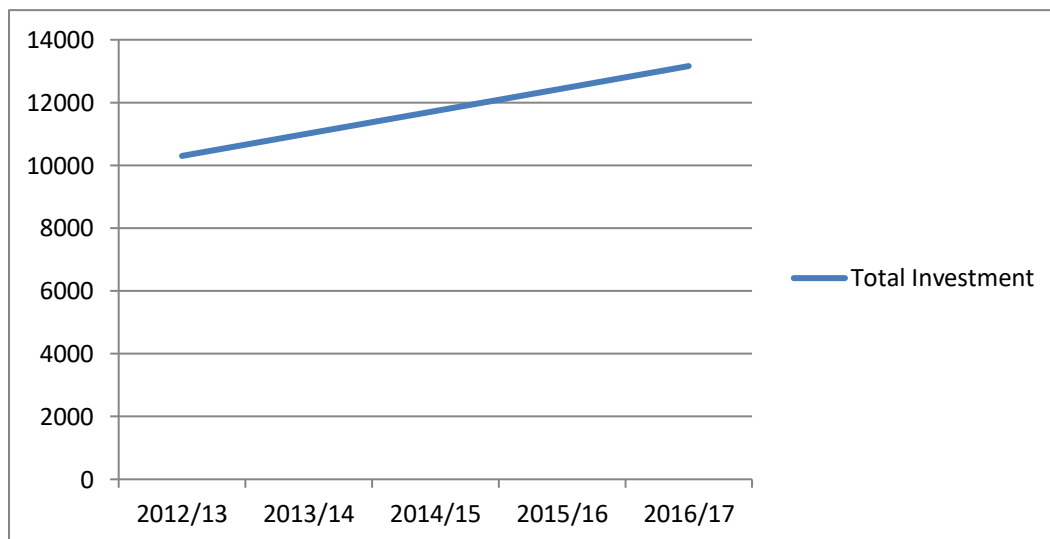
(NPR in Millions)

Year (t)	X=t-2000	$Y_c=a+bx$
2012/13	3	10300
2013/14	4	11015.2
2014/15	5	11730.4
2015/16	6	12445.6
2016/17	7	13160.8

The above tables no.4.25 and 4.26 show that trend values of investment are in increasing trend. The trend value of investment is 9584.8 in the year of 2011/12. If other things remain the same, the total investment of NIBL will be 13160.8 in the year of 2016/17 which is the highest investment among the study period. The total investment of NIBL is better and is in increasing trend. The calculated trend values of total investment of NIBL are fitted in the trend line given.

**Figure 4.26**

**Trend Value of Total Investments**



#### 4.34 Trend Analysis of Net Profit

Here the trend values of net profit of NIBL, has been calculated for five years from 2007/8 to 2011/12 and forecast year for next five years from 2012/13 to 2016/17. The table no 34 and 35 shows the trend value of net profit for ten years from 2007/8 to 2016/17.

**Table 4.27**  
**Trend Value of Net Profit of NIBL**

(NPR in Millions)

Year (t)	Total Net Profit (Y)	X=t-2000	X <sup>2</sup>	XY	Y <sub>c</sub> =a+bx
2007/08	697	-2	4	-1394	824
2008/09	901	-1	1	-901	919.9
2009/10	1266	0	0	0	1015.8
2010/11	1176	1	1	1176	1111.7
2011/12	1039	2	4	2078	1207.6
	5079		10	959	

$$a = \frac{\sum Y}{N} = \frac{5079}{5} = 1015.8$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{959}{10} = 95.9$$

The equation of Straight line trend is  $Y_c = a + bx$

$$\begin{aligned} Y_c &= 1015.8 + 95.9 \\ &= 1111.7 \end{aligned}$$

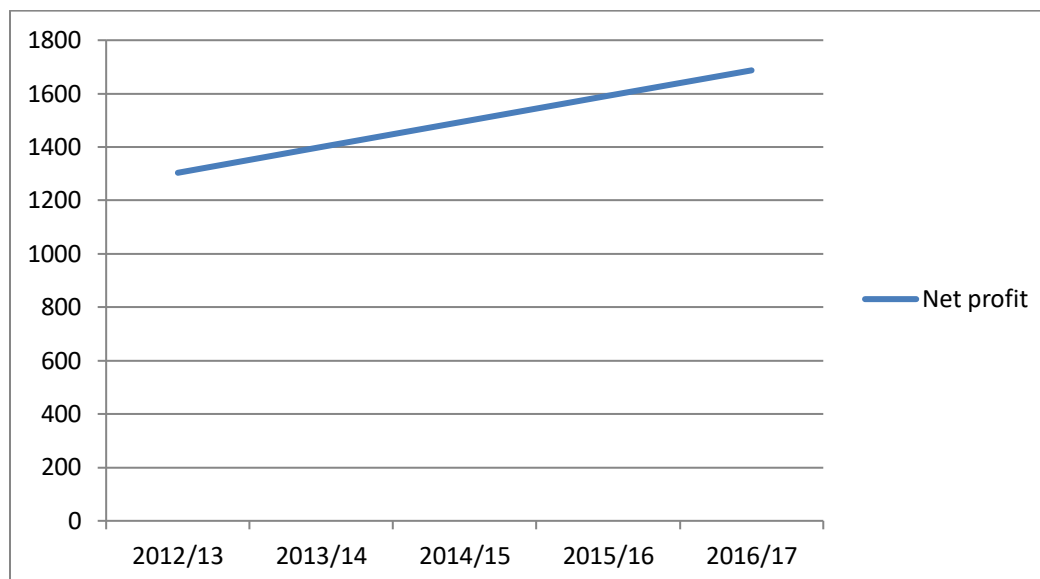
**Table 4.28**  
**Trend Value of Net Profit of NIBL from 2012/13 to 2016/17**

(NPR in Millions)

Year (t)	X=t-2000	Y <sub>c</sub> =a+bx
2012/13	3	1303.5
2013/14	4	1399.4
2014/15	5	1495.3
2015/16	6	1591.2
2016/17	7	1687.1

The above table No. 4.27 and 4.18 show that trend values of net profit are increasing trend. The trend value of profit is 1207.6 in the year of 2011/12. If other things are remain the same, the net profit of NIBL will 1687.1 in the year of 2016/17 which is the highest profit among the study period. The profit if NIBL will be high in 2016/17 as trend value in increasing. The calculated trend values of net profit of NIBL are fitted in the trend line.

**Figure 4.28**  
**Trend Value of Net Profit**



#### **4.4 Major Findings**

##### **Liquidity Ratio:**

- The mean ratio of cash and bank balance to total deposit is 15.68%. Analysis shows that the ratios are fluctuating trend. The bank should not hold excessive cash. Since it an idle assets and do not generate any income. An idle reserve ratio is 10% in any bank but vary according to the situation of the market. However, the liquidity position in the study is good.
- The mean ratio of cash and bank balance to current assets is 99.3%. This cash and bank balance to current assets ratios are in the little fluctuating trend. It indicates that liquidity position is stable in this study. The mean ratio of investment on government securities to current assets is 56.05%. Investment securities of NIBL had fluctuating trend. The mean ratio of loan and advances to current assets is 5.32 Analysis shows NIBL has followed an fluctuating trend in loan and advances to current assets ratio.

##### **Assets Management Ratio:**

- Total investment of NIBL has maintained in increasing trend in respect to total deposit. The mean ratio of its 0.172%. NIBL has been able to utilize the total deposit as investment. The mean ratio of the loan and advances to total working fund 80.31%. In the five year study NIBL have recorded higher ratio of 90.50% in the FY 2010/11. NIBL has recorded the fluctuating trend of loan and advances in respect of total working fund. The mean ratio of investment in government securities to total working fund is 8.57%. Maximum growth in investment in government securities 87.12 in the FY 2009/10. The ratio of it has fluctuating trend. NIBL has invested only limited percentage of total working fund in government securities. Analysis shows that ratios of investment in share and debenture to total working fund has fluctuating trend. The

mean ratio is 0.18%. NIBL is very less stable regarding investment in share and debenture NIBL has invested only limited fund in share and debenture. Analysis shows that investment in share and debenture to pay up capital have fluctuating trend.

#### **Non Performing Loan:**

- The mean value of pass loan is 381.8, Restrictive loan is 2.6 sub-standard loan is 39.4 (all fig. Millions). Doubtful loan is fluctuating trend. Similarly, bad loan is also in fluctuating trend.

#### **Profitability Ratio:**

- Analysis shows that net profit to total working fund ratios are fluctuating trend. The mean ratio of net profit to total working fund is 1.65%. The mean ratio net profit to loan and advances is 0.026%. NIBL has recorded highest ratio is of 0.031% in GY 2009/10. The change in % ratio or growth rate is in fluctuating trends. Net profit of NIBL is also fluctuating trend. Analysis shows that the ratio of net profit to total equity capital has fluctuating trend. The mean ratio of net profit to equity capital is 0.43%.
- This shows that NIBL has efficiently utilized its equity capital to earn more profit. The mean ratio of total interest earned to total working fund is 9.15%. The higher growth ratio is recorded in the FY 2010/11. Growth rate of ratio is in fluctuating trend and negative. The mean ratio of total interest paid to total working fund is . Total interest paid against total working fund is in fluctuating trend. A high ratio indicates high interest expenses on the total working fund which do not sound good for the bank and vice versa.

#### **Growth Ratio:**

- Total deposit in the base year is Rs. 3452 and last year of the study deposit increased to Rs. 57010. Although total deposit are in increasing trend. In average, the growth rate ratio of total deposit is 11.32%. The average growth rate ratio of loan and advances is 9.94%. Analysis shows that the loan and advances are in the increasing trend. The growth rate ratio of loan and advance is fluctuating trend. Analysis shows that growth rate ratio of NIBL has fluctuating trend. Net profit of NIBL is maximum in the FY 2009/10 of the study i.e. 1266. The average net profit ratio of NIBL is 10.20%.
- The performance of NIBL regarding deposit collection, granting loan and advance and investment is quite satisfactory. NIBL has efficiently utilized its capital hence return on equity capital. The bank seems to be having lack of sound investment policy of the mobilization of its equity capital. Therefore, it is suggested to make investment of mobilize its fund in profitable sector to have better result of net profit. The bank must maintain its high profit margin for the well being in future. Similarly, from the above analysis, it can be concluded that total deposit collection and loan and advance

are increasing year by year. Lastly, in case of growth rates of net profit is satisfactory. However, NIBL is successful in increasing its sources of fund and its investment and mobilization but able to earn more profit in respect to its sources and its mobilization.

**Coefficient of Correlation between different variables of NIBL is as follows:**

- Coefficient of correlation between total deposit and loan and advances is positive and significant. This indicates that NIBL has efficiently mobilized their deposit efficiently as loan and advances. There is positive and significant relationship between these two variables as value of 'r' is greater P.E.r. This indicates that NIBL has good investment policy to invest their deposit. Analysis shows that there is positive and significant correlation between current assets and current liabilities. This indicates that NIBL has certain investment policy. NIBL has efficiently utilized its current assets and current liabilities.
- From the analysis, it can be concluded that there is positive and significant relationship between total deposit and loan and advances. Current assets and current liabilities.

**Trend Analysis:**

- Total trend value of total deposit is Rs. 57689.6 in the FY 2011/12. The total deposit collection of NIBL is increasing trend. Total deposit of NIBL will be Rs. 81667.6 in the FY 2016/17
- The trend value of loan and advances are increasing trend. The trend value of loan and advances is Rs. 54841.2 in the FY 2011/12. The loan and advances of NIBL will be Rs. 72748.2 in the FY 2016/17 which is highest loan and advances among the study period. Trend values of investment are in increasing trend. The trend values of investment are Rs. 9584.8 in the FY 2011/12. The total investment of NIBL will increase to Rs. 13160.8 in the FY 2016/17 which is the highest investment among the study period. The trend value of net profit is increasing trend. The trend value of profit is Rs. 1207.6 in the FY 2011/12. The net profit of NIBL will be Rs. 1687.1 in the FY 2016/17. The profit of NIBL will be high in 2016/17 as trend value is increasing. This indicates that utilization of fund to earn profit sounds good in NIBL.

## CHAPTER-V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter contains the facts and figures acquired from various part of the study. Analytical part of the heart of study makes the analysis of various aspects of investment policy using various financial tools data have been collected from annual report of the bank which are presented in the from table. The main objective of our study is to have insight over the investment policy of NIBL and to recommend suggestion for improvement to take corrective action to remove the weakness and continuity of profitable services in vies of analysis.

### 5.1 Summary

Bank play significant role in the economic development of the country. It has come a very long way starting from 1994 B.S. to today status. The main objectives of the study are to find out investment policy of commercial banks. NRB being central bank of Nepal give direction to more to the commercial banks. Commercial banks play a vital role in the accumulation of the capital fund to the nation. It is the institution which deals with other people money. Commercial bank collect deposit an idle fund in the market. NRB being central bank of Nepal almost governs all the function and give direction to all the financial institution including banks. Unlike the central bank, commercial bank mobilize the scattered saving of the public by providing credit to the needy firms, industries and people to get the productive use. Deposits and loans are the major parts of the banks. Deposits are that liability which is returnable in demand at any time by the banks. So, commercial banks must keep some liquid fund. Similarly, investment of mobilization of collected fund as credit is also necessary for the bank to survive. If the funds are optimally invested without prior study, the bank may undergo bankruptcy. So, the bank must have sound investment policy for the mobilization of the accumulated fund. Similarly, NRB has issued various directives to protect the bank being bankruptcy, NRB has made all the existing commercial banks to raise the capital fund to minimum Rs. 2000 million by the July 2012. It has made provision of single borrower limit to reduce the risk. To the confidence in depositors regarding the safety of their depositor's fund, NRB has also set a rule of cash reserve requirement. Similarly, NRB has made all the commercial bank not to increase the interest rate spread with the maximum of 5%. Commercial banks cannot charge the interest rate more than 5% than they give to the depositors. To improve the quality of assets of the commercial bank and to be safe from the default of the loan repayment, NRB has directed commercial bank to classify their loans on the basis of overdue again and make loan loss provision there to. The NRB and the GON have done their best to recover the bad loan from the bank defaulters. Accordingly, various stringent actions have been take against them. As per the decision of the council of Minister

take on September 25, 2007, the action taken against the bank defaulters as well as other persons related to the loan of more than Rs. 50 millions include the following; seize the passport as well as prevent to issue new ones, prevent from becoming a member of a board of directors in any company or a company in a process to be registered as per the company act.

The private sector credit of commercial banks expanded by a lower rate in the review period compared to that of the previous year. In the review period, credit to the private sector expanded by 27% compared to the growth of 29 percent in the corresponding period. Of the credit disbursed to the private sector, the growth of credit to production, construction, metal production, machinery and electrical tools, transportation, communication and public services, wholesale and retail business and service sectors remained lower in the review period compared to that of the previous year. However, growth of credit to the transportation equipment production and fittings and consumable sectors remained higher in the review period.

In the first eleven months of 2008/09, deposit mobilization of commercial banks increased by Rs. 88.1 billion (20.9%) amounting to Rs. 509.6 billion as in mid June 2009. Deposit mobilization of commercial banks had increased by Rs. 67.7 billion in the corresponding period of the previous year. Saving and fixed deposits had increased by 18.6% and 29.7% respectively in the review period. Such deposits had increased by 19.5% and 23.2% respectively in the corresponding period of the previous year.

Now a day, there is much competition in banking sector. In this case of NIBL, the bank is able to collect Rs. 57010 million as deposit and mobilized loan and advances of Rs. 42906 million and was 10438 million as investment in the FY 2011/12. Similarly, investment in government securities is Rs. 6168 million in the FY 2011/12 and Rs. 3155 million in the FY 2007/08. Investment in share and debenture Rs. 59 million in the FY 2007/08 and Rs. 174 million in the FY 2011/12. The performance if NIBL regarding deposit collection, granting, loan and advance and investment are in quite satisfactory, but net profit is increasing trend. To have better result of net profit, commercial banks must invest its fund in productive and profitable project. Hence, to survive in this competition market and to earn profit, bank need to keep optimum relation between deposit and credit policy. Deposit collection procedure and its mobilization should go hand to hand.

## **5.2 Conclusion**

Nepal is a developing country. It needs to strengthen its economic structure to achieve over all development. Commercial Banks play catalytic role in the economic development. Nepalese Commercial Banks face several problems related to fund mobilization & investment. In order to have better results regarding investment activities and performance, Commercial Banks have to revitalize their role requires encouraging environment to be innovative and diversify their business to other projected areas.

After study and analysis of given data we can conclude that commercial banks are those banks which perform all kinds of banking functions like accepting deposit advancing loans, credit creation and agency functions .They invest in different sectors. They provide short term loan, medium loan and long term loan to different business house and trading companies. Moreover, they move as per the directive given by the central bank so that the public or the customer of the bank may not under gone on loss of their hard earn money. For this reason, the central bank administers the government's regulation affecting commercial banks.

NIBL is one of the oldest bank of Nepal. It is running successfully & growth ratio of Loan & advances is increasing yearly. It means NIBL collect more deposit and invest in different sector. In order to have better results NIBL has to resort to find new method of investment instead of depending more on time bound fixed deposit & government securities. It should ensure its improvement in profitability to provide better return on the share investment so as to win public confidence in attracting resources further. These suggestions will be helpful to the Commercial Banks to improve their investment policies.

### **5.3 Recommendations**

After, collecting, analyzing and making conclusion of the study, following suggestions or recommendation can be forwarded to improve present fund mobilization and investment policy of NIBL

- Fluctuating ratios of NIBL shows that it has not formulated any stable policy consistence manner.
- It had been revealed that NIBL has given more priority to invest its fund in government securities rather than to invest on share and debenture. Though securities issued by government are considered to be free of risk of default but such securities yield the lower interest rate of the particular maturity due to low risk feature. So, NIBL is recommended not to give much importance to the government securities and diversify the investment policy on more yield base funds.
- To get success in the competitive banking environment, deposit money must be utilized as loan and advances. Loan and advances is the largest item of the bank in assets side. While granting the loan it should be borne in mind that large number of borrowing customers may benefit from the banker's fund. Negligence in administering these assets could be the main cause of liquidity crisis in the bank and one of the main reasons of the bank's failure. It has been found from the study that NIBL is strongly

recommended to follow liberal lending policy and invest more and more percentage of total deposit in loan and advances and similarly maintain more stability on the investment policy. Project oriented approach has to be encouraged in lending business of bank. Although there is high risk in such project, the important things regarding project is that project itself should be capable of generating their own funds and to repay the loan on a timely basis. So, the chance to loan in the project oriented approach can be minimized thereof.

- Similarly, recovery of loan is another important factor of investment policy. Although effort has been made for collection of repayment, but still there is some increment in sub-standard and doubtful loan. It should be controlled timely. If not sub-standard loan might be converted to doubtful loan and doubtful to bad loan. NIBL is suggested to implement a sound collection policy, which should ensure rapid identification of fake loans, immediate contact with borrower and continual follow up until a loan is recovered in full. The recovery of loan loss is the must be very careful in formulating credit collection policy, which should be associated with some legal procedure.
- NIBL is private sector bank having huge investment and large amounts of shares are held by public. It is necessary to become careful about the various researcher and case study done by various individual and group. On same bank and evaluate them according to the banks standard. Such studies may be effective guidelines for further development of banks itself. Various calculations based on ratios, trend analysis and hypothesis also will provide decision to fro betterment.
- To capture competitive way of doing business, it is necessary to make large investigation, all over the world. Various views, theme, ideas and knowledge should implement and evaluated that and the business. Various responsible parties are suggested to.
- The huge amount is loan loss provision of NIBL shows that it has lots of bad loans. As per the NRB directive of commercial banks have to maintain 100% premium for such loan. Hence, NIBL is suggested to initial strong policy to collect the loan loss premium amount. NIBL being a private sector bank having the share holding by the public, it should be always careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customers and goodwill of the bank. This shows that management is failure to strategic investment policy. Although the goodwill of the bank is increasing. NIBL is strongly recommended to utilize its risky assets and shareholders find so as to maintain the goodwill for the long run.

## BIBLIOGRAPHY

- Baidya, S: 1997): *Banking Management*, Kathmandu: Monitor Nepal Pvt.Ltd.
- Bajracharya B.B; (1990): *Monitory Policy and Deposite Mobilization in Nepal*,  
Kathmandu: Rajat Jayanti Smarika Rastriya Banijya Bank
- Bardford, F.A; (1990): *Money and Banking Revised Edition*, New York: Long Mans Green and Co.
- Bhandari, S.T; (2004): *Investment Policy of Commercial Bank in Nepal*, Kathmandu: Nepal SBI Bank Ltd.
- Cheney, J.M. and Moses, E.A; (1996): *Fundamental of Investment*: New York: St: Paul West Publishing Company.
- Dekock, M.H; (1956): *Central Banking* : New York: Macmillan Publishing Company Inc.
- Donold, P.E, and Green, T; (1999): *Research for Marketing Decisions*: New Delhi: Vikas Publishing House Pvt. Ltd.
- Joshi, P.R; (2001): *Research Methodology*. First Edition, Kathmandu, Nepal. Buddha Academic Publishers and Distributors Pvt. Ltd.
- Joshi, S; (2007): *A study on Investment Policy of Commercial Banks in Nepal, A Comparative Study of Everest Bank Ltd. And BOK*. A Master Thesis, Kathmandu: Shaker Dev Campus, Tribhuvan University.
- Kishi, D.L; (1996): *Introductio0n of the Reform in the Banking Sectors*, Nepal Bank Patrika, Kathmandu: Nepal Bank Ltd.
- Kothari, C.R; (1989): *Research Methodology Methods and Technique*: New Delhi Willey Eastery Limited.
- Kothari, C.R; (1992): *Quantitative Technique*: New Delhi: Vikas Publishing House Pvt. Ltd.
- Laudhari; S.R;(2004) : *A Study of Investment Policy of Nepal Indosuez Bank Ltd. (NIBL) in comparison to Nepal SBI Bank Ltd*, A Master Thesis, Kathmandu: Shankar Dev Campus, Tribhuvan University.
- Mahato, B; (2001): *A comparative Study of Financial Performance of Nepal Arab Bank Ltd. And Indosuze Bank Ltd*, A Master Thesis, Kathmandu: Shankar Dev Campus, Tribhuvan University.
- Pandey, I.M;(1999): *Financial Management*, 8<sup>th</sup> Edition, New Delhi: Vikas Publishing House.
- Pandit, D; (2006): *Investment Policy Analysis of Joint Venture Bank in Nepal, With Special Reference to NSBIL and EBL* . A Master Thesis, Kathmandu: Shankar Dev Campus, Tribhuvan University.
- Pradhan, S.B;(1996): *Deposit Mobilization its Problem and Prospect*: Nepal Bank Patrika, Kathmandu: Nepal Bank Ltd.
- Pyakurel, B; (1987): *Collection of Deposit*. Nepal Bank Patrika, Kathmandu Nepal Bank Ltd.

Shrestha, S. and Amatya, S; (2002): *Statistics and Wuantitative Technique for Business Studies*: First edition  
Kathmandu ,Nepal ; Ratna Pustak Bhandar.

Shrestha, S; (1993): *Investment Planning of Commercial Banking in Nepal*: A Master Thesis, Kathmandu  
Shankar Dev Campus, Tribhuvan University.

Singh,S.P. and Singh, S; (1983): *Financial Analysis for credit Management in Banks*: New Delhi: Vikas  
Publishing House Ltd.

Tuladhar, U; (2006): *A study of investment Policy in Nepal Grind lays Bank Ltd. In Comparison to other joint  
Venture Banks (NABIL and HBL)*: A Master Thesis, Kathmandu: Shankar Dev Campus, Tribhuvan University.

**Website:**

[www.bankofengland.com](http://www.bankofengland.com) (21/08/2009)

[www.hbspharvard.edu](http://www.hbspharvard.edu) (21/08/2009)

[www.kantipuronline.com](http://www.kantipuronline.com) (15/08/2009)

[www.nepalnews.com](http://www.nepalnews.com) (09/10/2009)

[www.nepalstock.com](http://www.nepalstock.com) (15/08/2009)

[www.nibl.com.np](http://www.nibl.com.np) (21/08/2009)

[www.nrb.org.np](http://www.nrb.org.np) (10/07/2009)

### Appendix-1

#### Calculation of correlation between total Deposit and Total Loan and Advances of NIBL

Table

#### Total Deposit and Loan and Advances

(Figure in Million)

Year	Total Deposit (X)	Total Loan and Advances (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	34452	27529	1186940304	757845841	948429108
2008/09	46698	36827	2180703204	1356227929	1719747246
2009/10	50094	40948	2509408836	1676738704	2051249112
2010/11	50138	41887	2513819044	1754520769	2100130406
2011/12	57010	42906	3250140100	1840924836	2446071060
	ΣX=238392	ΣY=190097	ΣX <sup>2</sup> =11641011488	ΣY <sup>2</sup> =7386258079	ΣXY=9265626932

Correlation Coefficient 'r' can be calculated y using following formula

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum x)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 9265626932 - 238392 \times 190097}{\sqrt{5 \times 11641011488 - (238392)^2} \sqrt{5 \times 7386258079 - (190097)^2}}$$

$$r = \frac{1010530636}{37071.71 \times 28185.47}$$

$$r = \frac{1010530636}{1044883745}$$

$$r = 0.97$$

Calculation of Probable error (P.E.r)

$$P.E.r = 0.67451 \times \frac{1-r^2}{\sqrt{N}}$$

$$0.0178$$

Significant of relationship = 6P.E.r

$$= 6 \times 0.0178$$

$$= 0.107$$

## Appendix-2

### Calculation of correlation between total Deposit and Total Investment of NIBL

Table

**Total Deposit and Total Investment**

Year	Total Deposit (X)	Total Investment (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	34452	6874	1186940304	47251876	236823048
2008/09	46698	7399	2180703204	54745201	345518502
2009/10	50094	8638	2509408836	74615044	432711972
2010/11	50138	7423	2513819044	55100929	372174374
2011/12	57010	10438	3250140100	108951844	595070380
	ΣX= 238392	ΣY= 40772	ΣX <sup>2</sup> =11641011488	ΣY <sup>2</sup> =340664894	ΣXY=1982298276

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 1982298276 - 238392 \times 40772}{\sqrt{5 \times 11641011488 - (238392)^2} \sqrt{5 \times 340664894 - (40772)^2}}$$

$$r = \frac{191772756}{37071.71 \times 6400.66}$$

$$r = \frac{191772756}{237283520.1}$$

$$r = 0.808$$

Calculation of Probable error (P.E.r)

$$P.E.r = 0.67451 \times \frac{1-r^2}{\sqrt{N}}$$

$$0.105$$

Significant of relationship = 6P.E.r

$$= 6 \times 0.105$$

$$= 0.628$$

### Appendix-3

#### Calculation of correlation between Current Assets and Current Liabilities of NIBL

**Table**  
**Total Deposit and Total Investment**

Year	Current Assets(X)	Current Liabilities (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	3754	1488	14092516	2214144	5585952
2008/09	7918	1991	62694724	3964081	15764738
2009/10	6815	3799	46444225	14432401	25890185
2010/11	8289	5672	68707521	32171584	47015208
2011/12	12009	7913	144216081	62615569	95027217
	ΣX=38785	ΣY=20863	ΣX <sup>2</sup> =336155067	ΣY <sup>2</sup> =115397779	ΣXY=189283300

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum x)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 189283300 - 38785 \times 20863}{\sqrt{5 \times 336155067 - (38785)^2} \sqrt{5 \times 115397779 - (20863)^2}}$$

$$r = \frac{137245045}{13285.3 \times 11904.79}$$

$$r = \frac{137245045}{158158763}$$

$$r = 0.868$$

Calculation of Probable error (P.E.r)

$$P.E.r = 0.67451 \times \frac{1-r^2}{\sqrt{N}}$$

$$0.074$$

Significant of relationship = 6P.E.r

$$= 6 \times 0.074$$

$$= 0.446$$