

CHAPTER – I

INTRODUCTION

1.1 Background of Study

Investment means to sacrifice current consumption for future consumption whose main objective is to increase future wealth. The sacrifice of current consumption takes place at present with certainty and the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to invest now is a most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. According to Donal Fischer and Ronald J Jordan “An investment is commitment of fund made in the expectation of some positive rate of return. If the investment is properly undertaken the return will be commensurate with the risk the investor assumes”.

Investment, in its broadest sense, means the sacrifice of current currencies and resources for the sake of future currencies and resources. An investment is one of the decisions of finance function that involves the decision of capital to establish commercial or industrial venture. In other words it involves commitment of funds into long-term assets that would yield benefits in coming future period. Two aspects of the investment decisions are:

- i. The evaluation of the prospective profitability of the investment.
- ii. The measurement and comparison of cut-off rate against that the Prospective return of the investment could be compared.

Investment is primary factor for economic development of any country. Investment is refers to as using present money to get long term benefit. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward or result of sacrifice comes later and the magnitude is generally uncertain. Time and risk are predominates for investment. Such as Investment in government bonds

time is predominates whereas in common stock time and risk both are important. (Sharpe, Gordon, Alexander and Bailey: 2000:1)

Investment also refers to the expenditure of funds for capital goods such as factories, farm, equipment, livestock and machinery. Capital goods are used to produce other goods or services.

The main source of investment is saving. A distinction is often made between investments and saving. Saving is defined as forgone consumption; investment is restricted to real investment of the sort that increases national output in the future. This definition classified investment as real and financial investments. Real investments generally involve some kind of tangible assets such as land, machinery or factories. Financial investment involves contracts written on pieces of paper, such as common stock and bonds. These two forms of investments are complementary, not competitive.

Bank plays a very important role in Investment by collecting saving from individual and providing loans to individuals and industries for economic activities. Bank itself invests in different securities of the company and industries. It helps to mobilize the idle saving in financial activities. Banking has played a very important role in the economic development of all the nations of the world therefore it is termed as the life blood of modern commerce. The study mainly focuses on the Investment analysis of the commercial banks by comparing four main commercial banks of Nepal.

The term bank or banking can be referred to any person, firm or company accepting deposit of money subject to withdrawal by cheque, draft or order.

While talking about investment we cannot forget that saving is primary factor for investment. If there been no saving none of the investment can be expected. So saving is the backbone of investment. Saving is needed to finance capital investment to increase and maintain the productive capacity of the country. It is commonly known fact that an investment is possible when there is adequate savings. If all the income and saving are

consumed for basic needs; then there is no saving, neither existence of investment. Therefore, saving and investment are interrelated.

Financial institutions play an important role to develop the business activities by collecting from the public money. Financial institutions involve commercial banks, saving and loan associations, credit unions pension fund and insurance companies. Especially commercial banks play significant role for development of financial activities. They render various services to their customers facilitating their economic and social life. They not only collect idle money from public but also provide loan to investors, who are in need of fund. In addition they invest money in different securities.

1.2 Focus of the Study

The establishment of the Joint Venture (Commercial) banks has given a new horizon to the financial sector of Nepal. The study is mainly focused on the investment analysis of a joint-venture bank namely Nepal Investment Bank, Himalayan Bank, Everest Bank and Bank of Kathmandu for next five year period.

1.3 Statement of the Problem

The main economic goal of developing countries is to accelerate the growth rate. Although most of the developing countries are predominantly agricultural, Industrial development is crying need of these countries for their economic development and investment is the dominant factor for industrial development. But rate of investment in Nepal is very low. The main cause behind it is political instability, low investor confidences, lack of knowledge on Investment management, lack of improved prospectus to investors, restriction on foreign portfolio investment of Nepal, lack of efficient capital market and slow privatization process.

Investment greatly depends on saving behavior of citizens but the saving rate of Nepalese is very low because most of the citizens are below poverty level. They don't have enough income for daily consumption. Some people hardly save some money but they want to save for future. Only few people invest in industries. People must be motivated to use

their saving and mobilize their excess fund in economic activities.

Due to tough competition and lack of peace and political instability, Nepalese banks are facing problem to invest their funds in different sectors. So the banks have facing low liquidity transaction. In other side the demand of loan is very low.

Nepal is considered much liberal as banks and finance institution are opened for foreign Investment for quite a long time. Most of the commercial banks in Nepal are joint venture with a foreign bank. But some of the new banks were opened during last 8/9 years without foreign collaboration and some foreign banks have withdrawn their Investment from Nepal. According to some analysts the withdrawal of foreigners as the result of some anomalies in the Nepali banking sector irrespective of what the withdrawing foreign bank would say officially to the Nepali authorities of the general public.

With some 25 commercial banks, 58 development banks and 78 financial companies operating in Nepal, the market seems overcrowded and the banks are now finding a tough competition among themselves. Since the entry barriers are not so high due to the governments liberal policy, this competition is expected to be more intense in the near future, as there is always the possibility of a new player entering this sector.

Nepalese commercial banks have not formulated their Investment policy in an organized manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards Investment policy. There is a lack of sound Investment policy of commercial bank. Furthermore, the implementation of policy is not in an effective way.

Commercial banks have to face tough competition due to limited and narrow capital market and investment opportunities. They are even discouraging depositors by offering very low interest and minimum threshold balance. This will definitely make bad impact on economy of a country. There is lack of knowledge on financial risk, interest rate risk, management risk business risk, liquidity risk, default risk, purchasing risk etc.

Commercial banks don't seem to invest their funds in more profitable sector. They are found to be more interested Investment in risky and highly liquid sector i.e. treasury bills development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors, this result into lower profitability to commercial banks and ignorance to the national economic growth process. This is the main reason for crisis in the commercial banks and in the whole national economy as well.

1.4 Objectives of the Study

Investment is necessary for economic development of the country. This study attempts to assess the role and impact of Investment on economic development of the country. The main objectives of this study are as follows:

1. To examine the percentage of Investment made by selected commercial banks in total Investment made by commercial banks.
2. To analyze the fund utilization and its projection of NIBL, HBL, EBL & BOKL for next five years.
3. To identify Investment sector of selected commercial banks.
4. To examine the relationship between Deposit and Investment plus Loan & Advances of the banks.

1.5 Limitation of the Study

This study is done for partial fulfillment for Masters of Business Studies (MBS). Time constraints, financial problem and lack of research experience will be the primary limitations and other limitations are:-

- This study is confined to four commercial banks. These banks are of average in nature. They are expected to show the true picture of banking in Nepal.
- Non-availability of various references or sources and lack of sufficient time is another limitation faced to complete this research work.
- Validity of secondary data depend on opens the source.
- This study is mainly based on the secondary data. The study is particularly based on a data derived from the published annual reports, web-sites, and newspapers, articles along with NRB directives. Therefore, the calculation and conclusions of

the study are fully dependent on the accuracy of those data provided by the concerned parties.

1.6 Organization of the Study

In this research work it has been divided into five chapters. These are as follows:

Chapter One: Introduction

Introduction chapter is the first chapter which includes background, statement of problem, objectives of the study, limitation of the study and organization of the study.

Chapter Two: Review of the literature

This chapter includes the review of the relevant studies. It deals with the review of available literature. It includes review of books, journals, previous thesis and web sides etc. Beside this it includes various related study of the articles and unpublished thesis.

Chapter Three: Research Methodology

Chapter three contains how the study is done or the research methodologies used are described. For this purpose various financial tool and statistical tools are defined which will be used for analysis of the presented data. This includes research design, source of data, population and samples, method of data analysis etc.

Chapter Four: Data Presentation and Analysis

It deals with presentation and analysis of relevant secondary data and information through a definite course of research methodology. For analysis of data appropriate mathematical, financial as well as statistical tools are used.

Chapter Five: Summary, Conclusion and Recommendation

The fifth chapter summarizes the main conclusion the flows the study and offers suggestions, recommendation for further improvement and conclusion of the study. A bibliography and appendices will be attached at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

The term review of literature is very important for researcher or investigator in the area of concern problem. It distributes the knowledge and information for the researcher to discover the uncover things by other researcher. So, review of literature means reviewing the research studies or other relevant propositions in the related areas of the study. So that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works.

The main reason for a full review of research in the past is to know the outcomes of those investigators in areas where similar concept and methodologies had been used successfully. Further an extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researches in one's area of specialization, familiarizing with characteristic percepts, concept and interpretation with special terminology with the rationale for understanding one's proposed investigation.

This chapter shows the background of the work and a review of recent and reticent literature. In this regard, basic academic course books specially related to topic, some of the major research works, major articles published in journals and the related thesis are reviewed.

There is significant importance of review of literature in any types of research works. Some of which are:

- Identification of research problem and relevant variable.
- Avoidance of repetition.
- Synthesis of prior works.
- Determining meanings and relationship among variables.

This chapter of the study is basically concerned with conceptual framework and review of literature relevant to the investment analysis of commercial banks. Every study is much based on past data, knowledge and activities. The study of past knowledge should not be ignored as it provides foundation to the present study. So, the analysis and presentation of following parts define this chapter.

2.1 Concept

Investment is a present sacrifice for the sake of future benefits. Therefore, investment always involves risk. Present decision about selecting the best alternatives should always take the future risk into consideration. The few alternatives of investment in the past have now expanded into hundreds. Hence, the complexity of investment has also been increasing day by day. To select the best alternative and to construct an efficient portfolio, a wise analysis and decision is required. Before making any decision on investment we must be well informed about the factors, which affect investment. Investment decision related with saving, capital formation, capital market, risk involve with it, return, inflation etc.

2.1.1 Features or Principle of Sound Lending & Investment Policy

Sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial savings of an underdeveloped country like Nepal. It is universally known fact that the most important problem in banking administration is that of investing its deposits and paid up capital in various forms of earning assets. This is also known as portfolio policy. The bank's portfolio being nothing but an arranged and digested scheme of its assets. The funds of banks are generally invested either in those assets, which are non-profitable, or those, which are profitable. Non-profitable assets include cash reserve and the dead stock and profitable assets includes call money, investment, advances and loan, cash credits, overdrafts, discounting of bills and acceptances etc.

The guiding principal or features of sound Investment is as follows:

1. Profitability

Commercial banks can maximize its wealth through maximization of return on their investment and lending. Therefore, these types of banks should invest their funds where they earn maximum profit. Generally the profit of commercial banks depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities. A good bank is one who invests most of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserves to meet day to day requirements of the depositors.

2. Safety and Security

The bank must take care while investing funds. It should never invest its funds in those sectors, which are subject to too many fluctuations because a little difference may cause a great loss. Similarly, the businessman who is bankrupt at once or earns million in a minute should not be financed at all. Banks should accept that type of securities, which are commercial, durable, marketable and high market prices. For this purpose “MAST” should be applied for the investment. Where,

M- Marketability

A- Ascertain ability

S-Stability

T- Transferability

Bank must take care of the belonging of public while investing and providing loan received in the form of deposits. The risk and return involved must be analyzed thoroughly so that depositor’s money is advanced safely where the risk of loss does not exist.

3. Liquidity

Liquidity refers to that state of position of bank that shows its capacity to meet all of its obligations. In other words, it refers to the capacity of bank to pay cash against deposits. In simple sense, liquidity refers to the cash or any assets that can be converted into cash

immediately. People deposit their money at the banks in different accounts with confidence that the bank will repay their money when they need. Once the confidence is lost in depositor's eye, they may withdraw all their money (deposits) within a short period without giving any chance to the bank to manage. To maintain such confidence of the depositors, the bank must keep this point in mind while investing in different securities or at the time of lending. Hence, the liquidity position of a bank is such an important factor that it must be able to meet its cash requirement either by its cash in vault or by the help of converting its assets into cash in case of demand for such from its customers. There is no sense of the banks has adequate assets but not liquid.

4. Diversification of Risk

“A bank should not lay all its egg on the same basket.” This specify is very important to the bank and it should be always careful not to grant loan in only one sector, to minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because, if securities of a company deprived, there may be appreciation in the securities of other companies. In this way the loss can be recovered.

5. Marketability

The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily realized. The bank must make sure that the securities, in which he invests his funds, are easily saleable without appreciable loss.

6. Stability of Price

The primary object of a bank in buying securities is not to gain by a possible rise in their prices, which is the aim of a speculating dabbler. Therefore the price of the securities should be liable to wide fluctuations.

7. Stock Exchange Securities

This consists of government securities as well as securities of the joint stock companies. These securities are easily and quickly realizable. As they are quoted on the stock exchanges so their value can be easily ascertained. In case of need, a bank can either sell them or pledge them without any hesitation. But before accepting them, the bankers should see that the shares of the companies are not partly paid, that sufficient margin has been kept and they are negotiable. Speculative shares should not be accepted. (Mali (Dr.) Ram (1965), Currency and Banking)

8. National Interest

The objectives of bank should not go against the national interest. The banks should follow the rules and regulations as well as policy, directions given time to time by Nepal Rastra Bank. The bank should make its investment, which is suitable to the national interest and carries benefit to the society.

9. Suitability

Bank should always try to know that why a customer needs loan because if the borrower misuse the loan granted by bank he will never be able to repay loan. In order to avoid such circumstances, advances should be allowed to select the suitable borrowers.

10. Tangibility

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

2.1.2 Some Important Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

a.) Loan and Advances

Loan, advances and overdraft are the main source of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main service in which customers of the bank can enjoy.

Funds borrowed from the banks are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from their institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others, in mobilization of commercial banks fund, loan, advances and overdrafts have occupied a large portion.

b.) Investment on Government Securities, Share and Debenture

Though a commercial bank can earn some interest and dividend from the investment on government securities, share and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities bond and share for several reasons.

Some of them are given as:

- It may want to space its maturing so that the inflows of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.

- It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves. However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors' may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in volume.

c.) Investment on Other Company's Share and Debenture

Due to excess funds and least opportunity to invest their funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank's directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. Nowadays most of the commercial banks have purchased regional development banks and other development bank's shares.

d.) Deposits

For a commercial bank, deposit is the most important source of the liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene, "a bank's deposits are the amount that it owes to its customers." Deposit is the lifeblood of the commercial bank. Though, they constitute the great bulk liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings. They are:

- 1) Current Deposits
- 2) Saving Deposits
- 3) Fixed Deposits.

e.) Other Use of Funds

Commercial banks must maintain bank balance with NRB. 6% of fixed deposits and 8% percent of each current and saving deposit account in local currency .Similarly 3% percent of cash balance of local cash balance, in local currency accounts must be maintained in the vault of the bank. Again the part of fund should be used for bank

balance in foreign bank and to purchase fixed assets like land building furniture computer stationary etc.

f.) Off Balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation. These are not recognized as assets or liabilities on balance sheet. Some examples of this item are letter of credit, Letter of guarantee and bills of collection etc. These activities are very important as they are good source of profit of bank through they have risk now days some economic and finance specialist to expand the modern transaction of a bank stressfully highlight such activities.

2.1.3 History of Banking in Nepal

Similar to other countries goldsmith and landlords were the ancient bankers in Nepal. Tejarath Adda established during the tenure of the Prime Minister Rannodip Singh was the first step towards the institutional development of banking in Nepal though all the banking activities were carried out by it. Tejarath Adda did not collect deposits from the public but provided loans government employees and public against bullions.

Banking in true sense terms started with the inception (established) of Nepal Bank Limited on 30th Kartik 1994 B.S. right from inception, it carried out functions of a commercial bank. Nepal Bank Limited had a herculean responsibility of attracting people towards banking sectors from predominant non institutional transactions as well as introducing other banking services. Being a commercial bank, it is the one of government to look into neglected sector too.

This is the main reason of establishing Nepal Rasta Bank as a central bank of Nepal in 2013 B.S. Since then it has been functioning as a government bank it has its own limitations and reluctances of NBL to go the unprofitable sectors. To cope with these difficulties, government set up Rastriya Banijya Bank in 2022 B.S as a fully government owned commercial bank. Gradually, Agricultural Bank and Industrial bank came into existence. Deposit all these efforts of the government, financial sector was found

sluggish. Banking service to the satisfaction of the customer's was a far cry.

However, the inception of Nepal Arab Bank Limited in 2041 B.S. as a first joint venture bank proved to be a milestone in the history of banking.

With evolution of globalization and liberal economic policies, Nepalese financial sector is also able to attract foreign investors as well as private investors within the country. The following are the date list of major commercial banks operating in Nepal.

2.1.4 Concept of Commercial Banks

Commercial banks are those banks, which pool together the saving of the community and arrange them for the productive use. They accept deposits from the public and provide same deposits to the public as loan and advances. In fact, they circulate the money and create credit. The concept of the commercial banks made the economy strong. And now it's playing important role to make country economically strong. According to the Black's law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes, and to provide similar services. Likewise section 2(a) of the Commercial Bank Act 2031 has defined that "Commercial Bank" means a bank which operates currency exchanges transactions, accepts deposits, provides loan perform, dealings, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific object. (Bhandari Billi Raj, "Principle & practice of Banking & insurance", January, 2003 edition.

Hence, the term commercial bank is used taking meaning of all banking habits. That's why joint stock banks, member banks, and credit banks are frequently used interchangeably with the term commercial banks. But it is different that central bank. Central Bank cannot be interchangeable with other banks. In this way, a commercial bank is different from a central bank. While the primary objective of a commercial bank is the maximization of profit and central bank is primarily concerned with the effects of its operations on the functioning of the economy. Moreover, while there may certainly be

many competing commercial banks, there exists only one central bank in a country. While the commercial banks compete against each other, the central bank comes out if any; ordinary banking business for the general public, incomplete if confines itself mainly to controlling the operations of the banking system in country.

Regulatory functions of NRB

16 prudential regulations of Nepal Rastra bank are as follows:

- Regulation regarding minimum capital fund.
- Regulation regarding Loan classification and provisioning.
- Regulation regarding single obligor limits and credit concentration.
- Regulation regarding Accounting policies and financial statements
- Regulation regarding Risk Management
- Regulation regarding Good corporate Governance.
- Compliance with supervision reports and reporting
- Regulation regarding Investments
- Financial reporting
- Buy and sale of promoter's share
- Regulation regarding consortium
- Regulation regarding interest rates, buy and sale of promoters share,
- Credit information and blacklisting etc.
- Regulation regarding CRR
- Regulation regarding expansion of Branches
- Regulation regarding Interest rates
- Regulation regarding resource Mobilization

2.1.5 Review of Legislative Provision

Legislative environment has significant impact on the commercial banks established, their mobilization and utilization of resources. All the commercial banks have to conform to the legislative provisions specified in the commercial bank act 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks.

Under the provision in Nepal Rastra Bank, (NRB) Act 2002, the NRB has formulated and

implemented monetary policies so far. The focus of monetary policy has been to insure price, external and financial sector stability so as to create the environment supportive for high and sustainable economic growth.

NRB issues new monetary policy on July, 2009 for fiscal year 2009/10. The provision under this policy as follows:

- i. The compulsory cash reserve ratio (CRR) has been kept unchanged at minimum 5.5 Percent on account.
- ii. The capital adequacy ratio (CAR) should have to maintain 11.0 percentages.
- iii. Export credit refinance facility in domestic currency has been kept unchanged at 2.0 percent. Commercial banks are allowed not to charge more than 5.0 percent to the concerned borrower on such facility.
- iv. The penal rate for SLF has been kept unchanged at 3.0 percent along with the existing cap of 90 percent and maturity period of 5 days.
- v. The existing provision of refinance facility of Rs. 2 billion to sick industries and the refinance rate at 1.5 percent will be continued for 2009/10.
- vi. The commercial banks, development banks and finance companies are now required to invest in government securities at a ratio of 6.0 percent, 2.0 percent and 1.0 percent of their total domestic deposit mobilization respectively by second quarter of 2009/10. Such ratio should be maintained at a rate of 8.0 percent, 3.0 percent and 2.0 percent respectively by the end of fourth quarter of 2009/10.

(Source: Monetary Policy for Fiscal Year 2009/10 NRB, Press Release on July 2009, Central office, Baluwatar, Kathmandu, Nepal)

2.2 Review of Articles

Various articles were published on financial impact, which deals in the context of Nepalese commercial banks and financial sector of Nepal some of the articles are reviewed briefly.

According to Sunity Shrestha (1998) bank portfolio (loans and investments) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government

and heavy regulatory procedure of NRB. So the investments are not made in professional manner. Investments planning of the commercial banks in are not made in professional manner. Investment planning of the commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity and Social responsibility. To overcome this problem, she has suggested, commercial banks should take their Investment function with proper business altitude and should perform lending and Investment operation efficiently with proper analysis of the projects. (Shrestha, Sunita, (1998), “*Leading Operation of Commercial Bank of Nepal and its impact on GDP*”)

Investment is the value of that part of economics output for any time period that takes the form of new structure, new producers, durable equipment and change in inventories. (Joshi, Shyam(2057). *Managerial Economic.*)

Morris (1990), in his discussion on “*Latin American Banking System in the 1980's*” has Total risk of security can be divided into systematic and unsystematic components. Systematic risk is risk that cannot be diversified away for it affects all securities in the market. Unsystematic risk is unique to the particular securities and can be eliminated with efficient diversification. If the assumption of the CAPM or APT factor model holds this risk does not matter to investors. As a result, diversification of assets by a company in an effort to reduce volatility would not be a thing of value.

Investment is done usually to get some return from it in future. There is no use of Investment if there is not return. Even the parents invest on their children education with a hope that their children will earn money in future with that education they received. Therefore, there must be return from Investment made on capital goods or financial goods. It's another thing that the return may be positive and negative.

Most people store their money with bank, which keeps an account of how much money is costumer deposit. People gain access to their money through cash machine, counter transaction or by writing cheques. Banks may provide interest when a certain amount of

money is kept in the account, but will charge customers who borrow money. Banks also provide financial services, such as pensions and insurance policies. (The world Book Encyclopedia)

According to World Bank, “*Banks are financial institutions that accept funds in the form of deposit repayable on demand or in short notice.*” (Joshi, Shyam (1990), An introduction to Economic Theory)

The banks that collect deposits and advance loans are called commercial banks. According to these definition commercial banks accepts deposit and provide loans but other financial institutions also collect deposits. To differentiate commercial bank from other institution Dr. Shyam Joshi had defined it as a great institution that conducts the payment mechanism of a country. The individuals and institution make payment to each other through the mechanism of commercial bank. The commercial bank plays a leading role in the smooth operation of an economy. It makes available all financial services to individuals and institutions. (Joshi Shyam (1990). *An introduction to Economic Theory*)

In world book (2000), it states that Investment promotes economic growth and contributes to a nation’s wealth. When people deposit money in a saving account in bank. For example, the bank may invest by lending the fund of various business companies. These firms, in return, may invest the money in new factories and equipment to increase their production. In addition to borrowing from the banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issue bonds to obtain funds to invest in such projects as the construction of dams, roads and schools. All such Investment by individuals, business and govt. involves a present sacrifice of income to get an expected future benefits. As a result, Investment raises a nation’s standard of living. (*The world Book Encyclopedia*)

The above statement clearly specifies the importance of Investment and the role of banks for the development of the country. Banks is the major financial need for the various developments. The banks can play the vital role for the financing activities in the

business. The saving and Investment is most necessary for the developing country, which can be managed by banks. Capital accumulation also plays vital to accelerate the economic marginal propensity of consumption. As a result, such countries are badly in trapped into the vicious circle of poverty. Therefore the basic problem of the developing of the countries is to raise the level of saving and thus Investment and the problem can be solved through well-established banks.

In general, bank means an institution that accepts deposits in different accounts and provides loans of different types. Bank can be defined according to the functions of a bank or the service it provide such as commercial bank, central bank and industrial bank. In the words of leaf a bank is a person or corporation which holds it out to receive from the public, deposits payable on demand by cheque.

With the title of '*Banking the future on competition*' Mr. Sharma wrote in Business age that the commercial banks are establishing and operating mostly in urban areas. From his studies he found that:

- Commercial banks are establishing and providing their service in urban area only. They don't have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd. are running in those sectors.
- They have maximum tax concession.
- They don't properly analyze the credit system

He found that due to the lack of Investment avenues, banks are tempted to invest without proper credit appraisal and personal guarantee, whose negatives side effects would show colors only after four or five years. (Shrama, B. (2000, Oct). "*Banking the future an competition*")

According to Pradhan and Yadav (2002), saving is income not consumed. It is one the important and perhaps the chief sources of Investment. In developing countries about 45% of the incremental saving is invested domestically, while in developed countries about 75% of the incremental saving is invested domestically. This suggests that capital

is more mobile in developing countries than in developed countries. Saving are of great significance in a country's development. While saving results in high economic growth rate, rapid development leads in turn high savings. Nepal's saving rate is lower as to other developing countries, however, even to achieve 5 to 6 percent economic growth rate, more than 25 percent annual Investment of GDP is considered necessary. As the country's current domestic saving are about 14%, the economic resources are short by nearly 11% in proportion of the GDP.

The situation is such that huge portion of Investment has still to be made with external resources. The amount of saving of a typical household in Nepal is small because of the people have limited opportunities for Investment. They prefer to spend saving on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring benefits such as reduction of Investment risk and increase in liquidity. When capital is highly mobile international, saving from abroad can also finance the Investment needed at home. When capital is not mobile internationally, saving form abroad will limit Investment at home.

Wherever there is Investment there must be Capital formation. The development of an economy requires expansion of productive activities, which in turn is the result of the capital formation, which is the capital stock of the country. The change in the capital stock of the country is known as Investment. Therefore Capital formation is closely related to investment. Investment generally takes two forms:

- i. Financial Investment and
- ii. Physical Investment

Physical Investment related to real Investment in the economy or industry, which is known as capital formation. Capital formation shows the change in gross fixed assets of productive units of manufacturing industries.

Capital formation refers to the creation of physical productive facilities such as building tools, equipment and roads. The process of adding to the amount of stock of the real assets produces growth in the economy. It means increasing a country's stock of real

capital. It implies additions to the existing supply of capital goods in a country. It represents an additional of new capital stock to existing stock after deducting depreciation, damage and other physical deterioration of the existing capital stock. Economic progress in country depends upon its rate of capital formation. Hence, a key factor in the development of an economy is the mobilization of domestic resources. In the process of capital formation, the capacity to save by certain classes of people and institution becomes quite important. These people have varied asset-preferences, which change from time to time. The need of entrepreneurs who actually use savings for productive purpose also varies over time. (Pradhan and Yadav: 2002, Oct-Dec), *“The Economic Journal of Nepal”*)

According to Yadav Pant (2003), a bank is a service-oriented institution, which provides many kinds of services for its customer, all of which are equally important. Moreover, the quality of services should be up to the mark to meet the customer’s requirement. Customers are the key players for a service organization, without whom such organization can ever exist. (Pant: 2003: 4), *“Info Himalayan”*)

Panthi (2061), highlights on his article entitled *“The importance of human resource management”* published in souvenir of RBB where the banking services are only made by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer to achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straight way of identifying workforce requirement recruiting-selecting-placing-promoting-appraising-training and retirement.

Another article published on The Kathmandu Post daily of 28th April 2004 entitled *“Efficient Banking”* by L.D. Mahat, in his article he has accomplished, the efficiency of banks can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of

outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

According to Mr. Mahat, the analysis of operational efficiency of banks will help one in understanding the extent of vulnerability of banks under the changed scenario and deciding whom to bank upon. This may also help the inefficient banks to upgrade their efficiency and be winner in the situations developing due to slowdown in the economy. The regulators should also be concerned on the fact that the banks with unfavorable ratio may bring catastrophe in the banking industry.

2.3 Review of Thesis

There are a lot of research have been performed on Investment policy of Commercial banks. The findings of some of the studies are presented below.

Tuladhar, Upendra (2000) conducted a study on "*A study on investment policy of Nepal Grind lays Bank limited in comparison Joint venture Banks of Nepal*" with the objectives of :

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

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

The research findings of the study are as follows:

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

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

- Nepal Grindlays Bank Ltd. has maintained consistent and successful liquidity than NABIL Bank Ltd. and Himalayan Bank Ltd. Higher in foreign joint venture bank. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese Banks
- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards in shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
- Investment in various sectors has a positive impact on the national income
- From their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.
- Priority sector lending showed positive impact on the national income.

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

were found to constitute a set of significant variables affecting the bank portfolio composition.

Thapa, S. (2001) made a “*comparative study on Investment policy of Nepal Bangladesh Bank Limited and other joint venture banks*”. Her main objectives were as follows:

- To analyze the relationship between loan and advance and total Investment with other financial variable of NB bank and compare them with NABIL and NGBL.
- To evaluate the liquidity, asset management efficiency, profitability and risk position of NB bank in comparison to NABIL and NGBL.
- To study the various risks in Investment of NB bank in comparison to NABIL and NGBL.

From her study she found that NB bank has good deposit collections, it has better liquidity position, it has made enough loan and advances but it has made the negligible amount of Investment in government securities. She found that credit risk ratio, interest risk ratio, capital risk ratio, and profitability position of NB bank is comparatively worse than that of NABIL and NGBL. She also found that there is significant relationship between deposit and loan and advances, outside assets and net profit of NB bank. But there is no significant relationship between deposit and Investment of NB bank and the position of NB bank in regard to utilization of fund to earn profit is not better in comparison to NABIL and NGBL. She recommended NB bank to invest more in government securities, to implement sound credit collection policy, to upgrade its banking facilities, to implement sound and liberal lending policy to make more improvement in loan and advances.

S. R. Loudari (2001) conducted a study on “*A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.*” with the objectives of:

- To examine the liquidity asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI Bank Ltd.

- To analyze relationship between deposit and investment, deposit and loans and advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

The study was conducted through secondary data.

The research findings of the study are as follows:

- Current ratios for both the Banks is satisfactory.
- Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and share and debenture than that of Nepal SBI Bank Ltd.
- The analysis of growth ratios shows that growth ratios of total deposits, loans and advances, total investment and net profit of Nepal Indosuez Bank Ltd. are less than that of Nepal SBI Bank Ltd.
- The trend value of loans and advances to total deposit ratio is decreasing in case of both the banks. The trend value of total investment to total deposits ratio is also decreasing in case of both the banks.

Ojha, L.P. (2002) conducted a study on “*Lending Practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd.*” with the objectives of:

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

total income.

The study was conducted on the basis of secondary data.

The research findings of the study are:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- The loan and advances and investment to deposit ratio has shown that NABIL Bank Ltd. has developed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose.
- The ratio of investment to investment and loan and advances has measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks does not have deviated significantly.

P. Dhungana (2002) in his thesis, "*A Comparative Study on Investment Policy of Nepal, Bangladesh Bank and Other Joint Venture Banks*", tries to compare the Investment policy of NBBL with HBL and NSBI. His main findings and conclusion were as follows:

- NBBL has not good deposit collection, it doesn't have made enough cash and bank balance and it has made negligible amount of Investment in government securities.

- The Asset management ratios were highly variable which reveals NBBL has not followed stable policy.
- NBBL's ratio of OBS operation to loan and advances lower than that of HBL but its ratio is greater than that of NSBI.
- iv. The profitability position on NBBL is comparatively not better than that of HBL but better than that of NSBI.
- The credit risk ratios and interest risk ratios of NBBL is higher than that of HBL and NSBI. Banks profitability is solely depends on interest charged by a bank but the high interest rate risk of NBBL shows that bank is failure to maintain this.
- Trend of deposit collection, lending, investment and net profit were not better than HBL but better than NSBL.

He recommended increasing liquidity position of NBBL and making more Investment in government securities. He also suggested NBBL to implement a sound collection policy and more mobilization of interest bearing assets. He further suggested NBBL to have effective portfolio management, to have liberal lending policy and to upgrade the banking facility.

Raya, T.K. (2003) in his thesis, "*Investment Policy and Analysis of Commercial Banks in Nepal*" made a comparative study of SCBNL. With NIBL and NB Bank.

His main objectives were as follows:

- To discuss fund mobilization and investment policy of SCBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction.
- To evaluate the quality, efficiency and profitability and risk position.
- To evaluate trend of deposit, investment, loan and advances and projection for next year.

His main findings were as follows:

- Mean current ratio of SCBL is slightly higher than that of NIBL and Nepal Investment bank.
- Mean ratio of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL.

- Liquidity position of SCBL is comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio. SCBL has a good deposit collection. It has made enough Investment on government securities but it has maintained low Investment policy on loan and advances.
- SCBL is comparatively average successful in it's on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.
- SCBL is comparatively higher position than that of other banks, as well as its use to provide interest to the customers for different activities.
- There is significant relationship between deposit of loan and advances and between asset and net profit of SCBL.

He has recommended the SCBL for effective portfolio management and for project oriented approach. He also suggested enhancing the Off Balance Sheet operation.

D. Shrestha (2003) in her thesis, *“Investment Analysis of Commercial Banks”* a comparative study of HBL and Nepal SBI bank said that only joint venture commercial banks are running in profit. And HBL is one of the successful commercial bank of Nepal. Nepal SBI is still in developing period. HBL has made a great achievement within last 10 years period. It has also invested in different sectors. These commercial banks should take favorable step for the development of rural parts of the country.

Banks plays a crucial role in sustainable development of least developed countries. Because of bottlenecks inherent in the economics of least developed countries are either unemployed or under-employed or only seasonally employed. It can absorb the population in gainful employment activities. Thus, they can play an important role in poverty alleviation in the country. The major sources for financial resources to industries in the least developed countries are the commercial banks. They account almost 80 to 90% of the total lending to enterprise. This study is concerned with the Investment analysis of commercial banks of Nepal.

Silwal, K.S. (2004) in her thesis, *“Investment Policy of Commercial Bank”* a

comparative studies of NABIL and SBI Banks” on the basis of analysis and findings of the study as follows:

- The liquidity position of a bank is affected by external as well as internal factors. The affecting factors may be interest rates, position of loan and advances and savings, investment situations, central banks directives, the lending policies, capability of management and so forth. As NABIL has maintained ratios of cash and bank balance to total. So, NABIL is recommended to increase cash and bank balance to meet current obligation and loan demand.
- To get success in competitive banking environment, depositor’s money must be utilized as loan and advances. Negligence in administrating this asset could be one of the main reasons of a bank failure. It has been found from the study that SBI has greater ratios of all because its large portion of fund is invested as loan and advances but neglected to invest on other sectors. NABIL has not properly used its existing fund as loan and advances. To overcome this situation NABIL is strongly recommended to follow liberal lending policy.
- Commercial banks cannot move away from their target that is profit and customers satisfaction. They should be careful in increasing profit to maintain the trust of shareholders, investors and customers. SBI profitability position is worse than that of NABIL. So, SBI is recommended to utilize risky assets and shareholders fund to gain highest profit margin.

Although the securities issued by government yields the lowest interest rates are considered to be risk free. From this study, it is found that SBI has maintained lowest in comparison to NABIL. Therefore, it is recommended to SBI that if it has idle funds it should invest them in government securities. It should always look from the “something is better than nothing” viewpoint.

- Most of the JVBs have focused their banking services especially to big clients such as multinational companies, large-scale industries and so forth. The minimum level of bank balance and the amount needed to open an account in banks are very high. So, small depositors are very far from enjoying the banking facilities provided by such JVBs. Therefore, these banks should open its door to

the small depositors and entrepreneurs for promoting and mobilizing small investor's funds.

- The project oriented approach has been encouraged in lending business of the banks, in which security is not necessary, risk is high but the project is important from the point of view of national economy. So, it is recommended to both banks to follow the project-oriented approach. In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients.

Aryal, B.B. (2005) has conducted a study on "*Investment Policy of JVBs in Nepal*" a comparative study of EBL with NABIL Bank and NB Bank Ltd. He found that;

- The liquidity position of EBL is comparatively better than NABIL and NBBL. It has higher cash and bank balance to total deposit can cash bank balance to current assets ratio. It has made enough investment on government securities but has maintained moderated investment policy on loan and advances.
- EBL is comparatively average successful in its on balance sheet operation as well as off balance sheet activities in compared to NABIL and NBBL.
- Profitability ratio of EBL is comparatively worse than the NABIL and NBBL.
- Risk ratio shows that EBL has maintained higher risk which indicates heterogeneous variability in its operation. Whereas there is moderate risk taken by NABIL and NBBL
- EBL has maintained high growth rates in total deposit, loan and advances but has moderate position in investment. EBL has less growth rate than NABIL and NBBL.
- EBL has the highest value of coefficient of correlation between deposit loan and advances that other compared banks. Likewise correlation coefficient between deposit and total investment is also higher than other compared banks. EBL is moderately successful in mobilization of fund and earn return i.e. net profit from such mobilized funds.
- The deposit of EBL, NABIL and NBBL are in increasing trend which leads its profit also to the increasing trend.

- There is no significance difference in between loan and advance to total deposit, no differences to current assets ratio likewise no significance difference in between loan and advances to current assets ratio of EBL, NABIL and NBBL.
- There is significant different between OBS operation to loan and advances of EBL, NABIL and NBBL. Likewise there is significant difference in between total interest earned to total outside assets of EBL, NABIL and NBBL.

Joshi, J. (2005) has conducted a study on “*Investment Policy of Commercial Bank of Nepal*” a comparative study of EBL with NABIL Bank and BOK and she found that;

- EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.
- Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque scheme, house building deposit scheme, recurring deposit scheme, deposited linked life insurance scheme, monthly interest scheme, direct finance housing scheme, education loan and scheme, vehicle loan scheme, and many others.
- It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. EBL has invested it's more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal so, EBL is recommended to invest more its fund in share and debentures of different companies.
- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”. The bank should make continuous effort to explore new, competitive and high yielding

investment opportunities to optimize their investment portfolio.

- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund. So it is recommended that the bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositor's.
- On the basis of above facts, it is seen that EBL has invested much of its fund in total outside assets but it has not achieved the desired result. So, it is hereby recommended that the EBL should play tactfully while investing its funds keeping in mind the interest rates so as to be earns high returns from the investment.
- The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle. Rather, before taking any of the risk as stated above, EBL should carefully study it so as to achieve higher returns from the above risk.

2.4 Research Gap

By the revision of above mentioned studies, it is found that different studies have different area of coverage. The author focuses this study in effectiveness on investment analysis of Nepal Investment Bank, Himalayan Bank, Everest Bank and Bank of Kathmandu Ltd, comprehensive manner considering the major items. Some researchers have not focused on financial analysis and some others have not considered statistical analysis such as correlation, trend analysis etc. Furthermore, some researchers have made their studies on one or two simple only, in this contest, present study is different from these previous studies as researcher has used statistical tools (correlation coefficient, trend analysis) of four simple banks and tried to indicate the effectiveness of investment analysis of concern banks. Most of previous researcher has used secondary data but in this study, researcher has used both primary and secondary types of updated data are used as per required. In sum this study is different than the others related studies according to sampling procedure and size, methodology and mainly objectives.

CHAPTER -3

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Research methodology describes the methods and process applied in the entire subject of the study. This chapter attempts to have an insight into the Investment policy adopted by HBL, NIBL, EBL and BOK.

3.1.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. (Kerlinker, F.N. (1996), *Foundation of Behavioral Research*)

According to Wolff and Pant (2003) by research design we mean an overall framework or plan for the collection and analysis of data.

(Wolff and Pant: 2003: 74, *Social Science Research and Thesis Writing*)

To achieve the objectives of this study, descriptive and analytical research design has and descriptive techniques have been adopted to evaluate Investment performance of HBL, NIBL, EBL and BOK.

3.1.2 Sources of Data

Mainly, the study is conducted on the basis of the secondary data. The data required for the analysis are directly obtained from the balance sheet and the P/L account of the concerned bank's annual reports. Supplementary data and information are collected from the number of institutions and regulating authorities like NRB, SEBON, NEPSE, Economic Survey and National planning commission etc. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives.

Formal and informal talks with the concerned authorities of the banks were also helpful to obtain the additional information of the related problem. Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.1.3 Population and Sample

The limitation of time and unavailability of the relevant data has forced me to make research on the HBL, NIBL, EBL and BOK only even though there are 25 commercial banks established in Nepal which is selected from the population.

3.2 Methods of Data Analysis

In the study, various financial, accounting and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage, graph, Karl Pearson's Coefficient of correlation, trend analysis are used in the study. Likewise, some financial tools such as ratio analysis have also been used for financial analysis. The various tools applied in this study, have been briefly presented as under.

3.2.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of bank. In this study financial tools like ratio analysis and financial statement analysis have been used.

Ratio Analysis

Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decision. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to itself. The qualitative financial performance of a firm can be done with help of ratio analysis. Even though, there are many ratios, only those ratios have been covered in this study, which are related to the Investment operation of the bank. This study contains following ratios.

1. Ratio of Commercial Banks Investment to Sample Bank Investment.

Total commercial banks Investment to sample banks Investment ratio is used to analysis how much Investment has cover by the sample bank Investment. It is derived by following equation.

Total Commercial Banks Investment to Sample Banks Investment ratio =

$$\frac{\text{Sample Bank Investment}}{\text{Total Commercial Banks}}$$

2. Segregation of Total Investment of Sample Banks.

It is used to analyze how the sample banks have invested its collected funds. Banks generally Investment in government securities, share and debentures of other companies and NRB bond. An attempt is made to analyze how much percentage is invested by the banks in different sectors. The following equation is used for this purpose.

$$\text{I. Total Investment to govt. sec. Investment} = \frac{\text{Investment on Government Security}}{\text{Total Investment}}$$

$$\text{II. Total Investment to share \& Debenture} = \frac{\text{Investment on Share \& Debenture}}{\text{Total Investment}}$$

$$\text{III. Total Investment to NRB Bond} = \frac{\text{Investment on NRB Bond}}{\text{Total Investment}}$$

$$\text{IV. Total Investment to Other} = \frac{\text{Investment on Other Sector}}{\text{Total Investment}}$$

3. Asset Management Ratio

Asset management ratio measures how efficiently the bank manages the resources at its command. The following ratios are used under this assets management ratio.

a. Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on Investment in government securities and shares

debentures of other companies and bank. The ratio can be calculated by dividing total Investment by total deposit. It can be expressed as follows

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

Total Investment consists of Investment on government securities, Investment on share and debentures, bond of other companies and other Investment.

b. Investment Plus Loan and Advances to Total Deposit Ratio

Loan and advances can also be regarded and Investment of banks. Investment as well as loan and advances both are done to generate income for the bank. Investment plus loan and advances to Total deposit ratio is calculated out, how successfully the banks are utilizing their total deposits on loan and advances for profit generating purpose. Greater ratio implies the better utilizing of total deposits. This ratio can be obtained by dividing Investment plus loan and advances by Total deposits, which can be states as,

$$\text{Investment plus Loan \& Advances to Total Deposit Ratio} = \frac{\text{Investment+Loan \& Advances}}{\text{Total Deposit}}$$

c. Total Investment to Total Asset Ratio

Investment is major component in the total working fund which indicates the ability of bank to channelize its deposits in the form of loan and Investment to earn high return. Investment and loan & advances are the only income generating source of bank. This ratio can be computed by dividing total of Investment, Loan and advances by total Assets. This can be stated as follows:

$$\text{Total Investment to Total Assets ratio} = \frac{\text{Total Investment}}{\text{Total Assets}}$$

Here, total Investment includes Investment on government securities, share and debentures of other company, other Investment and loan and advances. And total assets includes all assets of balance sheet, in other words, this includes current assets, net fixed

assets, loans and development banks and other miscellaneous assets but exclude off balance sheet items like letter of credit, letter of guarantee etc.

d. Investment on Government Securities to Total Assets Ratio

Government securities are the safest place to invest the collected fund. Most of the commercial banks invest on securities issued by the government. Some banks do not invest sufficient funds in government securities. Others borrow frequently and thus lower the liquidity ratio.

Investment on government securities to total assets is calculated to find out the percentage of assets invested in government securities. This ratio is calculated by dividing Investment on government securities by Total assets.

This is presented as,

$$\text{Investment on government securities to total assets ratios} = \frac{\text{Investment on Govt. Securities}}{\text{Total Assets}}$$

e. Investment on Shares and Debentures to Total Assets Ratio

Commercial banks hold shares of the other companies also. This ratio shows the banks Investment in shares and debentures of the subsidiary and other companies. This ratio can be derived by dividing Investment on shares debentures by total Assets. It can expressed as,

$$\text{Investment on share and Debentures to Total Assets ratio} = \frac{\text{Investment on Share \& Debentures}}{\text{Total Asset}}$$

4. Growth Ratio

Growth ratio represents how well the CBs are marinating their economic and financial status. Higher the ratio, better the executing of the bank and vice-versa. Under this title, three types of ratio are studied. They are directly related to the fund mobilization and investment of CB.

These ratios are:

- a) Growth Ratio of Total Investment
- b) Growth ratio of Deposits
- c) Growth Ratio of Loan and Advances

5. Capital Adequacy Ratio (CAR)

CAR measure the relationship with the total capital fund & total risk weighted assets and also measures the bank's capital. This ratio measure whether the firm has maintained sufficient capital or not. The ratio is tested to ensure the safety and stability of the firm in the long run. By virtue of the capital adequacy norm the banks have to assess their risk assets and maintain a minimum amount of capital. It serves to protect depositors and maintain stability & efficiency of the financial system. This is the basic purpose of the capital adequacy norms.

According to NRB directives, Commercial banks in Nepal have to maintain 11% Capital Adequacy Ratio (CAR). Thus this parameter indicates whether a particular bank has enough to absorb unexpected losses. It is calculated as follows:

$$\text{Capital adequacy ratio} = \frac{\text{Capital Fund}}{\text{Risk Weighted Asset}}$$

6. Loan Loss Provision Ratio (LLPR)

Banks provides the loan and advances to other industries from the public deposits and enjoys the profit. Since, bank rotates the public money and generates the profit. It is also its liabilities to safeguard the public deposits. Thus, to ensure the public for the safe of their deposit loan loss provision is kept. Loan loss provision ratio determines the provision made in terms of total loan provided in a particular year. LLPR is calculated as follows:

$$\text{Loan Loss Provision Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan}} * 100$$

7. Credit Risk Ratio (CRR)

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

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

3.2.2 Statistical Tools

Some important tools are used to achieve the objective of this study. The statistical tools that are used for data analysis in this study are:

1. Trend Analysis

Trend analysis describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It is an analysis of a firm's financial ratios over time. This measures the change of data over a period of time. This reveals whether the firm's ratio are improving or deteriorating over time. Under segment, current and projected trend, total investment, total deposit and total loan are calculated.

- a) Trend analysis of Total Investment plus Loan & Advances
- b) Trend analysis of Total Deposits

2. Co-efficient of Variations (C.V.)

The co-efficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which is defines as the ration of the standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to command the variability of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable, or less homogeneous. on the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogenous. We can denote this by following formula:

$$\text{Coefficient of Variation} = \frac{\text{Standard deviation}}{\text{Mean}} \times 100$$

3. Co-efficient of Correlation (r)

Correlation is the states statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1, when $r = +1$, it means there is

perfect relationship between two variables and vice versa. When $r=0$, it means there is no relationship between two variables. The Pearson's 1 formula is:

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}}$$

Where,

r = coefficient of correlation

x = independent variable = $(x - \bar{x})$

y = dependent variable = $(y - \bar{y})$

n = no. of periods

4. Coefficient of Determination (r^2):

The coefficient of determination is a measure of the degree of linear association or correlation between two variables one of which happens to be independent and other being dependent variable. In other words coefficient of determination measures the percentage total variation independent variables explained by independent variables. Zero to one is the ranging measurement of this coefficient of multiple determinations. If r^2 is equal to 0.75, which indicates that the independent variables used in, regression model explained 75% of the total variation in the dependent variable. If the regression line is a perfect estimator r^2 will be equal to +1, when there is no correlation, the value of r^2 is zero.

5. Probable Error of the Coefficient of Correlations (P.E.r)

After the calculation of co-efficient of correlation the next thing is to find out the extent to which it is dependable. The probable error is a measure of as certainty of the value of a person's coefficient of correlation. For this purpose the probable error of the coefficient of correlation is calculated. If the probable error is added to and subtracted from the co-efficient of correlation it would give two such limits with in which we can reasonably accept the value of co-efficient of correlation to vary. The formula for finding out the probable of error of the Karl Pearson's co-efficient of correlation is:

$$P.E(r) = 0.6745 \frac{(1-r^2)}{\sqrt{n}}$$

Where,

P.E.r = probable error of co-efficient of correlation

r= co-efficient of correlation

n= number of pairs of observations.

In order to conclude whether the co-efficient of correlation is significant or not. The following points would be kept in mind.

- If the co-efficient of correlations is less than its probable error, it is not at all significant.
- If the co-efficient of correlations is more than six times of probable error it is definitely significant.
- If the probable error is not much and if the co-efficient of correlation is 0.5 or more it is generally to be significant.

6. Arithmetic Mean

Arithmetic mean is the sum of all observations divided by the number of observations.

The arithmetic mean is denoted by (\bar{X}) . It is computed as:

$$\text{Arithmetic mean}(\bar{X}) = \frac{\sum X}{n}$$

Arithmetic Mean is calculated to find the mean of the financial ratio.

7. Standard Deviation

Standard Deviation is calculated to measures dispersion. It is computed as:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

8. Co-Variance (C.V.)

Co-Variance is calculated to find variance from the mean. It is computed as:

$$\text{C.V.} = \frac{\sigma}{\bar{X}}$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with financial analysis and statistical analysis that is concerned about comparative analysis and interpretation of available data. Data are collected from various secondary sources. Various financial and statistic tools have been used in this part. Necessary figures and tables are also presented in this part to describe about the Investment mechanism of the banks. For this purpose, interpretations are categorized into two heading:

1. Analysis of Financial Ratio
2. Analysis of Statistical Ratio

4.1 Analysis of Financial Ratio

Herein, appropriate ratios are calculated and proper interpretations are made. The analysis of the financial ratios verifies the performance of the concerned banks.

4.1.1 Ratio of Commercial Banks Investment to Sample Banks Investment

4.1.1.1 Ratio of NIBL Investment to Total Commercial Banks Investment

This ratio indicates the portion of Investment made by Nepal Investment Bank to total Investment made by commercial banks of Nepal. It shows how much Nepal Investment Bank is directly involved in Investment. And the ratio is derived by dividing Investment made by NIBL by Total Investment made by commercial banks.

Table No.1 .a Total Commercial Banks Investment to NIBL Investment Ratio

(Rs. in millions)			
Year	Total Investment of commercial banks	NIBL Investment	Ratio (%)
2060/61	49669	4172	8.40
2061/62	60181	4074	6.77
2062/63	82174	5673	6.90
2063/64	93531	6869	7.34
2064/65	108955	6874	6.31
Mean			7.14
S.D			0.71
C.V.			0.10

(Source: Banking and Financial Statistics, NRB)

Above table shows the Investment made by all commercial banks and by NIBL bank alone. From the above table it shows that portion of Investment made by NIBL is increasing every year. In the FY 2060/61 the ratio is almost 8.40%, which is optimum. The mean ratio is 7.14% during the study period.

4.1.1.2 Ratio of HBL Investment to Total Commercial Banks Investment

This ratio indicates the portion of Investment made by Himalayan bank to total Investment made by commercial banks of Nepal. It shows how much Himalayan bank is directly involved in Investment. And the ratio is derived by dividing Investment made by HBL by Total Investment made by commercial banks.

Table No.1.b Total Commercial Banks Investment to HBL Investment Ratio

(Rs in millions)			
Year	Total Investment of commercial banks	HBL Investment	Ratio (%)
2060/61	49669	9292	18.71
2061/62	60181	11692	19.43
2062/63	82174	10889	13.25
2063/64	93531	11823	12.64
2064/65	108955	13340	12.24
Mean			15.25
S.D			3.14
C.V.			0.21

(Source: Banking and Financial Statistics, NRB)

Above table shows the Investment made by all commercial banks and by HBL bank alone. From the above table it shows that portion of Investment made by HBL is increasing every year except in FY 2062/63. In the FY 2061/62 the ratio is almost 19.43%, which is optimum among them. The mean ratio is 15.25% during the study period.

4.1.1.3 Ratio of EBL Investment to Total Commercial Banks Investment

This ratio indicates the portion of Investment made by EBL to total Investment made by commercial banks of Nepal. It shows how much EBL has invested. The ratio is derived by dividing Investment made by EBL by Total Investment made by commercial banks.

Table No.1.c Total Commercial Banks Investment to EBL Investment Ratio

(Rs in millions)			
Year	Total Investment of commercial banks	EBL Investment	Ratio (%)
2060/61	49669	2536	5.10
2061/62	60181	2129	3.54
2062/63	82174	4201	5.11
2063/64	93531	4985	5.33
2064/65	108955	5061	4.64
Mean			4.74
S.D			0.64
C.V.			0.14

(Source: Banking and Financial Statistics, NRB)

Above table shows the Investment made by all commercial banks and by EBL alone. From the above table it shows that portion of Investment made by EBL is increasing every year except in 2061/62. The mean ratio is 4.74 during the study period.

4.1.1.4 Ratio of BOKL Investment to Total Commercial Banks Investment

This ratio indicates the portion of Investment made by BOKL to total Investment made by commercial banks of Nepal. It shows how much BOKL has invested. The ratio is derived by dividing Investment made by BOKL by Total Investment made by commercial banks.

Table No.1.d Total Commercial Banks Investment to BOKL Investment Ratio

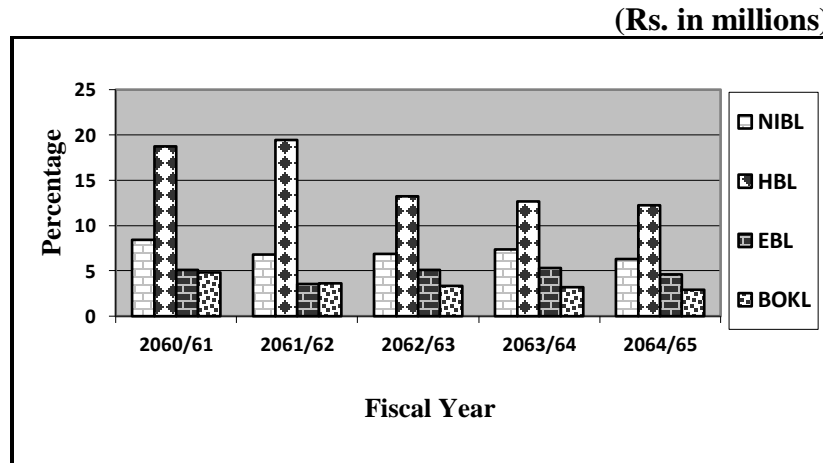
(Rs in millions)			
Year	Total Investment of commercial banks	BOKL Investment	Ratio (%)
2060/61	49669	2395	4.82
2061/62	60181	2166	3.60
2062/63	82174	2748	3.34
2063/64	93531	2995	3.20
2064/65	108955	3204	2.94
Mean			3.58
S.D			0.66
C.V.			0.18

(Source: Banking and Financial Statistics, NRB)

Above table shows the Investment made by all commercial banks and by BOKL alone. From the above table it shows that portion of Investment made by BOKL is increasing every year except in FY2061/062. The mean ratio is 3.58 during the study period.

Above table no. 1.a to 1.d shows that HBL covers more percentage than other 3 banks and BOKL bank covers less percentage than other banks on investment made by total commercial banks. Mean of the ratios of HBL Investment is also higher than that of other banks. Similarly the standard deviation and coefficient of variation between the ratio of HBL Investment to total commercial bank Investment is comparatively higher than that of other banks. It means there is more variability in Investment in HBL than others. It is due to higher rate of increment of Investment pattern in HBL.

Figure No. 1: Total Commercial Banks Investment to Total Investment Ratio



4.1.2 Segregation of Investment

4.1.2.1 Segregation of Investment of NIBL Bank

NIBL invest its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies and NRB bonds. Here an attempt is made to segregate the Investment made by NIBL.

Table No. 2.a Segregation of Investment of NIBL

(Rs. In millions)

Year	Investment	Gov. Sec.	%	Shares and debentures	%	NRB Bond	%	Other	%
2060/61	4172	2001	47.96	2171	52.04				
2061/62	4074	1949	47.84	204	5.01			1922	47.18
2062/63	5673	2522	44.46	108	1.9			3043	53.64
2063/64	6869	3256	47.4	55	1			3558	51.8
2064/65	6874	3155	45.9	60	1			3665	53.32

(Source: Banking and Financial Statistics, NRB)

Above table show the Investment made by NIBL in different sectors. NIBL is found to invest its fund in Government securities, shares and debenture of other industries, NRB bond and others. From the FY 2060/61 to 2064/65 Investment in Government Securities fluctuating trends and investment in share and debentures of other companies decreasing but the investment in other sector is in increasing trends except FY 062/63.

4.1.2.2 Segregation of Investment of HBL Bank

HBL invest its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. Here an attempt is made to segregate the Investment made by HBL.

Table No.2.b Segregation of Investment of HBL

(Rs. In millions)

Year	Investment	Gov. sec	%	Shares and Debenture	%	NRB Bond	%	Others	%
2060/61	9292	2782	29.94	97	1.04				
2061/62	11692	5470	46.78	40	0.34				
2062/63	10889	4578	42.04			566	5.20	5746	52.77
2063/64	11823	6455	54.60	73	0.62			5295	44.79
2064/65	13340	7472	56.01	90	0.67			5191	38.91

(Source: Banking and Financial Statistics, NRB)

Above table show the Investment made by HBL in different sectors. HBL is found to invest its fund in Government securities, shares and debenture of other industries, NRB bond and others. From the FY 2060/61 to 2064/65 the most of investment in Government Securities are in increasing trends and increasing trends in share and debentures of other companies but invest in other sectors are in decreasing trend.

4.1.2.3 Segregation of Investment of EBL Bank

EBL invests its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. Here an attempt is made to segregate the Investment made by EBL.

Table No.2.c Segregation of Investment of EBL

(Rs in millions)

Year	Investment	Gov. sec	%	Shares and Debenture	%	NRB Bond	%	Others	%
2060/61	2536	2466	97.24	17.1	0.67				
2061/62	2129	2100	98.64	19.4	0.91				
2062/63	4201	3549	84.48	6.5	0.15			646	15.38
2063/64	4985	4705	94.38	6.5	0.13			274	5.5
2064/65	5061	4907	96.96	16.2	0.32			138	2.73

(Source: Banking and Financial Statistics, NRB)

Above table show the Investment made by EBL in different sectors. EBL is found to invest its fund in Government securities, shares and debenture of other industries. Most of its fund investment in government securities and less in share debenture of other industries. From the FY 2062/63 its invest in other sector.

4.1.2.4 Segregation of Investment of BOKL

BOKL invests its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. Here an attempt is made to segregate the Investment made by BOKL.

Table No.2.d Segregation of Investment of BOKL

(Rs in millions)									
Year	Investment	Gov. sec	%	Shares and Debenture	%	NRB Bond	%	Others	%
2060/61	2395	2372	99.04	23	0.96				
2061/62	2166	2147	99.12	19	0.88				
2062/63	2748	2655	99.62	94	3.42				
2063/64	2995	2332	77.86	663	22.1				
2064/65	3204	2113	65.95	1091	34.05				

(Source: Banking and Financial Statistics, NRB)

Above table show the Investment made by BOKL in different sectors. BOKL is found to invest its fund in Government securities, shares and debenture of other industries. Most of its fund investment in government securities and less in share debenture of other industries.

4.1.3 Asset Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. Asset management ratio measures how efficiently, the bank manages the resources at its commands.

4.1.3.1 Ratio of Total Investment to Total Deposit

A commercial bank may finance its deposit fund to small industries building up of bank credit depends upon mutual connections and relationship between the banks and the customers. Banks needs to satisfy themselves regarding the technical knowledge and capacity for hard and sustained work on the part of borrows and the quality and marketability of the goods produced by them. Therefore commercial banks may mobilize its bank deposit by investing its fund in different securities issued by government and

other financial or non-financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on Investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement, central bank's norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as Investment and vice versa. This ratio is calculated by dividing total Investment by total deposit.

Table No.3.a Total investment to Total Deposit Ratio of NIBL

(Rs in millions)			
Year	Investment	Deposit	Ratio (%)
2060/61	4172	11706	35.64
2061/62	4074	14255	28.58
2062/63	5673	18927	29.97
2063/64	6869	24489	28.05
2064/65	6874	34452	19.95
Mean			28.44
S.D.			5.03
C.V.			0.18

(Source: Banking and Financial Statistics, NRB)

The table shows the investment and deposit ratio of NIBL. From the FY 2060/61 to 2064/65 the investment and deposit going on fluctuating trend. The average ratio of total investment to total deposit is 28.44, standard deviation is 5.03 and co-efficient variation is 0.18 percent.

Table No.3.b Total Investment to Total Deposit Ratio of HBL

(Rs in millions)			
Year	Investment	Deposit	Ratio (%)
2060/61	9292	22761	40.82
2061/62	11692	24831	47.09
2062/63	10889	26456	41.16
2063/64	11823	29906	39.53
2064/65	13340	31805	41.94
Mean			42.11
S.D.			2.61
C.V.			0.06

(Source: Banking and Financial Statistics, NRB)

The table shows the investment and deposit ratio of HBL. From the FY 2060/61 to 2064/65 the investment and deposit going on increasing trend except in FY 2062/63 & 2064/65. The average ratio of total investment to total deposit is 42.11, standard deviation is 2.61 and co-efficient variation is .06 percent.

Table No.3.c Total Investment to Total Deposit Ratio of EBL

(Rs in millions)			
Year	Investment	Deposit	Ratio (%)
2060/61	2536	8064	31.45
2061/62	2129	10098	21.08
2062/63	4201	13803	30.44
2063/64	4985	19098	26.1
2064/65	5061	23976	21.11
Mean			26.04
S.D.			4.42
C.V.			0.17

(Source: Banking and Financial Statistics, NRB)

Above shows the investment and deposit ratio of EBL. From the FY 2060/61 to 2064/65 the investment and deposit goes on increasing trend up to FY 2062/63. The average ratio of total investment to total deposit is 26.04, standard deviation is 4.42 and co-efficient variation is 0.17 percent.

Table No.3.d Total Investment to Total Deposit Ratio of BOKL

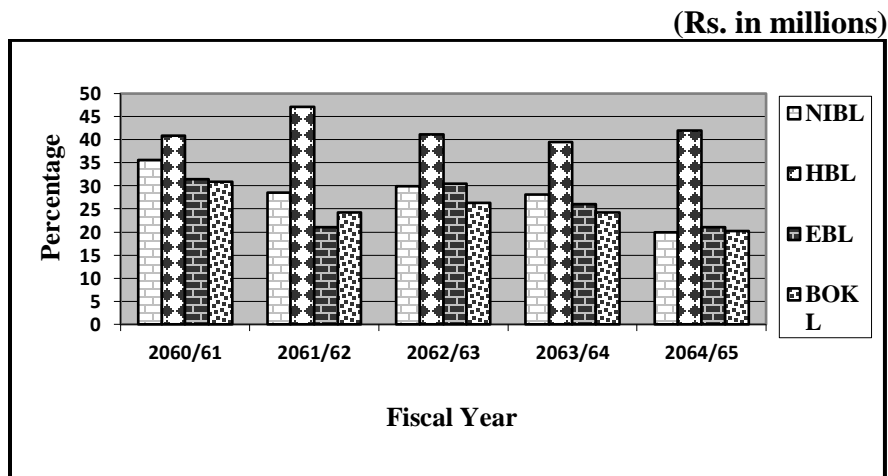
(Rs in millions)			
Year	Investment	Deposit	Ratio (%)
2060/61	2395	7742	30.94
2061/62	2166	8943	24.22
2062/63	2748	10429	26.35
2063/64	2995	12359	24.23
2064/65	3204	15833	20.24
Mean			25.2
S.D.			3.49
C.V.			0.14

(Source: Banking and Financial Statistics, NRB)

Above shows the investment and deposit ratio of BOKL. From the FY 2060/61 to 2064/65 the investment and deposit goes on increasing trend except in FY 2061/62. The average ratio of total investment to total deposit is 25.2, standard deviation is 3.49 and co-efficient variation is 0.14 percent.

Above tables 3a. to 3d. reveal that NIBL has lower Investment to deposit ratio on FY 2064/65 and it has increased its ratio up to 35.64 percent in the FY 2060/61. Whereas HBL has maintain higher ratio on FY 2061/62 and lower ratio on FY 2063/64. Mean ratio of HBL is higher than that of other Banks but BOKL has lower mean ratio than other Banks. Therefore, it is clear that HBL’s capacity to mobilize its deposits on Investment is better than that of other Banks. On the other hand, observing the C.V. of ratios, we can further conclude that ratio of HBL consistent then that of other Banks because of its lower C.V. i.e. 0.06. In conclusion, it can be said that HBL is successful in utilizing its resources on Investment than that of other Banks.

Figure No. 2: Total Investment to Total Deposit Ratio



4.1.3.2 Ratio of Total Investment plus Loan and Advance with Deposits

Loan and Advancement is also another type of Investment of banks. Since the major functions of commercial banks are of deposits collection and lending, it is very important to have a look at the credit to deposit ratio. Lending is a high risk Investment for a bank and the main income source of the bank is also the interest earned from loan and

advances. This ratio actually measures the extent to which the banks are successful to mobilize the total deposits on Investment plus loan and advances for the purpose of profit generation. A high ratio of Investment plus loan and advancement indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio may not be better from its liquidity point view. This ratio is calculated by dividing total Investment plus loan & advances by total deposits. The following table exhibits the ratio of total Investment plus loan and advancement to total deposits of NIBL, HBL, EBL and BOKL.

Table No. 4.a. Total Investment plus Loan and Advancement to Deposits ratio of NIBL

(Rs in millions)			
Year	Investment + Loan & Advances	Deposits	Ratio (%)
2060/61	11346	11706	96.92
2061/62	14369	14255	100.8
2062/63	18680	18927	98.69
2063/64	24351	24489	99.44
2064/65	34020	34452	98.75
Mean			98.92
S.D.			1.26
C.V.			0.01

(Source: Banking and Financial Statistics, NRB)

Table No. 4.b. Total Investment plus Loan and Advancement to Deposits ratio of HBL

(Rs in millions)			
Year	Investment + Loan & Advances	Deposits	Ratio (%)
2060/61	22374	22761	98.3
2061/62	24937	24831	100.43
2062/63	26405	26456	99.81
2063/64	29495	29906	98.63
2064/65	33325	31805	104.78
Mean			100.39
S.D.			2.33
C.V.			0.02

(Source: Banking and Financial Statistics, NRB)

Table No. 4.c. Total Investment plus Loan and Advancement to Deposits ratio of EBL

(Rs in millions)			
Year	Investment + Loan & Advances	Deposits	Ratio (%)
2060/61	8653	8064	107.3
2061/62	10043	10098	99.46
2062/63	14325	13803	103.78
2063/64	19044	19098	99.72
2064/65	23875	23976	99.58
Mean			101.97
S.D.			3.12
C.V.			0.03

(Source: Banking and Financial Statistics, NRB)

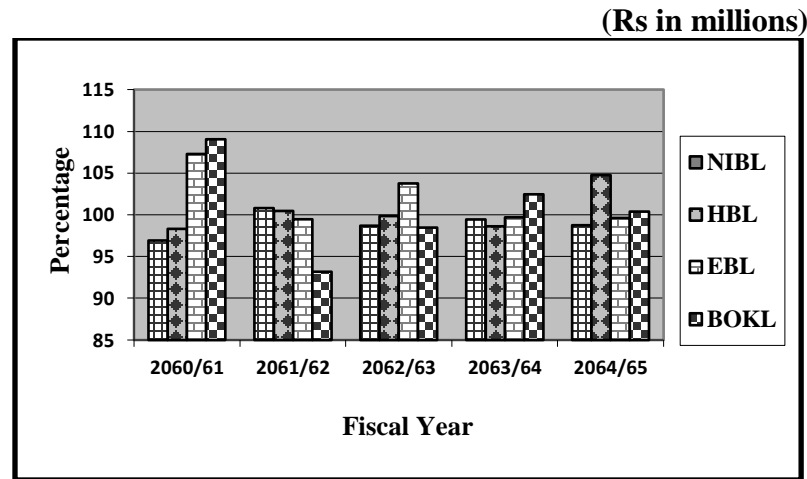
Table No. 4.d. Total Investment plus Loan and Advancement to Deposits ratio of BOKL

(Rs in millions)			
Year	Investment + Loan & Advances	Deposits	Ratio (%)
2060/61	8445	7742	109.08
2061/62	8333	8943	93.18
2062/63	10273	10429	98.5
2063/64	12659	12359	102.43
2064/65	15897	15833	100.4
Mean			100.72
S.D.			5.19
C.V.			0.05

(Source: Banking and Financial Statistics, NRB)

Above table 4a to 4d shows that the ratio of total investment plus loan and advances to deposit. EBL has maintained higher ratio than other banks likewise BOKL, HBL and NIBL have got less ratio. A higher ratio of Investment plus Loan & Advances indicates the better mobilization of its collected deposit & vice-versa. From point of view of liquidity, EBL is too low than other banks likewise BOKL, HBL and NIBL. The average ratio of EBL is 101.97, BOKL is 100.72, HBL is 100.39 and NIBL is 98.52 percent. C.V of BOKL is higher than other banks which means that ratio of BOKL is more variable than other banks.

Figure No. 3: Total investment plus Loan and Advancement to Deposits ratio



4.1.3.3 Ratio of Total Investment to Total Asset

A commercial bank's working fund should play very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on Investment for the purpose of income generation. A high ratio indicates a better mobilization of fund as Investment and vice-versa. This ratio is calculated by dividing total Investment by total assets i.e. total working fund. The following table exhibits the ratio of Investment to total assets of NIBL, HBL, EBL and BOKL.

Table No. 5.a. Total Investment to Total Assets Ratio of NIBL

(Rs in millions)

Year	Investment	Total Assets	Ratio (%)
2060/61	4172	13565	30.76
2061/62	4074	16638	24.49
2062/63	5673	22007	25.78
2063/64	6869	28573	24.04
2064/65	6874	40206	17.1
Mean			24.43
S.D.			4.38
C.V.			0.18

(Source: Banking and Financial Statistics, NRB)

Table No. 5.b. Total Investment to Total Assets Ratio of HBL

(Rs in millions)			
Year	Investment	Total Assets	Ratio (%)
2060/61	9292	26751	34.74
2061/62	11692	29103	40.17
2062/63	10889	31065	35.05
2063/64	11823	34646	34.13
2064/65	13340	37527	35.55
Mean			35.93
S.D.			2.17
C.V.			0.06

(Source: Banking and Financial Statistics, NRB)

Table No. 5.c. Total Investment to Total Assets Ratio of EBL

(Rs in millions)			
Year	Investment	Total Assets	Ratio (%)
2060/61	2536	9967	25.44
2061/62	2129	15069	14.13
2062/63	4201	16715	25.13
2063/64	4985	23335	21.36
2064/65	5061	28566	17.72
Mean			20.76
S.D.			4.35
C.V.			0.21

(Source: Banking and Financial Statistics, NRB)

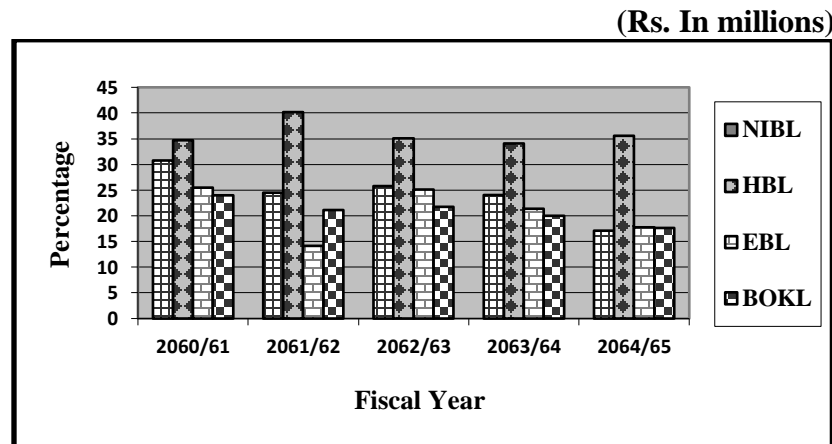
Table No. 5.d. Total Investment to Total Assets Ratio of BOKL

(Rs in millions)			
Year	Investment	Total Assets	Ratio (%)
2060/61	2395	9963	24.04
2061/62	2166	10246	21.14
2062/63	2748	12661	21.7
2063/64	2995	14998	19.97
2064/65	3204	18159	17.64
Mean			20.90
S.D.			2.10
C.V.			0.10

(Source: Banking and Financial Statistics, NRB)

Above tables 5a. to 5d. Shows that the ratio of Total Investment to total asset. The average ratio of HBL is higher than other banks likewise NIBL, BOKL and EBL. The average ratio of HBL is 35.93, NIBL is 24.43, BOKL is 20.90 and EBL is 20.76 percentages. It means HBL has used more assets for investment and EBL has used fewer assets for investment than other banks. C.V of EBL is higher and HBL is lower than other banks which means that ratio of EBL is more variable than other banks. Similarly S.D of NIBL's ratio is greater than other banks which show that NIBL is operating in higher risk than other banks.

Figure No. 4: Total Investment to Total Assets Ratio



4.1.3.4. Investment on Government Securities to Total Assets Ratio

The commercial banks mostly invest its funds collected in various government securities issued by government because they consider them most liquid, that is, they can realize cash at short notice and without must loss in capital invested. And also such securities would serve as the basis for loan from the central bank at the bank rate. The government securities are the safest place to invest the funds. They can be easily sold in the market or they can be converted into the cash in other ways. But they are not so much liquid as cash and bank balance.

Here an effort is made to examine the position of a bank's total assets that is invested on different government securities. This ratio is very important to know the extent of which the banks are successful in mobilizing their total working fund on different types of

government securities to maximize the income. All the deposits of the bank should not be utilized in loan and advances and other credit from security and liquidity point of view. Therefore, to some extent, commercial banks seem to be interested to utilize their deposits by purchasing government securities. A high ratio indicates better mobilization of fund as Investment on government securities and vice-versa.

This ratio is calculated by dividing Investment on government securities by total assets. The following table shows the ratios of Investment on government securities to total working fund of NIBL, HBL, EBL and BOKL.

Table No. 6.a. Investment on Government Securities to Total Assets Ratio of NIBL

(Rs in millions)

Year	Investment on government securities	Total Assets	Ratio (%)
2060/61	2001	13565	14.75
2061/62	1949	16638	11.71
2062/63	2522	22007	11.46
2063/64	3256	28573	11.40
2064/65	3155	40206	7.85
Mean			11.43
S.D.			2.19
C.V.			0.19

(Source: Banking and Financial Statistics, NRB)

Table No. 6.b. Investment on Government Securities to Total Assets Ratio of HBL

(Rs in millions)

Year	Investment on government securities	Total Assets	Ratio (%)
2060/61	2782	26751	10.40
2061/62	5470	29103	18.80
2062/63	4578	31065	14.74
2063/64	6455	34646	18.63
2064/65	7472	37527	19.91
Mean			16.5
S.D.			3.51
C.V.			0.21

(Source: Banking and Financial Statistics, NRB)

Table No. 6.c. Investment on Government Securities to Total Assets Ratio of EBL**(Rs in millions)**

Year	Investment on government securities	Total Assets	Ratio (%)
2060/61	2466	9967	24.74
2061/62	2100	15069	13.94
2062/63	3549	16715	21.23
2063/64	4705	23335	20.16
2064/65	4907	28566	17.18
Mean			19.45
S.D.			3.67
C.V.			0.19

(Source: Banking and Financial Statistics, NRB)

Table No. 6.d. Investment on Government Securities to Total Assets Ratio of BOKL**(Rs in millions)**

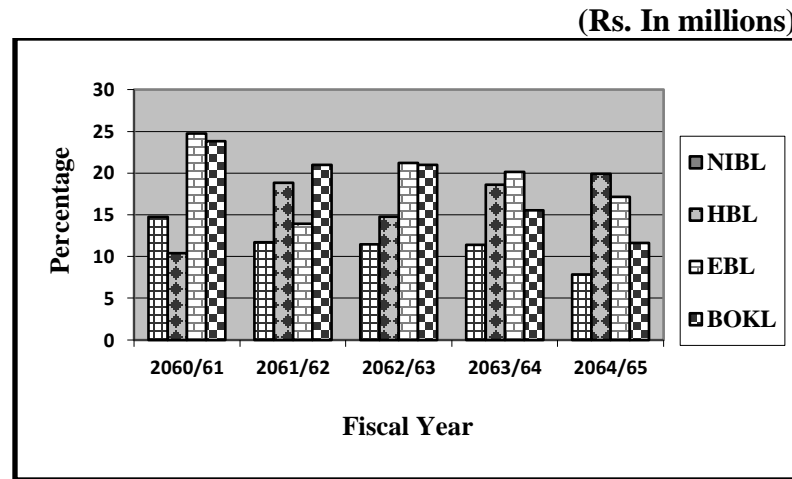
Year	Investment on government securities	Total Assets	Ratio (%)
2060/61	2372	9963	23.81
2061/62	2147	10246	20.95
2062/63	2655	12661	20.97
2063/64	2332	14998	15.55
2064/65	2113	18159	11.64
Mean			18.58
S.D.			4.38
C.V.			0.24

(Source: Banking and Financial Statistics, NRB)

Above table 6a. to 6d. Shows that the ratio of Investment on government securities to total assets. The average ratio of EBL is higher than other banks. Likewise BOKL, HBL and NIBL, it means EBL has mobilized their assets as investment in government securities more than other banks. C.V of BOKL is higher than other banks. Likewise HBL, EBL and NIBL, it shows that BOKL ratio is more variable than other banks. NIBL ratio is less variable than other banks.

Therefore it can be said that, BOKL has been able to mobilize its more assets by investing on government securities whereas NIBL has mobilized less assets on investing on government securities.

Figure No. 5: Investment on government Securities to Total Assets Ratio



4.1.3.5 Investment on Shares and Debentures to Total Assets Ratio

To study the Investment management of NIBL, HBL, EBL and BOKL total Investment has been separated into two parts i.e. Investment on government securities and Investment on shares and debentures. Nowadays, a commercial bank is interested to invest its fund not only on government securities but also in shares and debenture of other different types of companies. During the study period, most of the commercial banks of Nepal have found to purchase the share of other companies too.

Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their assets on purchase 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 debentures out of total assets and vice-versa. This ratio is calculated by dividing Investment on share and debentures by total assets.

The following table shows the ratios of Investment on shares and debentures to total assets ratio of NIBL, HBL, EBL and BOKL.

Table No. 7.a. Investment on Share and Debentures to Total Assets Ratio of NIBL**(Rs in millions)**

Year	Investment on Share and Debentures	Total Assets	Ratio (%)
2060/61	2171	13565	16
2061/62	204	16638	1.23
2062/63	108	22007	0.49
2063/64	55	28573	0.19
2064/65	60	40206	0.15
Mean			3.61
S.D.			6.21
C.V.			1.72

(Source: Banking and Financial Statistics, NRB)

Table No. 7. b. Investment on Share and Debentures to Total Assets Ratio of HBL**(Rs in millions)**

Year	Investment on Share and Debentures	Total Assets	Ratio (%)
2060/61	97	26751	0.36
2061/62	40	29103	0.14
2062/63	0	31065	0
2063/64	73	34646	0.21
2064/65	90	37527	0.24
Mean			0.19
S.D.			0.12
C.V.			0.62

(Source: Banking and Financial Statistics, NRB)

Table No. 7.c. Investment on Share and Debentures to Total Assets Ratio of EBL**(Rs in millions)**

Year	Investment on Share and Debentures	Total Assets	Ratio (%)
2060/61	17	9967	0.17
2061/62	19	15069	0.13
2062/63	7	16715	0.04
2063/64	7	23335	0.03
2064/65	16	28566	0.06
Mean			0.09
S.D.			0.05
C.V.			0.64

(Source: Banking and Financial Statistics, NRB)

Table No. 7. d. Investment on Share and Debentures to Total Assets Ratio of BOKL

(Rs in millions)

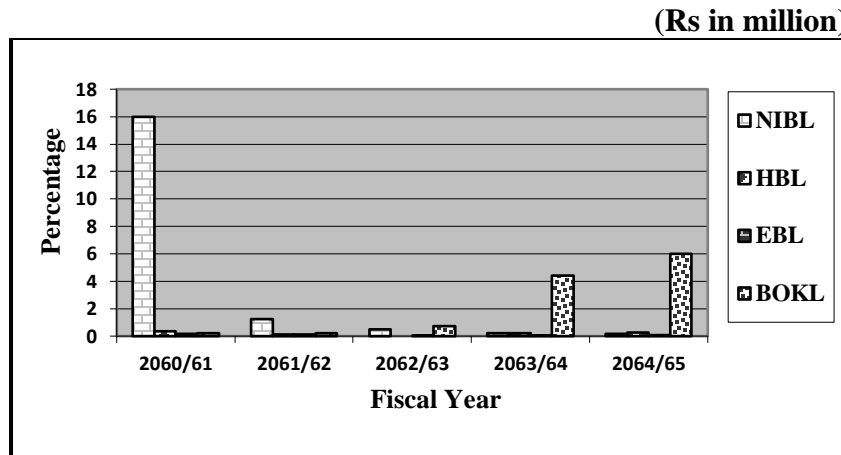
Year	Investment on Share and Debentures	Total Assets	Ratio (%)
2060/61	23	9963	0.23
2061/62	19	10246	0.19
2062/63	94	12661	0.74
2063/64	663	14998	4.42
2064/65	1091	18159	6.01
Mean			2.32
S.D.			2.43
C.V.			1.05

(Source: Banking and Financial Statistics, NRB)

Above table 7a. to 7d. Shows that the ratio of investment on share debenture to total assets. The average ratio of NIBL is higher than other banks likewise BOKL, HBL and EBL. On the basis of mean ratios, it can be stated that NIBL has invested higher amount in shares and debentures in comparison to other banks. But it shows that all banks invest fewer funds in share and debentures of other companies. Similarly C.V. of NIBL is also higher than that of other banks likewise BOKL, EBL and HBL. It means that ratio of NIBL is more variable than other banks. BOKL is increasing its investment on share and debentures than other banks are decreasing its investment on share and debenture.

From the above it can be concluded that all the banks doesn't invest much on share and debenture of other company. It may be because of higher risk involved with it. But commercial bank should invest in other company's shares also to develop the industry and to develop the country.

Figure No. 6: Investment on Shares and Debentures to Total Assets Ratio



4.1.4 Growth Ratio

Growth Ratios represent how well the Commercial banks are maintaining their economic and financial position. Here those growth ratios are analyzed and interpreted which are directly related to the fund mobilization and Investment management of a commercial bank. The high ratio generally indicated better performance of a bank and vice-versa.

4.1.4.1 Growth Ratio of Total Investment

This ratio shows whether the sample bank had increased the Total Investment or decreased the Investment. The following table shows the growth ratio of NIBL, HBL, EBL and BOKL banks.

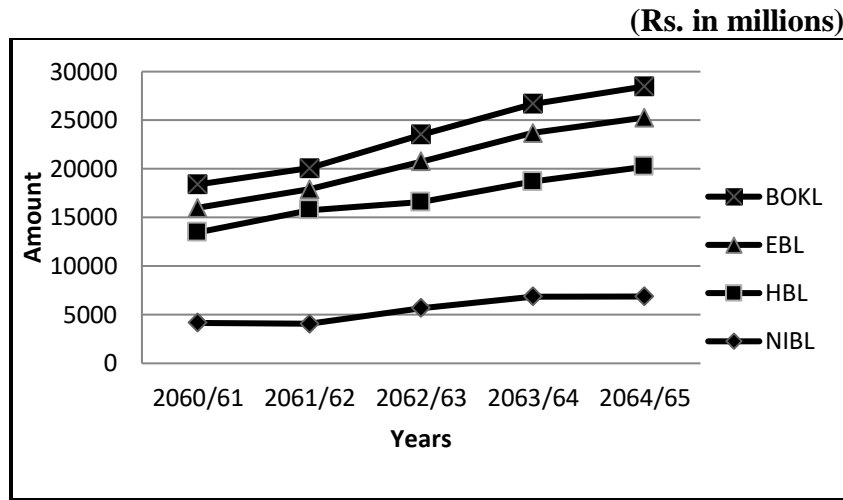
Table No. 8. Growth Ratio of Investment

(Rs in millions)

Year	NIBL	HBL	EBL	BOKL
2060/61	4172	9292	2536	2395
2061/62	4074	11692	2129	2166
2062/63	5673	10889	4201	2748
2063/64	6869	11823	4985	2995
2064/65	6874	13340	5061	3204
Growth Ratio %	13.29	9.46	18.86	7.55

(Source: Banking and Financial Statistics, NRB)

Figure No. 7. Growth Ratio of Investment



The above table and graph shows that the growth rate of investment of sample bank. All banks increasing their investment in different sectors. EBL has higher growth rate of investment than other banks. Likewise NIBL, HBL, and BOKL. HBL has higher investment than other banks likewise NIBL, EBL, and BOKL. The calculation method of growth ratios is shown in Annex-1.

4.1.4.2 Growth Ratios of Deposits

The bank collects its deposit from public. The growth ratio of deposits represent whether the banks had been able to increase its deposit collection or not. The following table represents the growth ratios of deposits of NIBL, HBL, EBL and BOKL.

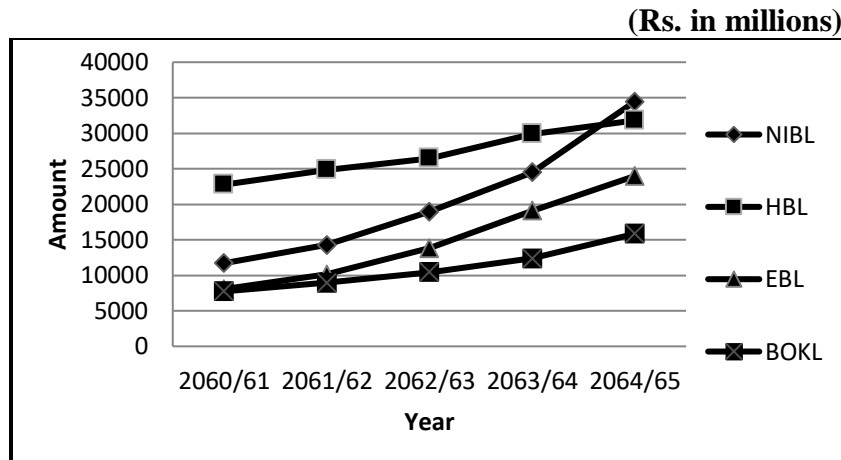
Table No. 9. Growth Ratio of Deposit

(Rs in millions)

Year	NIBL	HBL	EBL	BOKL
2060/61	11706	22761	8064	7742
2061/62	14255	24831	10098	8943
2062/63	18927	26456	13803	10429
2063/64	24489	29906	19098	12359
2064/65	34452	31805	23976	15833
Growth Ratio %	30.98	8.72	31.31	19.58

(Source: Banking and Financial Statistics, NRB)

Figure No. 8. Growth Ratios of Deposits



The above table and graph shows that the deposit collection of banks. All the banks are increasing their deposits. EBL has higher growth ratio of deposit than other bank. Likewise NIBL, BOKL and HBL. NIBL has collected higher deposit than other banks likewise HBL, EBL and BOKL. The calculation method of growth ratios is shown in Annex-2.

4.1.4.3 Growth Ratio of Loan and Advances

Loan and Advances growth ratio shows whether the banks are increasing its loan and advances or decreasing. The following table shows the position of loan and advances of NIBL, HBL, EBL and BOKL banks.

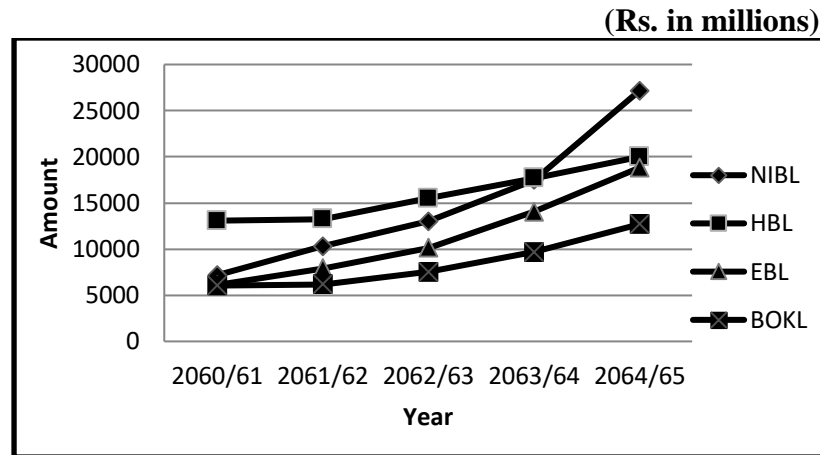
Table No. 10. Growth Ratio of Loan and Advance

(Rs in millions)

Year	NIBL	HBL	EBL	BOKL
2060/61	7174	13082	6117	6050
2061/62	10295	13245	7914	6167
2062/63	13007	15516	10124	7525
2063/64	17482	17672	14059	9664
2064/65	27145	19985	18814	12693
Growth Ratio %	39.47	11.17	32.43	20.35

(Source: Banking and Financial Statistics, NRB)

Figure No. 9. Growth Ratios of Loan and Advances



The above table and graph shows growth ratio of loan and advances. All the banks are increasing its loan and advances. NIBL has higher growth ratio than other banks likewise EBL, BOKL and HBL. NIBL has higher loan and advances than other banks likewise EBL, BOKL and HBL. The calculation method of growth ratios is shown in Annex-3.

4.1.5 Capital Adequacy Ratio

CAR measure the relationship with the total capital fund & total risk weighted assets and also measures the bank's capital. This ratio measure whether the firm has maintained sufficient capital or not. The ratio is tested to ensure the safety and stability of the firm in the long run.

Table No. 11.a. Capital Adequacy Ratio of NIBL

(Rs in millions)

Year	Capital Fund	Risk Weighted Asset	Ratio (%)
2060/61	1579	13637	11.58
2061/62	1367	12095	11.3
2062/63	2246	18172	12.36
2063/64	2852	23431	12.17
2064/65	3899	34439	11.31
Mean			11.74
S.D.			0.44
C.V.			0.04

(Source: Banking and Financial Statistics, NRB)

Table No. 11.b. Capital Adequacy Ratio of HBL**(Rs in millions)**

Year	Capital Fund	Risk Weighted Asset	Ratio (%)
2060/61	2292	21521	10.65
2061/62	2568	23324	11.01
2062/63	2885	25622	11.26
2063/64	2942	26433	11.13
2064/65	3195	25175	12.7
Mean			11.35
S.D.			0.7
C.V.			0.06

(Source: Banking and Financial Statistics, NRB)

Table No. 11.c. Capital Adequacy Ratio of EBL**(Rs in millions)**

Year	Capital Fund	Risk Weighted Asset	Ratio (%)
2060/61	1248	9194	13.57
2061/62	935	7583	12.33
2062/63	1415	11001	12.86
2063/64	1676	14979	11.19
2064/65	2387	21051	11.34
Mean			12.26
S.D.			0.90
C.V.			0.07

(Source: Banking and Financial Statistics, NRB)

Table No. 11.d. Capital Adequacy Ratio of BOKL**(Rs in millions)**

Year	Capital Fund	Risk Weighted Asset	Ratio (%)
2060/61	777	6929	11.22
2061/62	786	5467	14.37
2062/63	1217	7745	15.71
2063/64	1266	10225	12.38
2064/65	1635	14256	11.47
Mean			13.03
S.D.			1.74
C.V.			0.13

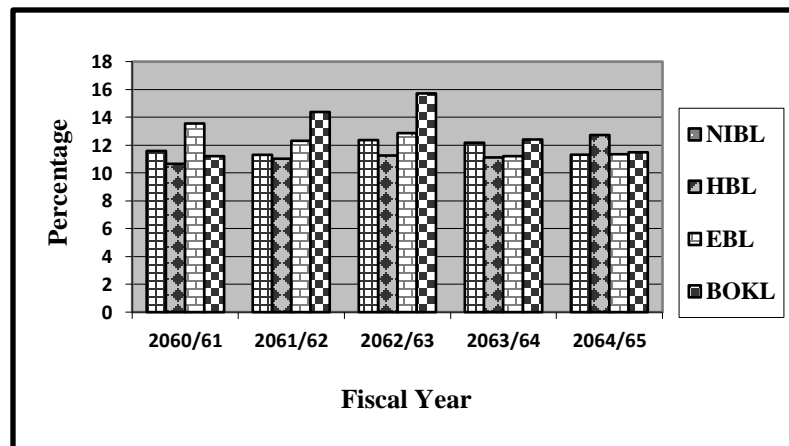
(Source: Banking and Financial Statistics, NRB)

Above table 11a. to 11d. Shows that the ratio of Capital Adequacy. The average ratio of BOKL is higher than other banks likewise EBL, NIBL and HBL. On the basis of mean ratios, it can be stated that BOKL has maintained higher ratio in comparison to other banks. But it shows that all banks maintained NRB's required CAR i.e. greater than 11 percentages. Similarly C.V. of BOKL is also higher than that of other banks likewise EBL, HBL & NIBL. It means that ratio of BOKL is more variable than other banks. BOKL is increasing its capital fund than other banks.

From the above it can be concluded that all the banks maintained sufficient capital according to NRB' directives i.e. all banks maintain CAR greater than 11 percentages. Thus above data shows that it serves to protect depositors and maintain stability & efficiency of the financial system.

Figure No. 10: Capital Adequacy Ratios

(Rs in millions)



According to Nepal Rastra Bank rules and regulation bank should maintain 11% CAR. From above figure & table, it is seen that all four banks under study have maintained CAR in all five year as per the NRB standard. BOKL has highest CAR in whereas HBL has lower CAR which is slightly above the NRB rule. From the above data can say that depositors and creditors of all the four banks are in safer position. Maintaining higher CAR is good, but in shareholder's point of view, it is not better because of idle fund and is not being transferred to credit which ultimately affect the profit.

4.1.6 Loan Loss Provision

To ensure the public for the safe of public deposit or credit, loan loss provision is kept. Loan loss provision ratio determines the provision made in terms of total loan provided in a particular year. Also, it can be advocated from two opposite dimensions. From one dimension it is advocated that lower loan loss provision ratio is better because higher loan loss provision decreases profit for shareholder. While from another dimension it can be advocated that higher is better because there can be the chance of higher risk than it is estimated loan loss provision ratio has relationship with total loan loss provision and Total Loan and Advances.

Table No. 12.a. Loan Loss Provision Ratio of NIBL

(Rs. in millions)

Year	Loan Loss Provision	Total Loan	Ratio (%)
2060/61		7174	0
2061/62	256	10295	2.49
2062/63	374	13007	2.88
2063/64	443	17482	2.53
2064/65	537	27145	1.98
Mean			1.98
S.D.			1.03
C.V.			0.52

(Source: Banking and Financial Statistics, NRB)

Table No. 12.b. Loan Loss Provision Ratio of HBL

(Rs. in millions)

Year	Loan Loss Provision	Total Loan	Ratio (%)
2060/61		13082	0
2061/62	937	13245	7.07
2062/63	1029	15516	6.63
2063/64	760	17672	4.3
2064/65	679	19985	3.4
Mean			4.28
S.D.			2.55
C.V.			0.59

(Source: Banking and Financial Statistics, NRB)

Table No. 12.c. Loan Loss Provision Ratio of EBL

(Rs. In millions)

Year	Loan Loss Provision	Total Loan	Ratio (%)
2060/61		6117	0
2061/62	318	7914	4.02
2062/63	356	10124	3.52
2063/64	419	14059	2.98
2064/65	497	18814	2.64
Mean			2.63
S.D.			1.4
C.V.			0.53

(Source: Banking and Financial Statistics, NRB)

Table No. 12.d. Loan Loss Provision Ratio of BOKL

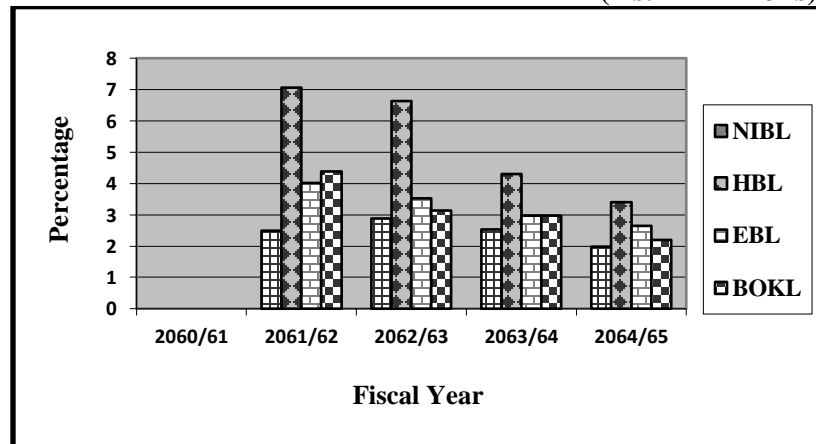
(Rs. In millions)

Year	Loan Loss Provision	Total Loan	Ratio (%)
2060/61		6050	0
2061/62	270	6167	4.38
2062/63	236	7525	3.14
2063/64	287	9664	2.97
2064/65	279	12693	2.2
Mean			2.54
S.D.			1.45
C.V.			0.57

(Source: Banking and Financial Statistics, NRB)

Figure No. 11: Loan Loss Provision Ratios

(Rs. In millions)



According to above figure and table it is seen that all four banks are decreasing its LLP Ratio. Among the banks HBL has the highest LLP Ratio (4.29) than EBL, BOKL & NIBL. It is so because of high NPL Ratio. There is direct relationship between NPL Ratio and LLP Ratio. Here NIBL has maintained the lowest LLP Ratio so they have better credit management.

4.1.7 Credit Risk Ratio

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

Table No. 13.a. Credit Risk Ratio of NIBL

(Rs. In millions)

Year	Total Loan & Advances	Total Assets	Ratio (%)
2060/61	7174	13565	52.89
2061/62	10295	16638	61.88
2062/63	13007	22007	59.1
2063/64	17482	28573	61.18
2064/65	27145	40206	67.51
Mean			60.51
S.D.			4.72
C.V.			0.08

(Source: Banking and Financial Statistics, NRB)

Table No. 13.b. Credit Risk Ratio of HBL

(Rs. In millions)

Year	Total Loan & Advances	Total Assets	Ratio (%)
2060/61	13082	26751	48.9
2061/62	13245	29103	45.51
2062/63	15516	31065	49.95
2063/64	17672	34646	51.01
2064/65	19985	37527	53.25
Mean			49.72
S.D.			2.55
C.V.			0.05

(Source: Banking and Financial Statistics, NRB)

Table No. 13.c. Credit Risk Ratio of EBL

(Rs. In millions)

Year	Total Loan & Advances	Total Assets	Ratio (%)
2060/61	6117	9967	61.37
2061/62	7914	15069	52.52
2062/63	10124	16715	60.57
2063/64	14059	23335	60.25
2064/65	18814	28566	65.86
Mean			60.11
S.D.			4.3
C.V.			0.07

(Source: Banking and Financial Statistics, NRB)

Table No. 13.d. Credit Risk Ratio of BOKL

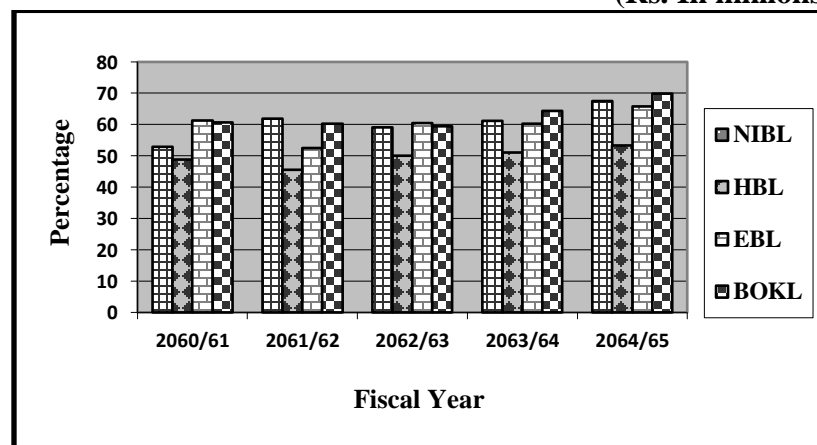
(Rs. In millions)

Year	Total Loan & Advances	Total Assets	Ratio (%)
2060/61	6050	9963	60.72
2061/62	6167	10246	60.19
2062/63	7525	12661	59.43
2063/64	9664	14998	64.44
2064/65	12693	18159	69.9
Mean			62.94
S.D.			3.89
C.V.			0.06

(Source: Banking and Financial Statistics, NRB)

Figure No. 12: Credit Risk Ratios

(Rs. In millions)



According to above table & figure shows that CRR of all four banks are in increasing trends. BOKL has highest ratio (62.94) than other NIBL, EBL, & HBL. Comparatively, HBL has lowest risk ratio (49.72) than other banks. It indicates that HBL has low possibility of loss than that other bank.

4.2 Statistical Analysis

In order to achieve the effective of this study, some essential statistical tools such as Coefficient of correlation analysis between variables, trend analysis of investment plus loan & advance and deposit are used.

4.2.1 Correlation of Coefficient

4.2.1.1. Co-efficient of Correlation Analysis between Investment plus loan & advances and Deposits

Under this topic, Karl Person's coefficient of correlation has been used to find out the relationship between Deposit and Investment plus loan & advances. The main objective of the correlation analysis between deposit and investment plus loan & advance is to find out whether deposit is significantly used as investment plus loan & advance or not. It is already mentioned that Investment is dependent upon saving i.e. deposit. Longer the duration of deposit, higher the banker's ability to acquire long term asset. In the other words banker can't invest more on long asset if duration of deposit is short. In this sense it can be said that Investment is the function of deposit. Theoretically it is assumed that long-term asset yield higher return. It means longer the duration of deposit, higher would be the profitability of the bank. But Investment may not be the function of deposit only. Sometimes Investment is made from the funds raised from the sources. In such situation Investment is not dependent upon deposit only co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis deposits is independent variable (x) and Investment plus Loan and Advances is dependent variable (y).

The detail calculations in this regard are done in Annex-4 and the following table shows the value of r, r^2 and P.E. r and 6 P.E between those variables of NIBL, HBL, EBL and

BOKL during the study period 2060/61 to 2064/65.

Table No. 14. Correlation between Deposits and Investment plus Loan & Advances

S. No.	Banks	r	r ²	P.E.	6 P.E.
1.	NIBL	0.9643	0.9298	0.0211	0.1270
2.	HBL	0.9894	0.9790	0.0063	0.0380
3.	EBL	0.9991	0.9982	0.0005	0.0030
4.	BOKL	0.9881	0.9764	0.1055	0.0633

(Source: Annex-4)

From the above table shows, coefficient of correlation between Investment plus loan & advances and deposit of NIBL is 0.9643 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination (r^2) is 0.9298. Which means 92.98 % Investment plus loan & advances is depending on deposit i.e. independent variable and 7.02 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.0211 and similarly 6P.E. is 0.1270 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of NIBL is also significant though there is positive relation between them. This indicates that NIBL is successful to mobilize its deposit appropriately

Again in the case of HBL, coefficient of correlation between Investment plus loan & advances and deposit of HBL is 0.9894 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination (r^2) is 0.9790. Which means 97.90 % Investment plus loan & advances is depend on deposit i.e. independent variable and 2.10 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.0063 and similarly 6P.E. is 0.0380 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of HBL is also significant though there is positive relation between them. This indicates that HBL is successful to mobilize its deposit appropriately

Again in the case of EBL, coefficient of correlation between Investment plus loan & advances and deposit of HBL is 0.9991 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination (r^2) is 0.9982. Which means 99.92 % Investment plus loan & advances is depend on deposit i.e. independent variable and 0.08 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.0005 and similarly 6P.E. is 0.0030 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of HBL is also significant though there is positive relation between them. This indicates that EBL is successful to mobilize its deposit appropriately

Likewise in the case of BOKL, coefficient of correlation between Investment plus loan & advances and deposit of BOKL is 0.9881 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination (r^2) is 0.9764. Which means 97.64 % Investment plus loan & advances is depend on deposit i.e. independent variable and 2.36 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.1055 and similarly 6P.E. is 0.0633 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of BOKL is also significant though there is positive relation between them. This indicates that EBL is successful to mobilize its deposit appropriately.

In conclusion, we can say that there is positive relationship between deposit and investment plus loan & advances of four banks. This means if deposit increases then investment plus loan & advances of the bank also increases. It is clear from the table that correlation of coefficient and coefficient of determinant of EBL is higher than that of HBL, BOKL & NIBL bank respectively. This shows that EBL is at the better position in mobilizing deposit and investment plus loan & advances in comparison to other banks. Calculation of co-relation between investment plus loan & advances and deposit is shown in Annex-4

4.2.2. Trend Analysis and Projection for Next 5 Years

The objective of this topic is to analysis trend of Investment, Deposit of NIBL, HBL, EBL and BOKL. To utilize investment and Deposit of a commercial bank may grant loan and advances and invest in government securities and shares and debentures of other companies. Under this topic an attempt is made to analyze trend of Investment and Deposit of NIBL, HBL, EBL and BOKL and also forecast their trend for next five years.

The projections are based on the following assumptions:

- a. The main assumption is that other things will remain unchanged.
- b. The bank will run in present position.
- c. The economy will remain in the present stage.
- d. Nepal Rastra Bank will not change its guidelines to commercial banks.

4.2.2.1 Trend Analysis of Total Investment

Under this topic an attempt is made to analyze the trend of Investment of NIBL, HBL, EBL and BOKL and forecast the trend for next 5 years. Here, Investment includes Investment on government securities and investment in share and debenture of other companies plus loan and advances. Since loan and advances are also the investment of the bank, it is also included with total Investment. The following table shows the trend values of 10 years from 2060/61 B.S. to 2069/70B.S. of NIBL, HBL, EBL and BOKL.

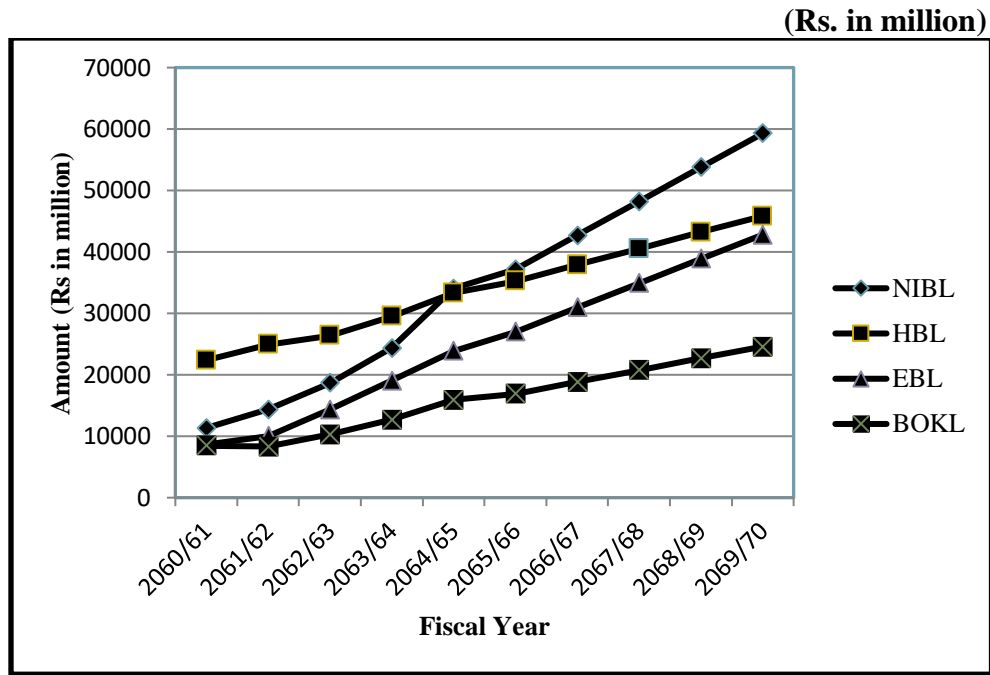
Table No.15 Trend values of Investment

(Rs in million)

Year	NIBL	HBL	EBL	BOKL
2060/61	11346	22374	8653	8445
2061/62	14369	24937	10043	8333
2062/63	18680	26405	14325	10273
2063/64	24351	29495	19044	12659
2064/65	34020	33325	23875	15897
2065/66	37152.2	35245.2	27021.5	16890.4
2066/67	42685.2	37891.2	30966	18813.4
2067/68	48218.2	40537.2	34910.5	20736.4
2068/69	53751.2	43183.2	38855	22659.4
2069/70	59284.2	45829.2	42799.5	24582.4

(Source: Annex-5a to 5d.)

Figure No. 13: Trend value of investment



From the above table no. 15 and figure no. 13, it is found that investment trend of commercial banks is in increasing trend. Other things remaining the same, in FY 2069/70, the investment of NIBL, HBL, EBL and BOKL will be Rs. 59284.2 million, Rs. 45829.2 million, Rs. 42799.5 million and Rs. 24582.4 million respectively in the same year. From the above investment trend, it is clear shows that NIBL deposit utilization position in relation to investment is greater than that the other remaining banks and also it has greater increasing growth rate than other banks. Therefore, it shows that total investment of NIBL can be in better position in the future.

In conclusion, we can say that all the commercial banks have followed the policy of maximizing the investment. Calculation of trend of investment is shown in Annex-5a to 5d.

4.2.2.2 Trend Analysis of Total Deposit

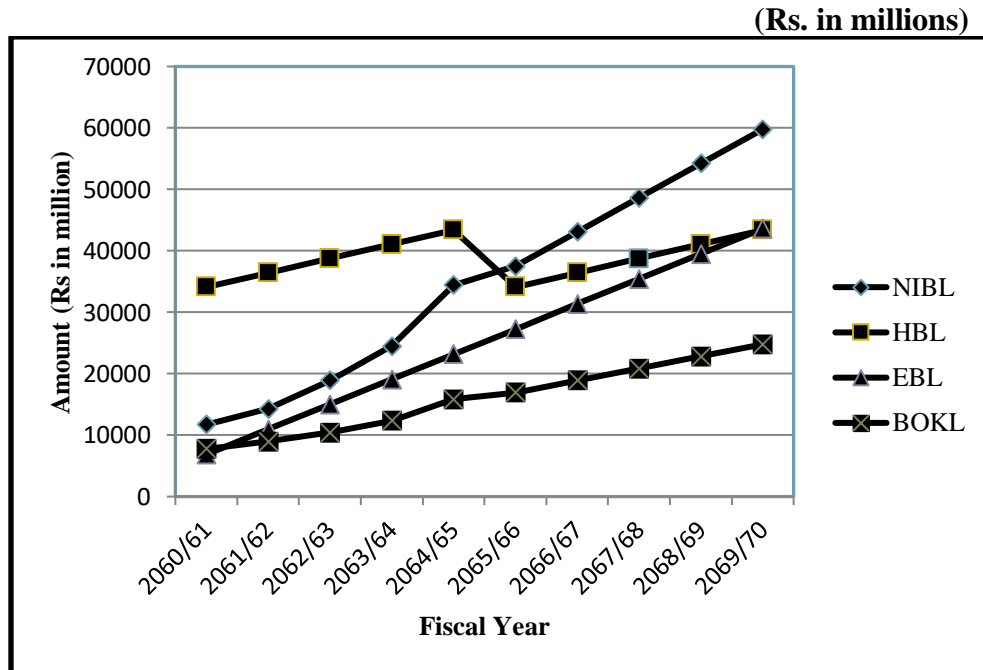
Under this topic an attempt is made to analyze the trend of Deposit of NIBL, HBL, EBL and BOKL and forecast the trend for next 5 years. The following table shows the trend values of 10 years from 2060/61 B.S. to 2069/70 B.S. of NIBL, HBL, EBL and BOKL.

Table No.16 Trend values of Total Deposit

(Rs in million)				
Year	NIBL	HBL	EBL	BOKL
2060/61	11706	34100.7	6843	7742
2061/62	14255	36417	10925.4	8943
2062/63	18927	38733.3	15007.8	10429
2063/64	24489	41049.6	19090.2	12359
2064/65	34452	43365.9	23172.6	15833
2065/66	37483.6	34100.7	27255	16940.6
2066/67	43056.2	36417	31337.4	18900.4
2067/68	48628.8	38733.3	35419.8	20860.2
2068/69	54201.4	41049.6	39502.2	22820
2069/70	59774	43365.9	43584.6	24779.8

(Source: Annex-6a to 6d)

Figure No. 14: Trend value of deposit



From the above table no. 16 and figure no. 14, it is found that deposit trend of commercial banks is in increasing trend. Other things remaining the same, in FY 2069/70, the deposit of NIBL, EBL, HBL and BOKL will be Rs. 59774 million, Rs. 43584.6 million, Rs. 43365.9 million and Rs. 24779.8 million respectively in the same year. From the above deposit trend, it is clearly shows that NIBL deposit collection position from the market is greater than that the other remaining banks and also it has greater increasing growth rate than other banks. Therefore, it is forecasted that NIBL will be more successful to collect more deposit from the market.

In conclusion, we can say that all the commercial banks have followed the policy of maximizing the deposit collection. Calculation of trend of deposit is shown in Annex-6a to 6d.

4.3 Major Finding of the Study

From the analysis of financial data and statistical data the main findings are as follows:

4.3.1 Findings from ratio of Sample banks to Total Commercial banks:

Mean ratio of HBL Investment to total commercial banks investment is 15.25% which is extremely higher than that of other banks to total commercial banks. The portion of HBL Investment is increasing every year in the total investment of commercial banks. The ratio of BOKL is 3.58% which is less than other banks.

4.3.2 Findings from the Investment pattern of Sample banks:

EBL had invested most of their fund in government securities than other banks. Likewise BOKL, HBL and NIBL. HBL, EBL and NIBL had started to invest in other sector from FY 2062. All the banks had invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.

4.3.3 Findings from Assets Management Ratios:

The mean ratio of Investment of Total deposit of HBL is 42.11% which is higher than other banks. Likewise EBL, NIBL and BOKL. The ratio of BOKL is 25.2 which is less

than other banks. Loan and advances is also another type of Investment of Commercial bank. The mean ratio of Investment plus loan and advances to deposit ratio of EBL is 101.97% which is higher than other banks, NIBL has less than other banks. It shows that the bank uses most of its fund from deposit on Investment and loan and advances. The mean ratio of total investment to total assets ratio of HBL is 35.93% which is greater than other banks. Similarly EBL has fewer ratios than other banks. The mean ratio of investment on government securities to total assets ratio of EBL is 19.45% which is higher than other banks and NIBL has 11.43% which is less ratio than other banks. The mean ratio of investment on share and debenture to total asset ratio of NIBL is 3.61% which is higher than other banks. NIBL has use its more fund on share and debenture of other companies than other banks. EBL has 0.09% which is less ratio of investment on share and debenture of other companies than other banks. It means EBL less invest its fund on share and debenture.

4.3.4 Findings from Growth Ratios:

Growth ratio of Investment of EBL is 18.86% which is higher than other banks. Likewise NIBL, HBL and BOKL. All the banks increasing their investment. BOKL has 7.55 which is less growth ratio than other banks. Growth ratio of loan and advance of NIBL has 39.47% which is higher than that of other banks and HBL has 11.17% which is lower growth ratio of loan and advance. All the banks are increasing their loan and advance. Growth ratio of deposits of EBL is 31.31% which is higher than that other banks and HBL has 8.72% which is lower growth ratio of deposit. All the banks are increasing their deposit.

4.3.5 Findings from Capital Adequacy Ratios:

The average capital adequacy ratio of BOKL is 13.03 which is higher than other banks likewise EBL, NIBL and HBL. On the basis of mean ratios, it can be stated that BOKL has maintained higher ratio in comparison to other banks. But it shows that all banks maintained NRB's required CAR i.e. greater than 11 percentages. Similarly C.V. of BOKL is also higher than that of other banks likewise EBL, HBL & NIBL. It means that ratio of BOKL is more variable than other banks. BOKL is increasing its capital fund

than other banks.

4.3.6 Findings from Loan Loss Provision Ratios:

The Loan Loss Provision of all four banks is decreasing. Among the banks HBL has the highest LLP Ratio (4.29) than EBL, BOKL & NIBL. It is so because of high NPL Ratio. There is direct relationship between NPL Ratio and LLP Ratio. Here NIBL has maintained the lowest LLP Ratio i.e. 1.98 so they have better credit management.

4.3.7 Findings from Credit Risk Ratios:

Credit Risk Ratio of all four banks is in increasing trends. BOKL has highest ratio (62.94) than other NIBL, EBL, & HBL. Comparatively, HBL has lowest risk ratio (49.72) than other banks. It indicates that HBL has low possibility of loss than that other bank.

4.3.8 Findings from Correlation Coefficient Analysis

Total Investment and Total deposit of all four banks has positive relation. And correlation of co-efficient between deposit and investment of all four banks are significant and the value of co-efficient of determination (r^2) of EBL is 0.9982 which is higher than other banks it means 99.82% of Investment decision is dependent upon deposit and only 0.18% Investment is depend upon other variables. Similarly Probable Error (P.E.) is 0.0005 and 6P.E. is 0.0030 which shows that (r) is highly greater than 6P.E. Therefore it reveals that relationship between deposit and Investment is significant. In the case of NIBL, coefficient of correlation between Investment and deposit is 0.9643 which is less than other banks it shows that there is a positive correlation between deposit and Investment and the value of co-efficient of determination (r^2) is 0.9298. Which mean only 92.98% Investment is depend on deposit and 7.02% Investment decision depends on other variables. And its Probable Error (P.E.) is 0.0211 and similarly 6P.E.is 0.1270 which shows that (r) is higher than (6P.E). It means correlation of coefficient between deposit and Investment of HBL is significant though there is positive relation between them.

4.3.9. Findings from Trend Analysis

Total Investment of four banks is also in increasing trend. The estimated Investment of NIBL is 59284.2 million which is higher than that of other banks and BOKL will be Rs. 24582.4 in the FY 2070 B.S. which is less than that of other banks. NIBL uses relatively a large portion of its deposit as investment and it has greater increasing trend than other banks so, the NIBL will be in a better position in future.

The total deposit of all four banks is also in an increasing trend. The estimated deposit of NIBL is 49774 million which is higher than that of other banks and BOKL will be Rs. 24779.8 in the FY 2070 B.S which is less than that of other banks. NIBL's deposit collection position from the market is greater than other banks and also it has greater increasing growth rate than other banks. Therefore, it is forecasted that NIBL will be more successful to collect more deposit from the market.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

The last chapter of this study is summary, conclusion and recommendation developed from the analysis of various aspects of the investment of commercial banks by using some financial as well as statistical tools. After completing the basic analysis required for the study the final and the most important task of the researcher is to be summarized the study and recommendation for the future importance.

5.1 Summary

The economic development of country depends upon the development of commerce and industry and there is no doubt that banking promotes the development of commerce because bank in itself is the part of commerce. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development.

The economic growth was very slow in earlier years. It has caught its full swing after restoration of democracy in the country. At present, overall economic growth rate is still declining year by year. Reasons behind this decline are insecure situation faced by industry, decrease in the tourist arrival, and drop in the production and export of carpet, garment and pashmina industry and political situation.

Industrial development is very important for economic development of any country. And there must be Investment made on productive activities for Industrial development. Investment is one of the financial activities which involve the decision of capital to establish commercial or industrial venture. It involves uses of funds to long term assets that would yield benefits in the future. The beginning and establishment of financial institution depends upon the level of economic activities and monetary transaction in the country. In Nepal history of modern financial institution begins with the establishment of NBL in 1937A .D. Since then several financial institutions have come into existence. But

Nepalese Industries have been facing challenges especially due to inadequacy of financial resources. Although numerous financial institutions have emerged both in regional as well as in international financial centers to extend credit facilities to the financially viable enterprise. But there still a big gap between demand for and supply of financial resources and gap seems ever widening over the years. Globalization and freeing up of the economy, decentralization, restructuring and downswing of large firms, worldwide communication networks and transfer and acquisition of state of the art, technology and other application, all have brought the challenges and opportunities to entrepreneur. Those who can respond to these challenges and mobilize necessary financial resources become successful and those who do not, fall victim in their rapidly changing economic environment. Banks plays a crucial role in this matter. Commercial banks not only collect the scattered saving from individual by accepting deposits but also provides various types of loan. And it itself invest in various share and debentures of other companies. A healthy development of any bank depends heavily upon its Investment policy. A sound and variable Investment policy can be effective one for the economy to attain the economic objectives directed towards the acceleration of the pace of development. A good Investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and Investment. Establishment of commercial banks has continued in response to economic liberalization policies of the government. So, now in Nepal there are many commercial banks competition with each other in their business. These banks are mainly concentrated themselves on financing foreign trade commerce and industry.

The main objective of the study is to evaluate the Investment Analysis of Commercial Banks in Nepal. And to suggest measures to improve the investment policy of the banks. The study is based on secondary data from fiscal year 2060/61 to 2064/65. The data which were employed in this research are secondary in nature. They are obtained from annual report and financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master degree thesis. Beside this personal contact with the banks personnel have also been made.

Financial as well as statistical tools have been developed in order to analyze and interpret

the data information, under financial analysis, various financial ratios related to investment function of commercial banks i.e. liquidity ratio, assets management ratio, capital adequacy ratio, loan loss Provision, credit risk ratio and growth ratio have been analyzed and interpreted. Under statistical tools like percentage, mean, standard deviation, coefficient of variation, coefficient of correlation, probable error and trend analysis have been used for the analysis and interpretation of the data. This analysis gives a clear picture of the performance of the banks with regard to investment operation.

5.2 Conclusion

After study and analysis of given data we conclude that banking is one of business sector. All the banks are running in profit. They invest in different sectors. EBL is running successfully and the growth rate of deposit, investment and loan and advance is higher than that of other banks. It means EBL collected more deposit and invested in different sectors. From the analysis of data NIBL is also running successfully. It has collected more deposit and investment than that of other banks, but its growth rate of deposit and loan and advance is less than that of other banks. NIBL is also running successfully, its growth rate of deposit, investment and loan and advance is increasing. HBL and BOKL are also increasing their deposit, investment and loan and advance.

Through the assets management ratio, Everest Bank limited has stronger investment policy towards loan and advance to total deposit but weaker in investment on government securities to total asset, investment on shares and debentures to total asset. From the view point of loan loss provision HBL has higher LLP ratio but NIBL has maintained the lower LLP ratio so they have better credit management.

The ratio of total investment plus loan and advances to deposit of EBL has strong investment policy than other banks likewise BOKL, HBL and NIBL have got fewer ratios. A higher ratio of Investment plus Loan & Advances indicates the better mobilization of its collected deposit & vice-versa

Total Investment to total asset average ratio of HBL is higher than other banks likewise NIBL, BOKL and EBL. It means HBL has used more assets for investment and EBL has used fewer assets for investment than other banks.

Investment on government securities to total assets ratio of EBL is higher than other banks. It means EBL has mobilized their assets as investment in government securities more than other banks.

Investment on share debenture to total assets ratio of NIBL is higher than other banks likewise BOKL, HBL and EBL. On the basis of mean ratios, it can be stated that NIBL has invested higher amount in shares and debentures in comparison to other banks. But it shows that all banks invest fewer funds in share and debentures of other companies. BOKL is increasing its investment on share and debentures than other banks are decreasing its investment on share and debenture. All the banks don't invest much on share and debenture of other company. It may be because of higher risk involved with it. But commercial bank should invest in other company's shares also to develop the industry and to develop the country.

All banks increasing their investment in different sectors. EBL has higher growth rate of investment than other banks. Likewise NIBL, HBL, and BOKL. HBL has higher amount of investment than other banks.

All the banks are increasing their deposits. EBL has higher growth ratio of deposit than other bank. NIBL has collected higher deposit than other banks.

All the banks are increasing its loan and advances. NIBL has higher growth ratio than other banks likewise EBL, BOKL and HBL. NIBL has higher loan and advances than other banks.

The capital adequacy ratio of BOKL is higher than other banks. But it shows that all banks maintained NRB's required CAR i.e. greater than 11 percentages. Thus it serves to protect depositors and maintain stability & efficiency of the financial system. Maintaining higher CAR is good, but in shareholder's point of view, it is not better

because of idle fund and is not being transferred to credit which ultimately affect the profit.

All four banks are decreasing its LLP Ratio. Among the banks HBL has the highest LLP Ratio (4.29) than EBL, BOKL & NIBL. It is so because of high NPL Ratio. There is direct relationship between NPL Ratio and LLP Ratio. Here NIBL has maintained the lowest LLP Ratio so they have better credit management.

According to CRR of all four banks are in increasing trends. BOKL has highest ratio (62.94) than other NIBL, EBL, & HBL. Comparatively, HBL has lowest risk ratio (49.72) than other banks. It indicates that HBL has low possibility of loss than that other bank.

There is significant relationship between deposit and investment plus loan & advances of four banks. This means if deposit increases then investment plus loan & advances of the bank also increases. It is clear from the above table that correlation of coefficient and coefficient of determinant of EBL is higher than that of HBL, BOKL & NIBL bank respectively. This shows that EBL is at the better position in mobilizing deposit and investment plus loan & advances in comparison to other banks.

Investment trend analysis of commercial banks is in increasing trend. Other things remaining the same, the Investment of NIBL will be higher than the other banks. Similarly HBL, EBL, and BOKL. From the above Investment trend it is clear that NIBL run far ahead than other banks.

Deposit trend analysis of commercial banks is in increasing trend. Other things remaining the same, the Deposit of NIBL will be higher than the other banks. Similarly HBL, EBL, and BOKL. From the above Deposit trend it indicates that the performance of NIBL to collect deposit is better comparison to other banks.

5.3 Recommendation

On the basis of analysis of finding of study, the following recommendation and suggestion are forwarded:

- The average ratio of investment plus loan and advance to total deposit ratio of EBL is higher than that of other banks, it means it has invested more than deposit so that its liquidity position is not good. So, it decreases its investment.
- EBL has invested its more funds only in government securities so it is recommended that it should invest in other different sector.
- Growth ratio of deposit of HBL is too less than that of other banks so it is suggested that it should increased its deposit collection.
- Growth ratio of loan and advance of HBL is lower than that of other banks so it is recommended that it should increased its loan and advance.
Investment plus loan & advance of HBL, NIBL, EBL and BOKL seem very high so it is suggested that it should be increased its deposit collection like EBL.
- All that of banks invested fewer funds in share and debenture of other companies except NIBL, so it is recommended that they should increase their investment in share and debenture.
- All banks have invested their funds only in government securities and share and debentures of other companies so it is recommended that they should invest other sector also.
- The commercial banks have been established gradually after the commercial banks act 2031 B.S. With the passage of time so many commercial banks, as a joint venture, have been established gradually because of the liberal and market friendly economic policy of government of Nepal. But banks should provide some social response by expanding their operation in rural areas rather than urban areas. And banks can give response to poor and disadvantage groups. By establishing the branches in rural areas, minimum amount for opening accounts and interest rate should be reduced for creditors.
- In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients.

- Diversification of investment is highly suggested to the selected bank as they have given priority to invest in government securities only. All banks seem risk avoider as they have invested highest amount in risk free securities. Higher the risk higher will be the profit. Hence, all banks are recommended to diversify their investment in NRB bond, govt. non financial institution, other non-financial institution etc.
- Majority of commercial banks have been found to be profit oriented ignoring their social responsibility, which is not a proper strategy to sustain in long run. So all the banks are suggested to render their serves even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.
- The Economic Liberalization policy adopted by Nepal government has created an environment of strict competition even in the banking sectors. In the context, all the banks are suggested to formulate and implement some sound and attractive financial; and non-financial strategies to meet required level of profitability as well as the social responsibility.
- The commercial banks i.e. Nepal Investment Bank, Himalayan Bank, Everest Bank and Bank of Kathmandu Limited should go for some new areas of investment like hydro electricity and infrastructure development of the economy as well as bank's operation.
- Nepal Investment Bank, Himalayan Bank Everest Bank and Bank of Kathmandu Limited should target their business segment on the middle family. For this they have to keep the affordable minimum balance to open the account. So that they can earn more customer and generate more deposit amount.
- All four banks should support the social welfare event to promote the business. The bank should formulate new strategies of serving customers in a more convenient way.

BIBLIOGRAPHY

Books:

- Bajaracharya, B.C. (2056). *Business Statistics and Mathematics*. M.K Publisher and Distributors Bhotahity: Kathmandu, Nepal.
- Bhalla, V.K. (1983). *Investment Management Securities Analysis and Portfolio Management*. S. Chand & Co. Ltd: New Delhi.
- Francis, J. C. (1986). *Investment Analysis and Management*. McGraw-Hill Publication: New York.
- Joshi, S. (1990). *An Introduction to Economic Theory*. Nabin Prakashan: Kathmandu, Nepal.
- Joshi, S. (2057). *Managerial Economic*. Talaju Prakashan: Kathmandu, Nepal.
- Kerlinger, F.N. (2000). *Foundation of Behavioral Research*. Surject Publication: New Delhi.
- Mali R. (1965). *Currency and Banking*. Om Printing Press: Agra.
- Pandey, I.M. (1992). *Financial Management*. Vikas Publishing House Pvt. Ltd.: New Delhi.
- Radhaswamy M. (1979). *Practical Banking*. S Chand and Company Ltd: Ram Nagar, India.
- Radhaswamy, M. & Vasudevan, S.V. (1979). *A Text Book of Banking*. S Chand and Company Ltd: Ram Nagar, India.
- Sharpe, William F, Alexander, Gordon J, Bailey & Jeffery V. (2000). *Investment*, (4th Ed). Prentice-Hall of India Pvt. Ltd: New Delhi.
- Thapa, K. & Koirala, N. *Corporate Financial Management*. Khanal Books Publishers and Distributors: Kathmandu.
- Thapa, K. (2005). *Fundamentals of Invstment*. Asmita Books Publishers and Distributers: Kathmandu.
- Thapa, K, Bhattarai, R. & Basmet, D. (2006). *Investment Theory and Solution*. Asmita Books Publishers & Diatributors: Kathmandu.
- The Dorling Kindersley Illustrated Family *Encyclopedia*, Reprinted 2007, WC2R ORAL,

Dorling Kinderslery Ltd. 80 Strand: London.

Van Horne, J. C (2003). *Financial Management and policy*. (10th Ed). Prentice-Hall of India Pvt. Ltd: New Delhi.

Wolf, Howard K. & Pantha P. R. (2003). *Social Science Research and Thesis Writing*. Buddha Academic Enterprises Pvt. Ltd: Kathmandu.

Journal, Report, Articles and Official Publication of Relevant Study

Annual Report of NIBL (FY 2064/65). Nepal Investment Bank Ltd: Kathmandu.

Annual Report of HBL (FY 2064/65). Himalayan Bank Ltd: Kathmandu.

Annual Report of EBL (FY 2064/65). Everest Bank Ltd: Kathmandu

Annual Report of BOKL (FY 2064/65). Bank of Kathmandu Ltd: Kathmandu.

Annual Report of NRB (FY 2064/65). Nepal Rastra Bank: Kathmandu, Nepal.

Banking and Financial Statistic (No. 52, mid January, 2009). Nepal Rastra Bank: Kathmandu.

Annual Bank Supervision Report (2064/65). Nepal Rastra Bank: Kathmandu.

Banking Khabar Patra (No. 60, March-April, 2007). Nepal Rastra Bank: Kathmandu.

Monetary Policy (FY 2007/08).Nepal Rastra Bank: Kathmandu.

Nepal Rastra Bank, 52nd Anniversary (14, Baishka, 2064). Nepal Rastra Bank: Kathmandu.

Pantha, Y. (May-June, 2003). "*Info Himalayan*", Bimonthly Newsletter.

Pradhan R.S., Yadav M.P. (2002, Oct- Dec). "*The Economic Journal of Nepal*". A quarterly Publication of the Central Department of Economic, T.U. Kirtipur, Kathmandu, Nepal.

Sharma, B. (2000 Oct). "*Banking the future on Competition*". Business age.

Shrestha, S. (1998). "*Leading Operation of Commercial Bank of Nepal and its impact on GDP*" . The Business Voice of Nepal, (The Special Issue of Banijya Sanar) T.U. Kirtipur.

Thesis:

- Loudari, S. R. (2001). *A Study on Investment Policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.* an unpublished Master's Degree Thesis. T.U. Kathmandu.
- Bohara, I.B. (2002). *A Comparative Study on Investment Policy of Joint Venture Banks and Financial Companies of Nepal* an unpublished Master's Degree Thesis, T.U. Kathmandu.
- Dhungana, P. (2002). *A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Other Joint Venture Banks (Himalayan Bank Ltd. and Nepal SBI Bank)* an unpublished Master's Degree Thesis, T.U. Kathmandu.
- Ojha, L. P. (2002). *Lending Practices: a study on NABIL Bank Ltd. SCB Nepal Ltd. and Himalyan Bank Ltd.* an unpublished Master's Degree Thesis. T.U. Kathmandu.
- Raya, T.K. (2003). *Investment Policy and Analysis of Commercial Banks in Nepal (A Comparative Study of Standard Chartered Bank Ltd. with Nepal Investment Bank and Nepal Bangladesh Bank Ltd.)* an unpublished Master's Degree Thesis T.U. Kathmandu.
- Roy, D. (2003). *An Investment Analysis of Ratriya Banijya Bank (Comparison with Nepal Bank Ltd.)* an unpublished Master's Degree Thesis T.U. Kathmandu.
- Shrestha, D. (2003). *Investment Analysis of Commercial Bank (A Comparative Study of Himalayan Bank Ltd. with Nepal SBI Bank Ltd.)* an unpublished Master's Degree Thesis T.U. Kathmandu.
- Silwal, K.S. (2004). *Investment Policy of Commercial Bank*, an unpublished Master's Degree Thesis T.U. Kathmandu.
- Aryal, B.B. (2005). *Investment Policy of Joint Venture Bank in Nepal (A Comparative Study of Everest Bank Ltd. with Nabil Bank and Nepal Bangladesh Bank Ltd.)* an unpublished Master's Degree Thesis T.U. Kathmandu.
- Joshi, J. (2005). *Investment Policy of Commercial Bank of Nepal (A Comparative Study of Everest Bank Ltd. with Nabil Bank and Bank of Kathmandu Ltd.)* an unpublished Master's Degree Thesis. T.U. Kathmandu.

Websites

<http://www.nibl.com.np>

<http://www.hbl.com.np>

<http://www.everestbankltd.com>

<http://www.bok.com.np>

<http://www.nrb.org.np>

<http://www.nepalnews.com>

ANNEX - 1

Sample Calculation of Growth Rate of Total Investment

Growth rate is calculated from

$$D_{nth} = D_0(1 + g)^{n-1}$$

$D_{nth\ yrs}$ = Total Investment of nth year n

D_0 = Total Investment of Initial year o

g = Growth Rate

n = Number of Year

NIBL

Here,

$$D_{64/65} = 6874$$

$$D_{60/61} = 4172$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 6874 = 4172(1+g)^4$$

$$\text{Or, } 1.6476 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.6476)^{1/4}$$

$$\text{Or, } 1+g=1.1329$$

$$\text{Or, } g = 1.1329-1$$

$$\text{Or, } g=0.1329$$

$$\therefore g = 13.29\%$$

HBL

Here,

$$D_{64/65} = 13340$$

$$D_{60/61} = 9292$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 13340 = 9292(1+g)^4$$

$$\text{Or, } 1.4356 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.4356)^{1/4}$$

$$\text{Or, } 1+g=1.0946$$

$$\text{Or, } g = 1.0946-1$$

$$\text{Or, } g=0.0946$$

$$\therefore g = 9.46\%$$

EBL

Here,

$$D_{64/65} = 5061$$

$$D_{60/61} = 2536$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 5061 = 2536(1+g)^4$$

$$\text{Or, } 1.9957 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.9957)^{1/4}$$

$$\text{Or, } 1+g=1.1886$$

$$\text{Or, } g = 1.1886-1$$

$$\text{Or, } g=0.1886$$

$$\therefore g = 18.86\%$$

BOKL

Here,

$$D_{64/65} = 3204$$

$$D_{60/61} = 2395$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 3204 = 2395(1+g)^4$$

$$\text{Or, } 1.3378 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.3378)^{1/4}$$

$$\text{Or, } 1+g=1.0755$$

$$\text{Or, } g = 1.0755-1$$

$$\text{Or, } g=0.0755$$

$$\therefore g = 7.55\%$$

ANNEX – 2

Sample Calculation of Growth Rate of Deposit

NIBL

Here,

$$D_{64/65} = 34452$$

$$D_{60/61} = 11706$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 34452 = 11706(1+g)^4$$

$$\text{Or, } 2.9431 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.9431)^{1/4}$$

$$\text{Or, } 1+g=1.3098$$

$$\text{Or, } g = 1.3098-1$$

$$\text{Or, } g=0.3098$$

$$\therefore g = 30.98\%$$

HBL

Here,

$$D_{64/65} = 31805$$

$$D_{60/61} = 22761$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 31805 = 22761(1+g)^4$$

$$\text{Or, } 1.3973 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.3973)^{1/4}$$

$$\text{Or, } 1+g=1.0872$$

$$\text{Or, } g = 1.0872-1$$

$$\text{Or, } g=0.0872$$

$$\therefore g = 8.72\%$$

EBL

Here,

$$D_{64/65} = 23976$$

$$D_{60/61} = 8064$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 23976 = 8064(1+g)^4$$

$$\text{Or, } 2.9732 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.9732)^{1/4}$$

$$\text{Or, } 1+g=1.3131$$

$$\text{Or, } g = 1.3131-1$$

$$\text{Or, } g=0.3131$$

$$\therefore g = 31.31\%$$

BOKL

Here,

$$D_{64/65} = 15833$$

$$D_{60/61} = 7742$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 15833 = 7742(1+g)^4$$

$$\text{Or, } 2.0451 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.0451)^{1/4}$$

$$\text{Or, } 1+g=1.1958$$

$$\text{Or, } g = 1.1958-1$$

$$\text{Or, } g=0.1958$$

$$\therefore g = 19.58\%$$

ANNEX – 3

Sample Calculation of Growth Rate of Loan and Advances

NIBL

Here,

$$D_{64/65} = 27145$$

$$D_{60/61} = 7174$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 27145 = 7174(1+g)^4$$

$$\text{Or, } 3.7838 = (1+g)^4$$

$$\text{Or, } (1+g) = (3.7838)^{1/4}$$

$$\text{Or, } 1+g=1.3947$$

$$\text{Or, } g = 1.3947-1$$

$$\text{Or, } g=0.3947$$

$$\therefore g = 39.47\%$$

HBL

Here,

$$D_{64/65} = 19985$$

$$D_{60/61} = 13082$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 19985 = 13082(1+g)^4$$

$$\text{Or, } 1.5277 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.5277)^{1/4}$$

$$\text{Or, } 1+g=1.1117$$

$$\text{Or, } g = 1.1117-1$$

$$\text{Or, } g=0.1117$$

$$\therefore g = 11.17\%$$

EBL

Here,

$$D_{64/65} = 18814$$

$$D_{60/61} = 6117$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 18814 = 6117(1+g)^4$$

$$\text{Or, } 3.0757 = (1+g)^4$$

$$\text{Or, } (1+g) = (3.0757)^{1/4}$$

$$\text{Or, } 1+g=1.3243$$

$$\text{Or, } g = 1.3243-1$$

$$\text{Or, } g=0.3243$$

$$\therefore g = 32.43\%$$

EBL

Here,

$$D_{64/65} = 12693$$

$$D_{60/61} = 6050$$

$$N = 5\text{yr}$$

$$D_{64/65} = D_{60/61}(1 + g)^{5-1}$$

$$\text{Or, } 12693 = 6050(1+g)^4$$

$$\text{Or, } 2.0980 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.098)^{1/4}$$

$$\text{Or, } 1+g=1.2035$$

$$\text{Or, } g = 1.2035-1$$

$$\text{Or, } g=.2035$$

$$\therefore g = 20.35\%$$

ANNEX – 4

a.) Calculation of co-relation between Deposit and Investment plus Loan & Advanced of NIBL.

(Rs. in million)

Year	Deposit (x)	Investment +Loan & Advanced (y)	X= (x - \bar{x})	Y= (y - \bar{y})	XY	X ²	Y ²
2060/61	11346	11706	-9207.2	-9059.8	83415390.6	84772531.84	82079976
2061/62	14369	14255	-1684.2	-6510.8	10965489.4	2836529.64	42390516.6
2062/63	18680	18927	-1873.2	-1838.8	3444440.16	3508878.24	3381185.44
2063/64	24351	24489	3797.8	3723.2	14139969	14423284.84	13862218.2
2064/65	34020	34452	13466.8	13686.2	184309318	181354702.2	187312070
Total	102766	103829			296274607	286895927	329025967

$$\bar{x} = \frac{\sum X}{N} = \frac{102766}{5} = 20553.2$$

$$\bar{y} = \frac{\sum y}{N} = \frac{103829}{5} = 20765.8$$

$$\text{Correlation of Coefficient (r)} = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}} = \frac{296274607}{\sqrt{286895927 \times 329025967}} = 0.9643$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9298$$

$$P.E(r) = 0.6745 \times \frac{(1-r^2)}{\sqrt{n}} = 0.6745 \times \frac{(1-0.9298)}{\sqrt{5}} = 0.0211$$

$$6P.E(r) = 6 \times 0.02115 = 0.1270$$

b) Calculation of co-relation between Deposit and Investment plus Loan & Advanced of HBL.

(Rs. in millions)

Year	Deposit (x)	Investment +Loan & Advanced (y)	X= (x - \bar{x})	Y= (y - \bar{y})	XY	X ²	Y ²
2060/61	22761	22374	-4390.8	-4933.2	21660694.6	19279125	24336462.2
2061/62	24831	24937	-2320.8	-2370.2	5500760.16	5386113	5617848.04
2062/63	26456	26405	-695.8	-902.2	627750.76	484137.6	813964.84
2063/64	29906	29495	2754.2	2187.8	6025638.76	7585618	4786468.84
2064/65	31805	33325	4653.2	6017.8	28002027	21652270	36213916.8
Total	135759	136536			61816871.2	54387263.6	71768660.8

$$\bar{x} = \frac{\sum X}{N} = \frac{135759}{5} = 27151.8$$

$$\bar{y} = \frac{\sum y}{N} = \frac{136536}{5} = 27307.2$$

$$\text{Correlation of Coefficient (r)} = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}} = \frac{61816871.2}{\sqrt{54387263.6 \times 71768660.8}} = 0.9894$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9790$$

$$P.E(r) = 0.6745 \times \frac{(1-r^2)}{\sqrt{n}} = 0.6745 \times \frac{(1-0.9790)}{\sqrt{5}} = 0.0063$$

$$6P.E(r) = 6 \times 0.2721 = 0.0380$$

c.) Calculation of co-relation between Deposit and Investment plus Loan & Advanced of EBL.

(Rs. in millions)

Year	Deposit (x)	Investment +Loan & Advanced (y)	X= (x - \bar{x})	Y= (y - \bar{y})	XY	X ²	Y ²
2060/61	8064	8653	-943.80	-6535	45377733	48216358.4	42706225
2061/62	10098	10043	-909.80	-5145	25260921	24106136	26471025
2062/63	13803	14325	-204.80	-863	1039742.4	1451543.04	744769
2063/64	19098	19044	4090.20	3856	15771811.2	16729736	14868736
2064/65	23976	23875	8968.20	8687	77906753.4	80428611.2	75463969
Total	75039	75940			165356961	170932385	160254724

$$\bar{x} = \frac{\sum X}{N} = \frac{75039}{5} = 15007.8$$

$$\bar{y} = \frac{\sum y}{N} = \frac{75940}{5} = 15188$$

$$\text{Correlation of Coefficient (r)} = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}} = \frac{165356961}{\sqrt{170932385 \times 160254724}} = 0.9991$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9982$$

$$P.E(r) = 0.6745 \times \frac{(1-r^2)}{\sqrt{n}} = 0.6745 \times \frac{(1-0.9982)}{\sqrt{5}} = 0.0005$$

$$6P.E(r) = 6 \times 0.0005 = 0.003$$

d.) Calculation of co-relation between Deposit and Investment plus Loan & Advanced of BOKL.

(Rs. In millions)

Year	Deposit (x)	Investment +Loan & Advanced (y)	X= (x - \bar{x})	Y= (y - \bar{y})	XY	X ²	Y ²
2060/61	7742	8445	-319.20	-2676.4	8883506.88	11017088.6	7163116.96
2061/62	8943	8333	-118.20	-2788.4	5906388.88	4486771.24	7775174.56
2062/63	10429	10273	-632.20	-848.4	536358.48	399676.84	719782.56
2063/64	12359	12659	1297.80	1537.6	1995497.28	1684284.84	2364213.76
2064/65	15833	15897	4771.80	4775.6	22788208.1	22770075.2	22806355.4
Total	55306	55607			40109959.6	40357896.8	40828643.2

$$\bar{x} = \frac{\sum X}{N} = \frac{55306}{5} = 11061.2$$

$$\bar{y} = \frac{\sum y}{N} = \frac{55607}{5} = 11121.4$$

$$\text{Correlation of Coefficient (r)} = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}} = \frac{40109959.6}{\sqrt{40357896.8 \times 40828643.2}} = 0.9881$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9764$$

$$P.E(r) = 0.6745 \times \frac{(1-r^2)}{\sqrt{n}} = 0.6745 \times \frac{(1-0.9764)}{\sqrt{5}} = 0.1055$$

$$6P.E(r) = 6 \times 0.1055 = 0.0633$$

Trend Analysis

ANNEX – 5a

Trend analysis of Total Investment of NIBL for the year 2065/66 to 2069/70

(Rs. in millions)

Year (t)	Investment (y)	x=t-2063	x ²	xy	Y _c =a+bx
2060/61	11346	-2	4	-22692	9487.2
2061/62	14369	-1	1	-14369	15020.2
2062/63	18680	0	0	0	20553.2
2063/64	24351	1	1	24351	26086.2
2064/65	34020	2	4	68040	31619.2
Total	∑y=102766	∑x=0	∑x²=10	∑xy=55330	

N = No. of years

∑y = Total Investment

$$a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{\sum 102766}{5}$$

$$= \frac{\sum 55330}{10}$$

$$= 20553.2$$

$$= 5533$$

Trend value of total Investment of NIBL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Y _c = a+bx)
2065/66	3	37152.2
2066/67	4	42685.2
2067/68	5	48218.2
2068/69	6	53751.2
2069/70	7	59284.2

The equation of straight line trend is Y_c = a+bx

$$Y_c = 20553.2 + 5533x$$

ANNEX – 5b

Trend analysis of Total Investment of HBL for the year 2065/66 to 2069/70

(Rs. in millions)

Year (t)	Investment (y)	x=t-2063	x ²	xy	Y _c =a+bx
2060/61	22374	-2	4	-44748	22015.2
2061/62	24937	-1	1	-24937	24661.2
2062/63	26405	0	0	0	27307.2
2063/64	29495	1	1	29495	29953.2
2064/65	33325	2	4	66650	32599.2
Total	∑y= 136536	∑x = 0	∑x²=10	∑xy=26460	

N = No. of years

∑y = Total Investment

$$a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{x^2}$$

$$= \frac{\sum 136536}{5}$$

$$= \frac{\sum 26460}{10}$$

$$= 27307.2$$

$$= 2646$$

Trend value of total Investment of NIBL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Y _c = a+bx)
2065/66	3	35245.2
2066/67	4	37891.2
2067/68	5	40537.2
2068/69	6	43183.2
2069/70	7	45829.2

The equation of straight line trend is Y_c = a+bx

$$Y_c = 27307.2 + 2646x$$

ANNEX – 5c

Trend analysis of Total Investment of EBL for the year 2065/66 to 2069/70

(Rs. in millions)

Year (t)	Investment (y)	x=t-2063	x ²	xy	Y _c =a+bx
2060/61	8653	-2	4	-17306	7299
2061/62	10043	-1	1	-10043	11243.5
2062/63	14325	0	0	0	15188
2063/64	19044	1	1	19044	19132.5
2064/65	23875	2	4	47750	23077
Total	∑y = 75940	∑x = 0	∑x²=10	∑xy=39445	

N = No. of years

∑y = Total Investment

$$a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{\sum 75940}{5}$$

$$= \frac{\sum 39445}{10}$$

$$= 15188$$

$$= 3944.5$$

Trend value of total Investment of EBL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Y _c = a+bx)
2065/66	3	27021.5
2066/67	4	30966
2067/68	5	34910.5
2068/69	6	38855
2069/70	7	42799.5

The equation of straight line trend is Y_c = a+bx

$$Y_c = 15188 + 3944.5x$$

ANNEX – 5d

Trend analysis of Total Investment of BOKL for the year 2065/66 to 2069/70

(Rs.in millions)

Year (t)	Investment (y)	x=t-2063	x ²	xy	Y _c =a+bx
2060/61	8445	-2	4	-16890	7275.4
2061/62	8333	-1	1	-8333	9198.4
2062/63	10273	0	0	0	11121.4
2063/64	12659	1	1	12659	13044.4
2064/65	15897	2	4	31794	14967.4
Total	∑y = 55607	∑x = 0	∑x²=10	∑xy=19230	

N = No. of years

∑y = Total Investment

$$a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{x^2}$$

$$= \frac{\sum 55607}{5}$$

$$= \frac{\sum 19230}{10}$$

= 11121.4

= 1923

Trend value of total Investment of BOKL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Y _c = a+bx)
2065/66	3	16890.4
2066/67	4	18813.4
2067/68	5	20736.4
2068/69	6	22659.4
2069/70	7	24582.4

The equation of straight line trend is Y_c = a+bx

$$Y_c = 11121.4 + 1923x$$

ANNEX – 6a

Trend analysis of Total Deposit of NIBL for the year 2065/66 to 2069/70

(Rs.in millions)

Year (t)	Deposit (y)	x=t-2063	x ²	xy	Yc =a+bx
2060/61	11706	-2	4	-23412	9620.6
2061/62	14255	-1	1	-14255	15193.2
2062/63	18927	0	0	0	20765.8
2063/64	24489	1	1	24489	26338.4
2064/65	34452	2	4	68904	31911
Total	∑y =103829	∑x=0	∑x²=10	∑xy=55726	

N = No. of years

∑y = Total Deposit

$$a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{x^2}$$

$$= \frac{\sum 103829}{5}$$

$$= \frac{\sum 55726}{10}$$

$$= 20765.8$$

$$= 5572.6$$

Trend value of Total Deposit of NIBL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Yc = a+bx)
2065/66	3	37483.6
2066/67	4	43056.2
2067/68	5	48628.8
2068/69	6	54201.4
2069/70	7	59774

The equation of straight line trend is Yc = a+bx

$$Yc = 20765.8+5572.6x$$

ANNEX – 6b

Trend analysis of Total Deposit of HBL for the year 2065/66 to 2069/70

(Rs.in millions)

Year (t)	Deposit (y)	x=t-2063	x ²	xy	Y _c =a+bx
2060/61	22761	-2	4	-45522	22519.2
2061/62	24831	-1	1	-24831	24835.5
2062/63	26456	0	0	0	27151.8
2063/64	29906	1	1	29906	29468.1
2064/65	31805	2	4	63610	31784.4
Total	∑y =135759	∑x=0	∑x²=10	∑xy=23163	

N = No. of years

∑y = Total Deposit

$$a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{x^2}$$

$$= \frac{\sum 135759}{5}$$

$$= \frac{\sum 23163}{10}$$

$$= 27151.8$$

$$= 2316.3$$

Trend value of Total Deposit of HBL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Y _c = a+bx)
2065/66	3	34100.7
2066/67	4	36417
2067/68	5	38733.3
2068/69	6	41049.6
2069/70	7	43365.9

The equation of straight line trend is Y_c = a+bx

$$Y_c = 27151.8 + 2316.3x$$

ANNEX – 6c

Trend analysis of Total Deposit of EBL for the year 2065/66 to 2069/70

(Rs.in millions)

Year (t)	Deposit (y)	x=t-2063	x ²	xy	Y _c =a+bx
2060/61	8064	-2	4	-16128	6843
2061/62	10098	-1	1	-10098	10925.4
2062/63	13803	0	0	0	15007.8
2063/64	19098	1	1	19098	19090.2
2064/65	23976	2	4	47952	23172.6
Total	∑y =75039	∑x=0	∑x²=10	∑xy =40824	

N = No. of years

∑y = Total Deposit

$$a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{x^2}$$

$$= \frac{\sum 75039}{5}$$

$$= \frac{\sum 40824}{10}$$

$$= 15007.8$$

$$= 4082.4$$

Trend value of Total Deposit of EBL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Y _c = a+bx)
2065/66	3	27255
2066/67	4	31337.4
2067/68	5	35419.8
2068/69	6	39502.2
2069/70	7	43584.6

The equation of straight line trend is Y_c = a+bx

$$Y_c = 15007.8 + 4082.4x$$

ANNEX – 6d

Trend analysis of Total Deposit of BOKL for the year 2065/66 to 2069/70

(Rs.in millions)

Year (t)	Deposit (y)	x=t-2063	x ²	xy	Y _c =a+bx
2060/61	7742	-2	4	-15484	7141.6
2061/62	8943	-1	1	-8943	9101.4
2062/63	10429	0	0	0	11061.2
2063/64	12359	1	1	12359	13021
2064/65	15833	2	4	31666	14980.8
Total	∑y =55306	∑x=0	∑x²=10	∑xy =19598	

N = No. of years

∑y = Total Deposit

$$a = \frac{\sum y}{N}$$

$$= \frac{\sum 55306}{5}$$

$$= 11061.2$$

$$b = \frac{\sum xy}{x^2}$$

$$= \frac{\sum 19598}{10}$$

$$= 1959.8$$

Trend value of Total Deposit of EBL (2065/66 to 2069/70)

Year(t)	x=t-2063	Trend value (Y _c = a+bx)
2065/66	3	16940.6
2066/67	4	18900.4
2067/68	5	20860.2
2068/69	6	22820
2069/70	7	24779.8

The equation of straight line trend is Y_c = a+bx

$$Y_c = 11061+1959.8x$$

ANNEX-7

Sample of Commercial Banks & their Date of Operation in B.S.

S.N.	Name of the commercial Bank	Date of Operation in B.S.
1.	Nepal Bank Limited	1994/07/30
2	Rastriya Banijya Bank	2022/10/10
3	NABIL Bank Limited	2041/04/01
4	Nepal Investment Bank Limited	2042/11/26
5	Standard Chartered Bank Nepal Limited.	2043/10/16
6	Himalayan Bank Limited	2049/10/05
7	Nepal Bangladesh Bank Limited	2050/02/23
8	Nepal SBI Bank Limited	2050/03/23
9	Everest Bank Limited	2051/07/02
10	Bank of Kathmandu Limited	2051/11/28
11	Nepal Credit and Commerce Bank Limited	2053/06/28
12	NMB Bank Ltd.	2053/08/13
13	Lumbini Bank Limited	2055/04/01
14	Nepal Industrial & Commercial Bank Limited	2055/04/05
15	Siddhartha Bank Limited	2056/09/09
16	Machhapuchhre Bank Limited	2057/06/17
17	Development Credit Bank Ltd.	2057/10/10
18	Kumari Bank Limited	2057/12/21
19	Laxmi Bank Limited	2058/12/21
20	Agriculture Development Bank Ltd.	2062/11/19
21	Global Bank Ltd.	2063/09/18
22	Citizens Bank International Ltd.	2064/03/07
23	Prime Commercial Bank Ltd.	2064/06/07
24	Sun Rise Bank Ltd.	2064/06/25
25	Bank of Asia Nepal Ltd.	2064/06/25

(Source: Banking and Financial Statistic 51, Mid-July, 2008, p53)

Profiles of the Banks in study

1. Nepal Investment Bank Limited:

Nepal Investment Bank was established in 2042, under the company Act. It was a foreign joint venture bank and the foreign partner is Banque Indosuez of France, Paris. 50% of the Bank's share was, of Indosuez Bank, 15% is of Rastriya Banijya Bank, 15% is of Rastriya Bima Sansthan and remaining 20% is of the public. Currently the bank has 19 branches in the operation. Nepal Government gives the bank specific rights to manage for the 15 years. The bank has a strategy for nationwide expansion of opening over 50

branches by 2010 to serve the people's banking needs.

Authorized capital and paid-up capital of Nepal Investment Bank Limited are Rs.2000,000,000 and Rs. 1,203,915,400. Its market value per share is Rs. 2,450 and book value per share is Rs.223.17. EPS is Rs. 57.87.

1. Himalayan Bank Limited:

HBL was established in 1992 by a few distinguished business personalities of Nepal in partnership with employee provident fund, Habib Bank Limited, one of largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is first commercial bank of Nepal whose maximum shares are held by Nepalese sector. Beside commercial banking services, it also offers industrial and merchant banking services. The present share holding pattern of Himalayan Bank Limited is as follows:

Nepalese Promoters 15%, Habib Bank Limited Pakistan 20%, employees provident fund 15%, general public 15%. There are altogether 17 branches inside and outside the Kathmandu Valley of HBL in operation. This is the first Joint venture Bank managed by Nepalese Chief Executives.

Authorized capital and paid-up capital are Rs.2,000,000,000 and Rs.1,013,512,500. Its market value per share is Rs.1980 and book value per share is Rs.247.95. Currently its EPS is Rs62.74.

2. Everest Bank Limited:

Everest Bank Limited was established in 1992, under the company Act. It is also foreign joint venture bank and the partner was United Bank of India and managed from very beginning till November 1996. Later on it handed over the management to the Punjab National Bank Ltd, India that holds 20% equity on the banks share capital, 50% of the shares are owned by the local promoters and 30% of the shares are owned by the general public. Altogether 34 branches of Everest bank are in operation.

Authorized capital and paid-up capital of Everest Bank Limited are Rs.1,000,000,000 and Rs.831,400,000 respectively. Its market value per share Rs.3132 and book value is Rs 321.77. EPS is Rs.78.6.

3. Bank of Kathmandu Limited:

Bank of Kathmandu Limited was established in 2051 B.S. in collaboration with the Siam commercial Bank PLC, Thailand under the company Act. The Siam commercial Bank has diluted and reduced its equity to 25% by selling 25% of Nepalese citizen in 1998 of its initial holding. The bank has 23 branches in operation.

Authorized capital and paid-up capital of Bank of Kathmandu Limited are Rs.1, 000, 000,000 and Rs. 603,141,300 respectively. Its market value per share Rs. 2,350.00 and book value is Rs. 222.51. EPS is Rs. 59.94.

The present study will make a modest attempt to analyze Investment policy of Commercial Banks.