

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be carried without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially banks has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice-versa.

The initial step an investing policy involves is determining the investment objectives and the amount of one's investable fund. Investment is always related with risks and returns. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Therefore, investment objective should be stated in terms of both risks and returns. Setting a clear investment policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. The identification of assets depends upon many things, such as investment objectives, investable fund, tax consideration etc. (*Bhattarai Rabindra, 2004; 3*)

Investment is a very risky job for a purposeful, safe and profitable investment. Bank must follow sound investment policy. The fundamental principle of investment must be followed thoroughly for profitable investment. Investment policy should ensure maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market and it seems no profitable place to invest these days. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum risk, which ultimately leads the bank to the path of success to achieve its organizational objectives of shareholders' wealth maximization.

1.1. a) Evolution of Bank

The evolution of bank is not a non-phenomenon. There was crude form of banking even in an ancient Vedic era. The terms banking such as deposits, pledge, policy of loan, interest rates etc can be found in the "Manusmiriti."

The Roman Empire collapses in the last of 15th century and consequently, commercial banking transactions were started because of revival of commercial and other trading activities in European countries. According to the opinion of great economist Geoffrey Crowther, following community groups are the ancestors of modern banking:

- The Merchant Trader
- The Goldsmith
- The Money Lenders

History tells us that it was the merchant banker who first evolved the system of banking by trading in commodities then money. Their trading activities required the remittance of money from one place to another for which they issued different documents as the near substitutes of money, called draft or hundis in modern days.

The next stage in the growth of banking was the goldsmiths; the business of goldsmiths was such that they had to take deposits such as bullion, money and ornaments for the security from theft. This makes possible to the goldsmiths to charge something for taking care of the money, bullion and jewellery. On the other hand, as the evidence of receiving valuables, they used to issue a receipt to the depositors. As those receipts are good for

payment equipment to the amount mentioned, it become like the modern cheques, as a medium of exchange and a means of payments.

Finally, moneylenders in the early age had contributed in the growth of banking to a larger extent. They used to advance the coins on loan by charging interest. As a safe guard they used to keep some money in the reserve. Therefore goldsmiths and moneylenders became bankers who started performing the two functions of bank i.e. accepting deposit and providing loans and advances. “The bank of Venice” of Italy was established in 1157 A.D. as the first banking institution in the world. The second banking institution namely “The bank of Barcelona” of Spain was established in 1401 A.D. Its function is to exchange money, receive deposits and discount bill of exchange, both for their own citizens and for the foreigner. During 1407 A.D. “The Bank of Genon” was established in 1609 A.D. “The Bank of England” was incorporated in 1694 A.D. as a joint stock bank and later on the 1844 A..D. it becomes a first central bank in the world.

1.1.b) Commercial Banks and Investment Policy

Commercial Bank is an entity which accepts deposits and makes short term loans to business enterprises, regardless of the scope of its other services. (American Institution of Banking, 1972; 345-346) Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy. Commercial banks render numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus, commercial banks have become the heart of financial system.

Commercial bank deals with people’s money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can’t afford to lock up their funds in assets that are not easily realizable. The depositor’s confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity.

Commercial banks must mobilize its deposits and other funds to profitable, secured, stable and marketable sector. Then only it can earn more profit as well as it should be secured and can be converted into cash whenever needed. But, commercial banks have to pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one facet of the overall spectrum of policies that guide bank's investment operations. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. Commercial bank should be careful while performing the credit creation function. The banks should never invest its funds in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute. Emphasizing upon this, H.D. Crosse stated, "The investment policy should be carefully analyzed."(Crosse H.D., 963) So they must invest their funds where they gain maximum profit.

Commercial banks must follow the rules and regulations as well as different directions issued by the central bank, ministry of finance, ministry of law and other regulatory bodies while mobilizing its funds. So, the bank should invest its funds in legal securities only. Diana McNaughton in her research paper 'Banking Institutions in Developing Markets' states that, investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities. (McNaughton, Diana, 1994). Thus, commercial banks should incorporate several elements while making investment policy. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment decisions.

1.1. c) Investment Pattern of Nepalese Commercial Banks

The development of banking sector in Nepal is relatively recent. The establishment of "Tejarath Adda" during the year 1877 A.D. was the first step in institutional development of banking sector in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently the major parts of the country remain untouched from these limited-banking activities. The development of trade

with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy. Considering this situation, the “Udyog Parishad” was constituted in 1936 A.D. One year after its establishment, it formulated the “Company Act” and “Nepal Bank Act” in 1937 A.D. Nepal Bank limited was established under Nepal Bank Act in 1937 A.D. as a first commercial bank of Nepal with authorized capital of Rs. 10 million.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However the stand of Nepal Bank limited alone in total monetary and financial sector was not sufficient and satisfactory. Thus Nepal Rastra Bank was set up on 1956 A.D.(2013.01.14) as a Central Bank under Nepal Rastra Bank Act 1956 A.D. (2012 B.S.). Similarly, on 1966 A.D. (2022.10.10) Rastriya Banijaya Bank (RBB) was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality and competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development Center was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal Industrial Development Corporation (NIDC) in 1959 A.D. (2016 B.S.). Similarly, Agriculture Development Bank (ADB/N) was established in 1976 AD (2024.10.07) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques. As the country moved towards economic liberalization in 1980 A.D., foreign Banks were invited to operate in Nepal. The financial scenario has changed with the introduction of joint venture banks in 1984. The number of commercial banks has been increasing. Since then, various financial institution like, Joint Venture Banks, Domestic Commercial Banks, Development Banks, Finance Companies, Micro Finance Companies, Credit Guarantee Corporation, Employee Provident Funds, Citizen Investment Trust, National Insurance Corporation, Nepal stock Exchange have come into existence to cater the financial needs of the country thereby assisting financial development of the country.

In 1990 A.D. after the restoration of democracy in Nepal, the government highlights the agenda of economic liberalization and emphasized to invite foreign direct investment (FDI) in the banking sector of Nepal. Therefore the development of Commercial Banks in Nepal is categorized in three phases on the basis of financial institutions policies adopted by the country from time to time. They are:

-) Commercial Banks prior to 1980's
-) Commercial Banks of 1980's
-) Commercial Banks post 1990's

There were only two banks prior to 1980's they are NBL and RBB. All the three Commercial Banks of 1980's were established as joint venture banks. Similarly six commercial banks of past 1990's were also come into operation as joint venture banks. Latest six banks including Nepal Industrial and Commercial Bank Ltd, Lumbini Bank Ltd, Machapuchhre Bank Ltd, Kumari Bank Ltd, Laxmi Bank Ltd, Siddharth Bank Ltd were established by the private sector entrepreneurs of Nepal. Some of the joint venture banks have changed their name after the foreign investor disinvest their stake to Nepali entrepreneurs. Nepal Arab Bank Ltd. is now known as Nabil Bank Ltd., similarly Nepal Grindlays Bank Ltd, Nepal Indosueze Bank Ltd, and Nepal Bank of Ceylon Ltd, are now known as Standard Chartered Bank Nepal Ltd, Nepal Investment Bank Ltd, Nepal Credit and Commerce Bank Ltd. respectively.

Taking an overview of financial institutions providing banking facility in Nepal, there are 26 Commercial Banks, 73 Development Banks, 17 Micro- Credit Development Banks, 78 Finance Companies, 17 Saving and Credit Co- operatives (licensed by NRB).

Table No. – 1.1

List of Licensed commercial Banks in Nepal

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Million)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.40
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	Nabil Bank Limited	1984/07/16	Kathmandu	14491.00
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2407.10
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9	Nepal Bangladesh Bank Limited	5/6/1994	Kathmandu	1860.30

10	Everest Bank Limited	1994/10/18	Kathmandu	8305.00
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	11822.00
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar,Rupendehi	1399.60
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan	1288.00
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar,Morang	1391.80
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1700.00
16	Kumari Bank Limited	2001/04/03	Kathmandu	1304.90
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1533.70
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1230.00
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1325.10
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	1159.10
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	1163.80
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1419.40
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1053.20
24	Development Credit Bank Ltd.	2008/5/25	Kamaladi, Kathmandu	1655.30
25	NMB Bank Ltd.	2008/6/5	Babarmahal, Kathmandu	1430.00
26	Kist Bank Ltd.	2003/02/21	Anamnagar, Kathmandu	2000.00
27	Janata Bank Nepal Ltd	2010/04/05	Newbaneshwor ,Kathmandu	1400.00
28	Civil Bank Nepal Ltd.	2010/11/26	Kamaladi, Kathmandu	1200.00
29	Mega Bank Nepal Ltd.	2010/07/23	Kantipath,Kathmandu	1631.00
30	Commerz And Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	1400.00
31	Century Commercial Bank Limited	2011/01/23	Putalisadak,Kathmandu	1080.00
32	Sanima Bank Limited	2004/01/01	AlakapuriNaxal,Kathmandu	2016.00

Source: By Net , Banking Financial Statistics and NRB

After the announcement of liberal and free market economic based policy, Nepalese banks and financial sectors are having greater network and access to national and international markets. They have to go with their portfolio management very efficiently and seriously for coping with various challenge in order to increase their regular basis of income as well as to enrich the quality base of service for the attraction of good clients. In this competitive and market oriented open economy, each and every commercial bank and financial institution has to play a determining role by widening various opportunities for the sake of expanding provisions of best service to their customers and by making themselves as a

strong and potential financial intermediaries as per country's need of present scenario to obtain the desired level of economic development.

Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non financial institutions as well as private investors and their parent banks each supplying 50 percent of total investment. The parent banks, which have experiences in highly mechanized and efficient modern banking services in many parts of the world have come to Nepal with higher technology, advance management skills. Joint venture banks are established by joining different forces and with ability to achieve a common goal of each of the partners. They are more efficient and effective monetary institution in modern banking fields than other old type of banks in Nepalese context (Thapa Samiksha, 2001; 6)

In Nepal, Commercial banks play a vital role in the economic growth. Its investments range from small-scale cottage industries to all types of social and commercial loans and large industries. Generally the investment of the Commercial Banks include the investment on Government securities like Treasury bills, development bonds, national savings bonds, foreign government securities, shares of government owned companies and non- government companies and investment on debentures. Similarly the Commercial Banks use their major chunk of funds in loan and advances.

1.1.d) Profile of Concerned Banks

In this section general introduction of the banks under study is being attempted to furnish for the easy reference of the samples to the research.

(A) Nabil Bank Ltd.

“Nabil Bank Limited” the first commercial bank was incorporated in 1984. Dubai Bank Ltd. was the initial joint venture partner with 80% equity investment .The shares owned by Dubai bank Ltd. (DBI) were transferred to Emirates Bank International Ltd. (EBIL) Dubai. Later on EBIL sold its entire stock to National Bank Ltd, Bangladesh (NBLB). National Bank Ltd. Bangladesh is managing the bank in accordance with the technical services agreement signed between it (Nabil) and the bank on June 1995.

The present configuration consist of 50% share capital of National Bank limited, 10% of Nepal Industrial Development Corporation, 9.67% of Rastriya Bema Sansthan, 0.33% of Nepal stock exchange and 30% of Nepalese public. At present 17 branches of the bank are operating in different parts of the country. Authorized capital and paid up capital of Nabil bank limited are Rs.500 million and Rs. 491.6544 million.

The following Activities and services are provides by Nabil including normal functions;

-) Tele Banking
-) Credit card facilities
-) SWIFT
-) Deposit Locker
-) Western Union money Transfer
-) ATM
-) International Trade and Bank Guarantee.

This Bank is awarded by “Bank of year 2004”.

(B) Nepal Investment Bank

Nepal Investment Bank Ltd. (Nepal Indosuez Bank Ltd) was established on 21STjanuary 1986 as a third joint venture bank under the company Act 1964. Initially, the Bank is manages by Banque Indosuez, paris in accordance with joint venture and technical services. 50% of the shares of Nepal Investment bank ltd held by credit Agricole Indosuez was sold to the Nepalese promoters on April 25,2002 as per the transaction record of NEPSE. After this divestment of shares by Nepalese Owners, the name of the company was changed to Nepal Investment Bank Ltd. by its 15th AGM held on May 31,2002

Out of total equity shares of Nepal Investment Bank Ltd. 50% shares are held by a group of companies, 15% by commercial banks another 15% by financial institutions and remaining 20% by general public. Authorized capital of NIBL is Rs.100 million and issued and paid up capital is Rs.801.3526 million.

The following Activities and services are provided by NIBL including normal functions;

-) Tele Banking
-) Credit card facilities
-) SWIFT
-) Deposit Locker
-) NTC's Mobile bill payment
-) ATM
-) International Trade and Bank Guarantee.

This bank is awarded by “Bank of year 2003”

1.2 Statement of Problem

Mushrooming of private sector banks is the present situation of Nepalese financial sector. The fast growth of such organization has contributed the pro-rata increment in collecting deposits and their investment. They collect adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Only few commercial banks are getting regular profits. Most of them are unable to satisfy their shareholders and customers in earning profit and ensuring their safe deposit. Some banks are incurring losses in early establishment years. It is not that they do not have potential clients or adequate deposits but they cannot find profitable sectors or opportunities to invest the deposit collections. They have always feared with high degree of risk and uncertainty.

There are various problems in resources mobilization by financial institution in Nepal. The most important problem is poor investment climate prevailing in Nepal due to heavy regulatory procedure, uncertain government policy, NRB's stringent directives, unsecured social environment etc. Lack of sound investment policy is another reason for a commercial bank not to properly utilizing its deposits that is making loan and advances or lending for a profitable project. This condition may lead the commercial bank to the position of liquidation.

Commercial banks invest their funds in limited areas to achieve highest amount of profit. They are found to more interested in investment in less risky and highly liquid sectors like in T-Bills, development bonds and retail and consumer lending. There is an obvious hesitation to T-Bills, development bonds and retail and consumer lending. There is an

obvious hesitation to invest on long-term projects and in venture capital investment. So, many of them follow conservative and un-effective investment policy.

As with everything in Nepal, every commercial bank has an investment in the same sectors. They are in consumer lending, tourism, garments and in trading sector. They are the major sectors. But given the current situation of the country, it is not up to them to decide which sector they want to go into. The main factor for success of any organization is the security situation. Once the security situation stabilizes, then only commercial banks consider rationally as to where they should to invest and grow. So, security problem is the burning problem for every commercial bank to invest their funds in our any sectors.

Many of Nepalese commercial banks have not formulated their investment policy in an organized manner. Majority of them mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks.

The problems specially related to investment functions of the commercial banks have been presented briefly as under.

- a) Is Nabil Bank's investment policy more effective and efficient than that of NIBL?
- b) Is Nabil Bank's investment strategy successful to utilize its available fund in comparison to the NIBL?
- c) Are they maintaining sufficient liquidity, profitability and risk position?
- d) What is the relationship of investment on loan and advances with total deposits and total net profit?
- e) Does the investment decision affect the total earnings of the commercial bank?

1.3 Objectives of the Study

- a) To examine the investment policy of the banks.
- b) To examine the utilization of available fund of Nabil Bank's in comparison to NIBL.
- c) To evaluate the liquidity, profitability and risk position of Nabil Bank in comparison to NIBL.

- d) To find out the empirical relationship between deposits loan and advances, investment, net profit and compare them between Nabil & NIBL.

1.4 Focus & Significance of the Study

The main focus of the study is to highlight the investment policies of commercial banks expecting that the study can be bridge the gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks.

In the context of Nepal there is less availability of research work, Journal and Articles in investment policy of commercial banks as well as other financial institution. As it is a well known fact that the success and prosperity of the bank relies heavily upon the successful investment of collected resource to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks.

There are various problems in effective investment of commercial banks of Nepal, which affect their performance to a greater extent. Performance of commercial banks does not seem so satisfactory in terms of utilizing its resource efficiently in productive sectors. Hence the main significance of this study of investment portfolio analysis of Nepalese commercial banks is to help how to minimize risk on investment and maximize return through portfolio analysis. Similarly, the study of commercial banks investment trend, risk return pattern, portfolio management, credit management and effect on investment decision on earning will strive to disclose the internal weakness of the banks and furnish the ideas for improvement. Therefore, the researcher has undertaken this study to analyze the existing investment portfolio of Nepalese commercial banks with reference to Nabil & NIBL and point out the various weaknesses of defects inherent in it and provide package of suggestions for its improvement.

1.5 Limitations of the Study

This study is simply a partial study for the fulfillment of MBS degree, which has to be finished within limited period. Hence, this study is not far from several limitations of its own kind, which weaken the scope of the study to some extent.

Some of such limitations are as follows.

- a. The study is mainly based on secondary data collected from different sources.
- b. The study period will be covered by only five fiscal year i.e. from 2005/2006 to 2009/2010.
- c. Out of the numerous affecting factors, this study concentrates only on those factors, which are related with investment policy, and available in the form required for analyzing the different issues.
- d. Due to wide range of data deficiencies only simple technique have been used for the analysis of the data.

1.6 Organization of the Study

The whole study has been divided into six chapters. First is introduction chapter, which includes general background, statement of the problem, focus & signification of the study, objectives of the study and limitations of the study and chapter plan.

Second chapter deals with the review of available literatures in the field of the study being conducted. This includes review of the theories of the concerned topic, review of supportive text, review of books, review of bulletins and annual reports published by bank, review of related articles and review of previous thesis.

Third chapter explains the research methodology employed to conduct the study and tools and techniques used in analysis of the data as well. This chapter includes, research design, sources of data, population and samples, method of data analysis, various financial and statistical tools.

Fourth chapter is devoted to the presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analyze different financial ratios related to the investment and fund mobilization of Nabil in comparison to the NIBL. Major findings of the study are also included in this chapter.

Fifth is the last chapter of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks. Besides these, bibliography and appendices will also present at the end of the thesis. Similarly, acknowledgements, table of contents, list of tables, list of figures, abbreviations are included in the front part of the thesis report.

Chapter 1: Introduction

The first chapter is the introduction chapter, which consists of background of the study, statement of problem, objectives of the study, importance of study, limitation of the study and organization of the study.

Chapter 2: Review of Literature

The second chapter deals with the review of literature with concept of some terminologies of the lending. The second part of these chapters consists of review of books, journals, previous study, research paper and review of unpublished of various research students.

Chapter 3: Research Methodology

The third chapter deals with the research used in this study. It consists of introduction, research design, sources of data, population and sample, data gathering procedure and analysis of data.

Chapter 4: Presentation and Analysis of Data

Fourth chapter is the analytical presentation of the study. This chapter consists of analysis, interpretation and major findings of the study. This is a most important part of the study.

Chapter 5: Summary, Conclusion and Recommendations

Fifth chapter deals with the summary, conclusion and recommendation of the study. The bibliography and appendices is also included in the chapter.

CHAPTER –II

REVIEW OF LITERATURE

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic has been reviewed. Therefore, this chapter is arranged in the following order:

1. Review of Supportive Text
2. Review of Previous Study
 - Review of Articles
 - Review of Research Papers
 - Review of Thesis
3. Review of Legislative Provisions

2.1 Review of Supportive Text

Review of supportive text provides the fundamental theoretical framework and foundation to the present study. For this, various books, research paper, articles etc. dealing with theoretical aspects of investment policy analysis are taken into consideration.

2.1.a) Definition of Investment

Investment is nothing but deploying our savings in a manner that ensures safety of our money and provides a sustained return to supplement our regular income. (Delhi Stock Exchange, January 2002). The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there are adequate savings. If all the incomes and savings are consumed to solve the problem of hand to mouth and to the other basic needs, then there is no existence of investment. Therefore, both savings and investment are interrelated.

Investments are made in assets. Assets in all are of two types, real assets (land, buildings, factories etc) and financial assets (stocks, bond, T-bill etc.). These two investments are not competitive but complementary. Highly –developed institutions for financial investment greatly facilitate real investment. (Bhattarai Rabindra, 2004; 3)

Mrs. Preeti Singh has defined investment in this way; investment is the employment of funds with the aim of achieving additional income or growth in value (Singh, 1992; 1)

In the words of Gitman and Joehank, investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns. (Gitman and Joehank, 1990; 1)

Charles P. Jones has defined that, investment as the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all income. (Charles, 1991; 2)

2.1.b) Features of Sound Lending and Investing Policy

Some of the main characteristics of sound lending and investment policies which most of the banks must consider have been given by many authors are as under:

I) Safety and Security

While selecting the sectors for investing the funds, a bank should be very much conscious. It should never invest its funds in those securities, which are too volatile because a little difference may cause a great loss. Similarly, the businessman who is bankrupt at once or earns a million in a minute should not be financed at all. The banks invest its funds in legal securities only. The bank should accept that type of securities, which have marketability; ascertainability, stability & transferability and it also accept those securities, which are commercial, durable and high market prices. For the safety and security in investing funds the bank can use the investment portfolio tools also.

II) Liquidity

Liquidity generally refers to the cash or any assets that can be converted into cash immediately. Generally, people deposit money at the bank in different account with

confidence that the bank will repay their money whenever it is needed. In order to maintain the confidence to the depositors, the bank must always be ready to meet current or short-term obligations when they become due for repayment. Liquidity is the capacity of bank to pay cash against deposits. Hence the liquidity position of a bank is such an important factor.

III) Profitability

Commercial banks invest on those sectors from where more and more return can flow because through maximizing the returns on its investment, bank can maximize its volume of wealth. Hence the investment or granting of loan & advances by them are highly influenced by the profit margin. Generally, the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities. Profitability is only the term, which always motivates commercial banks to invest their money more and more.

IV) Suitability

A banker should always know why a customer is in need of loan. If a borrower misuses the loan granted by the bank, he will never be able to repay the loan and bank will possess heavy bad debts. Therefore, in order to avoid such circumstances, advances should be allowed to select suitable borrowers and it should demand all the essential detailed information about the scheme of the project. Bank should also keep in mind the overall development plans of the nation and the credit policy guidelines of the central bank.

V) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and maximize the profit, 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 depreciated, there may be appreciation in the securities of other companies. In this way, the loss can be recovered.

2.1.c) Sources of Funds for the Investment

There are different sources of funds for the investment of the bank.

a) Capital

Capital is the lifeblood of the trade and commerce. Therefore, capital is needed for the operation of the bank as in other business. The capital fund consist of two elements like

- i) Issuing Shares
- ii) General Reserves

Bank issues its share for the collections of capital. So this is one of the sources of fund to invest. By increasing in the issue of share, the bank can increase its capital.

i) General Reserves

Reserves are kept by the bank separated from the profit. This reserve is also invested at the time of contingency and to cover the loss in future.

b) Accumulated profit

If the capital is not sufficient and there is need of more money to invest in that case the bank uses the accumulated profit to invest. In the time of contingency also, the bank invests its accumulated profit for recovering its future loss.

c) Deposits

Deposits are the main source of funds. By providing certain rate of interest, commercial bank calls for the deposit from the customer. Mainly, three types of deposits are accepted by the bank like current deposit, fixed deposit, saving deposits. These different types of deposits are used for lending the money to different sectors like agriculture, production, trade, service sector and other industry. The deposits will lead to increase in the working capital of the bank.

d) External and Internal Borrowings

The funds can be collected by borrowing money through different banks or different institution. In a developing country like Nepal, those types of borrowings are very important. The commercial banks may not have sufficient fund to invest in different sector. In that case it has to borrow from other bank or other financial institutions. Generally the commercial bank borrows from two sources i.e. external and internal.

Generally external borrowing means the borrowing from foreign banks, and foreign government. Internally, the commercial banks borrow mainly from inter bank and Nepal Rastra Bank. So the commercial bank cannot provide loan or investment without the funds. From the fund collected from above different source, the commercial bank grants loan.

2.2 Review of Legislative Provisions

In this section review of legislative framework under which the commercial banks are operating has been discussed. This legislative environment has significant impact on the commercial banks' establishment, their mobilization and utilization of resources. All the commercial banks have to conform to the legislative provisions specified in the Bank and Financial Institutions Ordinance and Companies Ordinance, NRB Directives and other rules and regulations formulated to facilitate the smooth running of commercial banks.

Investment Management Regulation

“A commercial bank formulating a written policy may decide to invest in shares and securities of an organized institution. However, such investment is restricted to 10% of paid up capital of the organization. However, the cumulative amount of such investment in all the companies in which the bank has financial interest shall be limited to 20% of the paid up capital of the bank. But the total amount of investment in share and securities of organized institution is restricted to 30% of the paid up capital of the bank.”(Unified Directives No.8, NRB Banking operation department 81-82)

Likewise, commercial banks are not allowed to invest in any shares, securities, and hybrid capital instruments issued by any banks and financial institutions, licensed by NRB. Where such investment exists prior to issuance of this directive, such investment should be brought within the restrictive limitations by the fiscal year 2060/61. But investment on rural micro finance development banks' shares are not comes under such restriction. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much flexible and helpful the NRB rules are also important. But we discuss only those, which are related to investment function of commercial banks. The main provisions, established by NRB in the form of prudential norms in above relevant area are briefly discussed here under.

i) Provisions for investment in the deprived sector

Some rules, which are formulated by NRB, affect the areas of credit and investment extension to the deprived sector by the commercial bank.

According to the new provision, with effect from the 3rd quarter of FY 1995/96, investment in shares of the rural development bank by CBs, which used to be counted for the priority sector lending, only is now to be included under the deprived sector lending.

According to the new provisions effective from FY 1997/98, NBL, RBB, NABIL, NGBL, NIBL are required to invest 3 percent, HBL, NSBL, NBBL, EBL, are required to invest 2 percent, Bank of Kathmandu is required to invest 1.75 percent, NBCL is required to invest 0.75 percent while new commercial banks are required to invest 0.25 percent of their total loans and advances to the deprived sector.

ii) Provision for credit to the priority sector

NRB requires commercial banks to extend loan and advances, amounting at least to 12 p.c. of their total outstanding credit to the priority sector. Commercial banks credit to the deprived sector is also a part of priority sector. Under priority sector, credit to agriculture, credit to the cottage and small industries and credit to service are counted commercial bank's loan to the co-operatives licensed by the NRB is also to be computed as the priority sector credit from the fiscal year 1995/96 onwards.

iii) Provision for the investment in productive sector

Nepal, being a developing country needs to develop infrastructure and other primary productive sectors like agriculture, industry etc. For this, NRB has directed commercial banks to extend at least 40 p.c. of their total credit to the productive sectors. Loans to priority sector, agriculture sector, industrial sector have to be included in productive sector investment.

iv) Provision for the single borrower credit limit

With the objectives of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrower to the bank loans, NRB directed CBs to set an upper limit on the amount of loan financed to an individual, firm, company or group of companies. According to this, CBs are required not

to exceed the single borrower limit of 35 percent in the case of fund- based credit and 50 percent, in the case of non- fund based credit such as the letter of credit, guarantee, acceptance letter, commitment has been fixed is a proportion of capital funds of bank.

Similarly, NRB has graded six foreign joint venture banks now as the prestigious class “A” bank, which is NABIL, NGBL, NIBL, HBL, SBI, and NBBL. These banks have been kept outside the purview of the single borrower credit limit.

Likewise, in the case of consortium financing, commercial banks are permitted to extend an additional 10 percent credit above the limit fixed by the NRB as before.

In addition, Nepal Oil- Corporation, Agriculture-inputs Corporation and Nepal Food Corporation for their imports of petrol, diesel, kerosene, fertilizer and foodstuff respectively have been removed from the restrictions of single borrower credit limit.

v) Provision for minimize liquidity risk

Commercial banks are required monitor their liquidity risk. This is to minimize risk inherent in the activities and portfolio of the banks. According to the regulation a gap found between maturing assets and maturing liabilities is the liquidity risk. They are monitoring their assets and liabilities on the basis of maturity period. Maturity periods such as 0-90, 91-180,181-270, 271-365 days and above 1 year are classified for the purpose of checking.

vi) Cash reserve requirements (CRR)

To ensure adequate liquidity in the commercial banks, to meet the depositors’ demand for cash at anytime and to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to have maximum CRR. In this regard, NRB has directed commercial banks to deposit minimum 8 percent of current and saving and 6 percent of fixed deposits in the NRB as primary cash reserve the commercial banks are further required to have 3 percent cash of total deposits in their own bank as secondary reserve.

vii) Loan classification and loss provision

With a view to improving the quality of assets of commercial banks NRB has directed commercial banks to classify their out-standing loan and advances, investment and other assets into six categories. The classification is done in two ways. The loans of more than one lakh are to be classified as debt service charge ratio, repayment situation, financial condition of borrower, management efficiency, quality of collateral. The loans of less than one lakh have to be classified as per maturity period.

viii) Directives regarding interest rate spread

The interest rate spread, the difference between interest charged on loan and advances and the interest paid to the depositors, has widened significantly in the aftermath of deregulation in interest rates. This has caused lower financial intermediation. Therefore, NRB has required commercial banks to limit interest rate spread between deposit and lending rates to a maximum extent of 5 percent. NRB has also provided commercial banks with new calculation method of interest rate spread for a certain period recently.

Commercial Banks and their investment policy

The term “bank” derives from the Latin “bancus”, which refers to the bench on which the banker would keep it’s money and records. Some person traces its origin to the Italian word “banca”, which means a bench for keeping. Lending and exchanging of money. A bank is one who in the ordinary course of his business receives money which he pays by honouring cheques of persons from whom or whose account receives (Hampton,2001).

Shakespeare (2001) in his book “banking and insurance management” has classified banks as:

- | | |
|----------------------|----------------------|
| 1. Central Bank | 2. Commercial Bank |
| 3. Agricultural Bank | 4. Co-operative Bank |
| 5. Merchant Bank | 6. Mutual Bank |
| 7. Industrial Bank | 8. Exchange Bank |
| 9. Saving Bank | 10. Pension Bank |
| 11. Housing Bank | 12. Equipment Bank |

Commercial banks are those banks which perform all kinds of banking functions as accepting deposits, advancing loans, credit creation, and agency function. They provide short term, medium term and long term loans to trade and industry. They also operate off balance sheet functions such as issuing guarantee. Bonds, letter or credit, etc. commercial banks are institutions which provide services such as accepting deposits and giving business loans. They are one the vital aspects of banking sector, which deal in the process of channel zing the available resources in the needed sectors.

As per the commercial bank act 2031bs. “ A commercial bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.” Commercial banks bring into bring the most important ingredient of the money supply , demand deposits through the creation of credit in the form of loan and investments(Crosse, 1963).

Commercial banks deal with other people’s money. They have to find ways of keeping their liquid assets so that they could meet demands of their customers. Their motive is wealth maximization and giving maximum benefit to its shareholders. In the anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be to understand the bank is fully solvent. The depositor’s confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The bankers cannot afford to keep a large possession of his assets in the form of cash; Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity.

Commercial banks are profit making organizations. A bank established without the aim of gaining the profit is the central bank. Other banks are inspired with the object of earning profit and helping the economic development. They should have the ability to use the policy of banking investment to implement it much more carefully otherwise a bank may be unsuccessful in its goal.

Without investment, a bank can’t gain profit. Therefore, after the establishment of bank it collects deposits. It also collects capital by selling its shares. Thus, a great capital is collected in the bank. It is not better to keep such capital fund inactive. The bank should able to clear the policy of its investment by making deep study. Every commercial bank has an investment policy. The basic factors that will determine the objectives of a bank’s

investment policy are its income and liquidity needs and management's willingness to trade liquidity for greater income opportunities and vice versa, which means accepting greater or less risk. A bank that has a portfolio of high quality loans and relatively stable deposits can assume more risk. It might be preferable for the bank to pursue an aggressive lending policy. The higher risk in the loan portfolio would be countered with a very liquid investment portfolio. One of the acceptable methods of reducing risk is by diversification, a basic and important rule of any investment. The investment process includes following steps;

1. Setting investment objectives
2. performing security analysis
3. Constructing a portfolio
4. Revision of portfolio
5. Evaluation portfolio evaluation

Banks have developed format, written lending policies in recent years. They provide guidance for lending officers by establishing a greater degree of uniformity in lending practices.

Emphasizing the importance of investment policy, lending is the essence of commercial banking: consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management (Crosse, 1963), Crosse further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, sizes of loan portfolio, character of loan, credit worthiness of borrower and asset pledged to security borrowing, interest rate policy.

The investment policy of a bank should be reviewed occasionally and modified as economic conditions change. It should be reviewed when developments occurring within or outside the bank dictate.

Loan and Loan Process of Commercial Bank

Money advanced to a borrower, to be repaid at a later date, usually with interest. Legally, a loan is a contract between a buyer (the borrower) and a seller (the lender), enforceable

under the [Uniform Commercial Code](#) in most states. The terms and conditions for repayment of a loan, including the finance charge or interest rate, are specified in a loan agreement. A loan may be payable on demand (a [Demand Loan](#)), in equal monthly installments (an Installment Loan), or they may be good until further notice or due at maturity (a [Time Loan](#)).

There are various methods lenders use to categorize loans, both for internal control and for reporting lending activity to governmental agencies, for example, classification by maturity, industry, security, and type of borrower. Bank loans are normally classified by: (1) Commercial & Industrial Loans to business organizations; (2) interbank loans, which are mostly [Federal Funds](#) transactions, from one bank to another; (3) Loan Participations or loans to a single borrower shared by several banks; (4) real estate loans, which may be subdivided into construction loans and long-term [Mortgage](#) loans; and (5) loans to consumers, such as auto loans and other forms of consumer installment credit. *See also* [Consumer Credit](#); [Credit](#); [Loan Participation](#); [Parallel Loan](#); [Secured Loan](#); [Syndicated Loan](#); [Term Loan](#); [Time Loan](#); [Unsecured Loan](#); [Working Capital Loan](#).

Loan, in business, sum of money borrowed at a particular interest rate. More generally, it refers to anything given on condition of its return or repayment of its equivalent. A loan may be acknowledged by a bond, a promissory note, or a mere oral promise to repay. Because of biblical injunctions against usury, the early Christian church forbade the taking of interest. In feudal European society, loans were little needed by the great mass of relatively self-sufficient and noncommercial peasants and serfs, but kings, nobles, and ecclesiastics were heavy borrowers for personal expenditures. Merchants and other townsmen, especially the Jews, were the moneylenders, and various devices were found for circumventing the prohibition of usury. With the rise of a commercial society, restrictions on the taking of interest were gradually relaxed. Today, banks and finance companies make most loans, usually on [collateral](#), such as stocks, personal effects, and mortgages on land and other property, or on assignments of wages. [Credit unions](#) have attained some importance in making personal loans at relatively low interest rates, and microcredit programs and organizations, which offer small-scale loans, have proved useful, particularly in developing countries, in helping individuals to establish small businesses. A [pawnbroker](#) lends money on the security of articles left in his shop.

Types of loans

Secured

See also: [Loan guarantee](#)

A [secured loan](#) is a loan in which the borrower [pledges](#) some asset (e.g. a car or property) as [collateral](#) for the loan.

A subsidized loan is a loan that will not gain interest before you begin to pay it. It is known to be used at multiple colleges.

A unsubsidized loan is a loan that gains interest the day of disbursement.

A [mortgage loan](#) is a very common type of debt instrument, used by many individuals to purchase [housing](#). In this arrangement, the money is used to purchase the property. The financial institution, however, is given security — a [lien](#) on the title to the house — until the mortgage is paid off in full. If the borrower [defaults](#) on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it.

In some instances, a loan taken out to purchase a new or used car may be secured by the car, in much the same way as a mortgage is secured by housing. The duration of the loan period is considerably shorter — often corresponding to the useful life of the car. There are two types of auto loans, direct and indirect. A direct auto loan is where a bank gives the loan directly to a consumer. An indirect auto loan is where a car dealership acts as an intermediary between the bank or financial institution and the consumer.

A type of loan especially used in [limited partnership](#) agreements is the [recourse note](#).

A stock hedge loan is a special type of [securities lending](#) whereby the stock of a borrower is hedged by the lender against loss, using options or other [hedging](#) strategies to reduce lender risk.^{[[citation needed](#)]}

A pre-settlement loan is a [non-recourse debt](#), this is when a monetary loan is given based on the merit and awardable amount in a lawsuit case. Only certain types of lawsuit cases are eligible for a pre-settlement loan.^{[[citation needed](#)]} This is considered a secured non-recourse debt due to the fact that if the case reaches a verdict in favor of the defendant the loan is forgiven.

Unsecured

[Unsecured loans](#) are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages:

-) [credit card](#) debt
-) personal loans
-) [bank overdrafts](#)
-) credit facilities or lines of credit
-) [corporate bonds](#) (may be secured or unsecured)

The [interest rates](#) applicable to these different forms may vary depending on the lender and the borrower. These may or may not be regulated by law. In the United Kingdom, when applied to individuals, these may come under the [Consumer Credit Act 1974](#).

Margin Lending

This loan is provided against the share of the companies, which are listed in Nepal Stock Exchange (NEPSE) and acceptable to the bank.

Eligibility

Any individual, companies and firms can take this loan. Bank all the borrowers should be Nepalese citizen. This loan can be taken against the shares owned by any person or company.

Document Required

Copy of citizenship certificate of the borrower and other owners of the shares.

For all

-) Loan application form duly filled and signed.
-) Original share certificates.
-) Letter of consent issued the borrower addressed to the concerned companies for the pledge of share with related bank.

-) Letter consent from borrower to the concerned company for the lies over shares in favor of related bank and accretion (Dividend, Bonus Shares, Right Shares)

For firm/ Partnership/ Company

-) Firm Registration certificate
-) Pan
-) Partnership deed (in case of partnership firm only)
-) Memorandum of association and articles of association (in case of company)
-) By laws and articles (in case of association/ trust)
-) Resolution of board/executive committee for obtaining the loan(in case of company/association/trust)
-) Power of attorney for signing the loan application and security documents(in case of company associates)
-) Personal guarantee of shareholders holding 10% of total shares or more(in case of company)

Personal Loans

-Personal Term Loan

-Personal Overdraft Loan

Provided to fulfill the personal needs of an individual

Provided against the land and building

Eligibility:

-) Borrower must have regular and stable source of income
-) Borrower must be Nepalese Citizen.
-) The collateral must be accessible by at least eight feet wide road.
-) Borrower must be 21 years of age and should not exceed 60 at the time of maturity of loan.

Home Loan

INVESTING WITH US ENTITLES

Finance up to 70% of the total value for

-) Readymade Houses/Buildings, Construction of House/Buildings, Readymade apartment,

bungalow, duplex and Renovation and / or extension of building

Interest Rate

- J 14.00% per annum for up to 5 yrs.
- J 15.00% per annum above 5 yrs.

Tenure

- J Maximum of 15 years
- J Loan shall be terminated on /or before 60 years of age of the borrower.
- J Repayment: Equal Monthly Installments (EMI)

ELIGIBILITY

- J Age 18 years and above
- J Professionals, salaried individuals and self employed individuals, etc..
- J Nepali individuals
- J Access to the property should be not less than 8' wide road

FEES AND CHARGES

The following charges are to be levied

Management fee: 1% of loan amount

Documentation Fee: NPR 3,000.00 flat

Prepayment Fee:

1% of pre-paid amount if prepaid within 5 years

0.5% of pre-paid amount if prepaid after 5 years

- J CIB Charge: NPR 750.00 per page

Home Loans

This loan is provided for

-) Purchase a plot of Land
-) Purchase a plot of land and construct a building on it
-) Purchase of already built house
-) Purchase of Bungalow constructed by builders / developers
-) Renovation, modification, extension of existing building
-) Construction of building on land already owned
-) Swapping home loan from another bank or financial institutions.

Eligibility:

The criterion for taking home-loans is as follows.

-) The loan is provided to any individuals who have regular and stable source of income. This loan can be given to any salaried and self-employed individuals.
-) The loan will be provided to Nepalese Citizens only.
-) Any house/land, which does not lie in municipal area, will not be financed. However, this loan can be provided to VDCs of Kathmandu, Lalitpur and Bhaktapur districts only, but proper justification is needed from the concerned branches.
-) The land and/or house to be constructed / purchased / renovated / extended / modified should have motorable road (8 feet wide in minimum) access. Such road should be clearly seen in the blue print or be verified by concerned authority (for e.g. ward office). However the loan can be given even if the land and/or building does not have motorable road but applicant/borrower provides land and/or house having motorable road access as additional collateral. The collateral must cover at least 100% of the loan. The mortgaged land/building should be in municipality area. But in case of Kathmandu, Lalitpur and Bhaktapur districts, if such land/building is located in VDC, the concerned branches have to justify and take approval from Consumer lending unit, Head Office.
-) All borrowers and guarantor should not be enlisted in “Black List” of Nepal Rastra Bank.
-) 3 years work experience is needed for salaried and self-employed individuals.
-) The company or firm (in case of self employed individuals) should be in operation since last three years at minimum.

) The borrower must be at least 21 years and should not exceed 60 years at the time of maturity. The retirement age must be more than the tenure of the loan.

Processing Fee:

1% of the financed amount shall be charged upfront at the time of submission of loan application with necessary documents. The fee shall be refunded if the loan is not approved.

Prepayment Fee:

2% prepayment charge on the prepaid amount if prepayment is made within 1/3 of loan period. However, no prepayment fee will be charged if paid after maturity of 1/3 of the loan period.

Notes:

-) Corporate guarantee should be supported by resolution of Board of Directors.
-) Original certificates should be presented for verification while submitting this form.
-) Salary certificate must be in the office's letterhead having seal and must contain net salary, your designation, years of service, date of retirement or expiry of contract and type of employment (permanent or contract). It should be signed along with the name and designation of the signatory.
-) The bank can demand any additional documents on its own discretion.

AutoLoans

This loan is provided for:

-) Purchase of new vehicles
-) Purchase of old / used vehicles (For Private use only)
-) Swapping (For Private and Commercial use)

Eligibility:

The criterion for taking auto-loans is as follows.

-) The loan is provided to Nepalese Citizens only.
-) This is provided to any salaried and self-employed individuals and companies.
-) The loan is provided to any salaried and self-employed individuals and companies having regular and stable source of income.
-) All borrowers and guarantors should not be enlisted in "Black List" of NRB.

) In case of individuals, the borrower must be at least 21 years and should not exceed 60 years at the time of maturity. The retirement age must be more than the tenure of the loan.

) 3 years work experience is needed for salaried individuals.

) The company / firm should be in operation since last three years.

) The person taking loan for the company / firm is to be authorized by the company / firm as appropriate.

Processing Fee:

1% of the financed amount shall be charged upfront at the time of submission of loan application with necessary documents. The fee shall be refunded if the loan is not approved.

Prepayment Fee:

2% prepayment charge on the prepaid amount if prepayment is made within 1/3 of loan period. However, no prepayment fee will be charged if paid after maturity of 1/3 of the loan period.

Notes:

All companies are required to submit their board resolution authorizing to execute loan/security documents with the bank to avail credit facility.

) Corporate guarantee should be supported by resolution of Board of Directors.

) Original certificates should be presented for verification while submitting this form.

) Salary certificate must be in the office's letterhead having seal and must contain net salary, your designation, years of service, date of retirement or expiry of contract and type of employment (permanent or contract). It should be signed along with the name and designation of the signatory.

) The bank can demand any additional documents at its own discretion.

) For commercial vehicles, detail breakdown of the income from and expenses of the vehicle (scheme) is necessary.

In case of swapping loan, loan statements from current bank / financial institutions is required

2.3 Review of Previous Study

Every scientific research is based on past knowledge. The previous studies cannot be ignored because they provided the foundation to the preset study. Therefore, in the light of this dissertation in this section review of articles, review of research papers & review of thesis of previous study are taken into consideration.

2.3.a) Review of Articles

Under this heading, efforts have been made to examine and review some of the related articles published in different economic journals, bulletin of World Bank, dissertation papers, magazines, newspapers and other related books.

F. Morris, in his discussion paper on “Latin America’s Banking system in the 1980’s”, has concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation (investment decision) and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked.

He further adds that mismanagement in financial institutions has involved inadequate and overoptimistic loan appraisal, high risk diversification of loan portfolio and investments, high risk concentration, related parties lending, etc, are major cause of investment and loan that has gone bad (Morris, 1990;pp81)

Sunity Shrestha in her article, “Lending operation of commercial Banks of Nepal and its impact on GDP” has presented with the objectives to make an analysis of contribution of commercial banks’ lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial service and general multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis that there has been positive impact by the lending of commercial banks in various sectors of economy, except service sector investment. (Dr. Sherestha, 2055; 23-27).

Shree Prasad Poudel, Deputy Director, NRB in his article “Government Security Markets Rational and Development in Nepal” has concluded that the Security markets are center of the financial system. Debt securities market in the Nepal is highly dominated by government debt securities. Debt statistics evidenced that Nepal remained debt free nation till 1950’s. From the beginning of 1960’s foreign loans and domestic bonds have been alternative means of debt financing in Nepal as a result total debt as a percentage of GDP widened from 1% in 1960’s to 65.3% in the year 2000.

According to Mr. Poudel, Government debt consists of Treasury bills (T-Bills), National Savings Certificates (NSCs), Development Bonds (DBs), Special Bonds (SBs), and Citizen Saving Certificates (CSCs).

He further added that NRB and commercial Banks are the main holders of government bonds. In his article he suggested following improving area in debt securities market in Nepal:

-) To make government securities active instruments of open market operation, coupon rate on government securities has to be fixed closely to the market rate of interest.
-) Exchange of government securities at market price has to be encouraged.
-) Products of government debt securities need to be diversified to meet investor demands.
-) Like equity shares the marketable government securities need to be exchanged in the floor of Nepal Stock Exchange at competitive price. (Poudel, 2059; 45-51)

Bodhi B. Bajracharya has mentioned in his article, “Monetary Policy and Deposit Mobilization in Nepal” has concluded that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purpose commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private sector so far providing credit to the investors in different aspects of the economy.(Bajracharya,1990;93-97)

2.3.b) Review of Research Papers

Under this heading, reviews of research papers of researchers are analyzed to find out the investment policies of commercial banks.

Dr. Govinda Bahadur Thapa, expresses his views in his research paper “Financial System of Nepal” that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non –traditional sectors along with the traditional sectors.

Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

He concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands (Dr. Thapa, 1994,PP29-37).

Dr. Radhe S. Pradhan in his research paper “Role of Saving, Investment and Capital formation in Economic Development. A case of Nepal,” has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak is a strong role played by saving and capital formation on economic development while weak role-played by investment. (Dr. Pradhan, 2003;pp 123-133)

2.3.c) Review of Thesis

Several thesis works have been conducted by various students regarding the various aspects of commercial banks such as lending policy, investment policy, investment planning, liquidity and investment position, trends of saving investment and capital formation, investment on priority sectors etc. Some of them as supposed to be relevant for the study are presented below.

Wagle (2000) has conducted in his thesis paper “*A study on trends of savings, investment and capital formation in Nepal*”, he concluded that in Nepal there is large gap between investment and saving rate. The low savings rate implies that majorities of people are poor. Low rate of saving and investment has been the continuing characteristic of the Nepalese economy as compared to some selected Asian countries. The need for the improving internal savings and investment performance in the country has been high in the agenda of Nepalese policy declarations but the performance in has remained rather poor. The rate of investment and capital formation is low in Nepal because of low saving. He has recommended that the government should review existing restriction on foreign direct investment.

Poudel Kishor (2002) has conducted in his thesis paper “*Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal*” had made an attempt to evaluate liquidity and investment of joint venture Banks, special reference to Everest Bank Ltd. and Nabil Bank Ltd. He has concluded that liquidity position of EBL is comparatively better than Nabil. Growth rate of investment is higher in EBL than Nabil. He further found the

banks do not have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. A commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment and to increase its investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return.

Pandit Kul Chandra (2003) has conducted in his thesis, “*A study on the investment policy analysis of Standard Chartered Bank Nepal Limited in comparison to Nabil and Nepal Bangladesh Bank*” has mainly found that SCB’s loan & advances to total deposits ratios are significantly lower than that of Nabil and Nepal Bangladesh Bank, SCB is recommended to follow a liberal lending policy, invest more portion of deposition loan & advances. He has further stated that besides giving priority of investing on government securities, SCB is recommended to invest its fund in the purchase of shares and debentures of other financial, non-financials companies, hotels and government companies. This also helps in the maintenance of a sound portfolio of the banks. (Pandit, 2003)

Sanjal (2008) has conducted research on “*Analysis of investment policy of commercial banks (comparative study of standard chartered bank, Nepal Bangladesh Bank & Himalayan Bank Limited)*”. The major finding from his study is that the liquidity position of the bank is quite satisfactory .But the loan & advance of there banks is less than expectation. However Himalayan bank has efficiently utilized the rewards than the other two banks. The standard chartered bank has less mobilize the loan but due to difference in interest rate it has low risk.Nepal Bangladesh Bank also has utilize the deposit but in less amount. The rate of investment is low in there bank. So he has suggested to increase the investment in profitable sector an it has increase in the liquidity.

Gurung (2010) has conducted the research on “*A study of investment policy of commercial banks in Nepal (comparative study of Nabil & Himalayan bank Ltd.)*”. The objective of this study has to analyse the investment pottern of these two banks in term of profitability ,risk & return.He conducted that the profitable return on Nabil bank is higher than that of Himalayan bank. The liquidity risk is lower in Nabil bank but credit risk is higher in this bank. The analysis find Nabil’s investment policy is better & profitable ratio is good. Similarly the loan advance shown by Himalayan bank is better. So he

recommended that Nabil should invest his amount in more secure sector & the Himalayan bank should raise the total cash & bank balance to meet the demand of loan & advance.

Khand (2010) has conducted on research on“ *The investment policy of commercial banks of Nepal (a comparative study of bank of Kathmandu & Everest bank Ltd.)*”. According to his study the liquidity & investment of these banks are quite different.He has conducted that the position of Everest bank is comparatively better than that of Kathmandu. He further found that the Everest Bank has more area & amount of investment with compare to Bank of Kathmandu. But there is no constant & consistent of investment policy. So, he has recommendation exploring new investment areas & to increase it's investment on share & debenture ,government securities also. So, that they can make the portfolio to maintain risk & return.

Gautam (2010) has conducted research on“ *Investment policy of commercial bank in Nepal (with return to Nepal Bangladesh Bank Limited & Everest Bank Limited.)*”. The objective of this study was to examine the utilization of available fund of both banks. It study focus on liquidity & risk position of Everest Bank Limited in comparison to Nepal Bangladesh Bank Limited.

He has conducted that the liquidity position of Everest Bank Limited is less than Nepal Bangladesh Bank limited. But the Everest Bank Limited has utilize its fund more efficiently. It state that the EBL invest its assets in government securities more than NBBL, That why comparatively the EBL bank has success to maintain high ratio in return on total working fund. The return of EBL is greater than NBBL. He recommend that EBL should increase the cash & other assets. The return on government T-Bills may be less. So he has recommended to invest its fund in purchase of share & debenture of other companies.

Research Gap:-

There are some gaps between the previous research and latest research. The previous research is limited whereas the latest research has studied many topics. The previous research is limited in study like investment policy & liquidity position of the banks. But the latest research has conducted the study on investment policy, liquidity position along

with profitability, risk & return of the commercial banks in comparison with Nabil and NIBL bank.

CHAPTER –III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the research method used to test the hypothesis. It sequentially refers to the various steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire subject of the study.

The prime objectives of this study are to evaluate analysis and assess the effectiveness on investment policy of Nabil Bank and compare it with Nepal Investment Bank. This chapter attempts to have an insight into the investment policy adopted by Nabil. This will help to evaluate and analyze investment performance of Nabil in comparison to the Investment Bank. After the analysis, a package of suggestion will be offered if need to be improving the performance of banks. To accomplish the goal, the study follows the research methodology described in this chapter.

3.2 Research Design

Research design indicates a plan of action to be carried out in connection with proposed research work. The research design is descriptive and core prescriptive in this study because the historical secondary data have been mainly deployed for analysis.

Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate investment performance of Nabil and compare it with NIBL. Besides very simple questions asked to the concerned personnel's in the course of visiting the bank, this report contains no other primary data. This report is mainly based on secondary data, which include annual reports published by the concerned bank and other publications related to the concerned topic.

3.3 Sources of Data

The report is mainly based on secondary data. The data required for the analysis are directly obtained from the balance sheet and P/L account of concerned bank's annual

reports. Supplementary data and information are collected from number of institutions and regulating authorities like NRB, SEBON, NEPSE, Ministry of Finance, budget speech of different fiscal years and economic survey. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. 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. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

3.4 Population and Sample

There are altogether 30 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. The population is as follows:

1	Nepal Bank Limited
2	Rastriya Banijya Bank
3	Agriculture Development Bank Ltd.
4	Nabil Bank Limited
5	Nepal Investment Bank Limited
6	Standard Chartered Bank Nepal Limited.
7	Himalayan Bank Limited
8	Nepal SBI Bank Limited
9	Nepal Bangladesh Bank Limited
10	Everest Bank Limited
11	Bank of Kathmandu Limited
12	Nepal Credit and Commerce Bank Limited
13	Lumbini Bank Limited
14	Nepal Industrial & Commercial Bank Limited
15	Machhapuchhre Bank Limited
16	Kumari Bank Limited
17	Laxmi Bank Limited
18	Siddhartha Bank Limited
19	Global Bank Ltd.

20	Citizens Bank International Ltd.
21	Prime Commercial Bank Ltd
22	Sunrise Bank Ltd.
23	Bank of Asia Nepal Ltd.
24	Development Credit Bank Ltd.
25	NMB Bank Ltd.
26	Kist Bank Ltd.
27	Janta Bank Nepal Ltd.
28	Civil Bank Nepal Ltd.
29	Mega Bank Nepal Ltd.
30	Commerz And Trust Bank Nepal Ltd.
31	Century Commercial Bank Limited
32	Sanima Bank Limited

From these populations Nabil Bank Ltd. and Nepal Investment Bank Ltd. has been selected and its data related to investment policy are comparatively studied.

3.5) Methods of Analysis

As mentioned above for the purpose of data analysis, various financial, accounting and statistical tools are used to make the analysis more effective, convenience, reliable and authentic. The analysis of data will be done according to the pattern of data available because of limited time and resources. Simple analytical statistical tools such as percentage, Karl Pearson's coefficient of correlation, regression, trend analysis, standard deviation, mean/average, coefficient of variation and test of hypothesis are used in this study. Similarly, some financial tools have also been used for financial analysis. The various tools applied in this study have been briefly presented as under.

3.5.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of bank in this study. Financial tool like ratio analysis has been used.

Ratio Analysis

Ratio analysis is a tool of scanning the financial statement of the firm. “Ratio means the numerical or quantitative relationship between two items or variables. It can be expressed as percentage fraction or a stated comparison between numbers.” (I.M.Panday, 1992; 104) Ratio analysis is the relationship between two accounting figures expressed in mathematically. It is computed by dividing one item of relationship with the other. Management itself can use these parameters to improve the organization’s performance in future. Because, truly know- how of the strengths and weakness for exploiting maximum benefits and to repair the weaknesses to meet the challenges.

Even though there are many ratios, only those financial ratios are calculated and analyzed which are related in this study. They are as follows:

A) Assets Management Ratios (Activity Ratios)

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted turnover into sales. Asset management ratio measures how efficiently the bank manages the resources at its command.

The following ratios are used under this asset management ratio.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out that which banks are able to utilizing their total deposits on loan and advances for profit generating purpose. This ratio can be obtained by dividing loan and advances by total deposits, which can be states as,

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

ii) Total Investment to Total Deposit Ratio

This ratio implies the utilization of firm’s deposit on investment in government securities and share debentures of other companies and bank.

This ratio can be calculated by dividing total investment by total deposit. Which can be states as?

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

Hence, total investment consist investment on government securities, investment on debenture and bonds, share in subsidiary companies, share in other companies and other investment.

iii) Loan and Advances to Working Fund Ratio

Loan and advances indicates the ability of any bank to canalize its deposits in the form of loan and advances to earn high return. This ratio is computed by dividing loan and advances by total working fund, which can be states as,

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

Where, Total working fund consists current assets, net fixed assets, loan for development banks and other miscellaneous assets.

iv) Investment on Government Securities to Total Working Fund Ratio

This ratio shows that banks investment on government securities in comparison to the total working fund.

This ratio is calculated by dividing investment on government securities by total working fund, which can be states as,

$$\begin{aligned} \text{Investment on Govt. Securities to Total Working Fund Ratio} \\ = \frac{\text{Interest on Govt. Securities}}{\text{Working Fund Ratio}} \end{aligned}$$

Hence, Investment on government securities includes treasury bills and development bonds etc.

v) Investment on Shares and Debentures to Total Working Fund Ratio

This ratio shows the banks investment in shares and debenture of the subsidiary and other companies.

This ratio can be computed by dividing investment on shares and debentures by total working fund, which can be states as,

Investment on Shares & Debentures to Total Working Fund Ratio

$$= \frac{\text{Investment on Shares and Debentures}}{\text{Working Fund Ratio}}$$

Where, Numerator includes investment on debentures bonds and shares of the other companies.

B) Liquidity Ratios

Liquidity ratios measure the firm's ability to current obligations. It reflects the short – term financial strength of the business. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. A bank should ensure that it does not suffer from lack of liquidity and also it does not have excess liquidity. Both condition of liquidity are not in favour the viewpoint of banks.

The following ratios are evaluated under liquidity ratios.

i) Current Ratio

A ratio between current assets and current liabilities is known as current ratio. It shows the relationship between current assets and current liabilities. Current assets are those assets which can be converted into cash within short period of time, normally not exceeding one year current liabilities are those obligations which are payable within a short period, normally not exceeding one year.

Mathematically it is represented as: **Current ratio** = $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

Higher the current ratio better is the liquidity position. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio.

This ratio measures the bank short-term solvency i.e. its ability to meet short-term obligations. As a measure of creditors versus current assets, it indicates each rupee of current assets available for each rupees of current liability.

ii) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. Mathematically it is expressed as,

$$\text{CRR ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Hence, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks where as the total deposits include current deposits, saving deposits, fixed deposits, money at call and short term notice and other deposits.

iii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of the bank. Higher ratio shows the banks ability to meet its demand for cash.

This ratio is calculated by dividing cash and bank balance by current assets.

Mathematically it is expressed as,

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

iv) Investment on Government Securities to Current Assets Ratio

Investment on government securities includes treasury bills and development bonds etc. This ratio is calculated to find out the percentage of current assets invested in government securities.

This ratio is calculated by dividing investment made on government securities by current assets,

Mathematically it is expressed as,

Investment on govt. securities to current assets ratio

$$= \frac{\textit{Investment on Government Securities}}{\textit{Current Assets}}$$

v) Loan and Advances to Current Assets Ratio

Loan and advances to current asset ratio shows the percentage of loan and advances in the total current assets. Where loan & advances include loans, advances, cash credit, local and foreign bill purchased and discounted etc.

This ratio can be calculated by dividing loans and advances by current assets.

Mathematically it is expressed as,

$$\text{Loan and advances to current assets ratio} = \frac{\textit{Loan and Advances}}{\textit{Current Assets}}$$

C) Profitability ratios

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and grow over a long period of time, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of its company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of a company. It is the indicator

of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa.

The following ratios are taken into account under this heading

i) Return on Total Working Fund Ratio

This ratio measures the overall profitability of all working funds i.e. total assets. A firm has to earn satisfactory return on assets or working fund for its survival. This ratio is calculated by dividing net profit by total working fund.

This can be express,

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

ii) Return on Loan & Advances Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This ratio is computed by dividing net profit by loan & advances.

This can be expressed as,

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

iii) Total Interest Earned to Total outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest.

This ratio is calculated by dividing total interest earned by total outside assets; this can be expressed as,

$$\text{Total Interest Earned to Total Outside Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

iv) Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out the percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank its terms of interest earning on

its total working fund. This ratio is calculated by dividing total interest earned by total working fund.

This can be expressed as,

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

Where, total interest earned includes, interest on loan, advances and overdrafts, government securities investment debentures and other inter bank loans.

v) Total Interest Paid to Total Working Fund Ratio

This ratio is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. This ratio is calculated by dividing total interest paid by total working fund.

Which, can be expressed as

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

Where, total interest paid includes total expenses on deposits, loan and advances, borrowings and other deposits.

D) Risk Ratios

Risk taking is the prime business of bank's investment management. It increases effectiveness and profitability of the bank. These, ratio indicate the amount of risk associated with the various banking operations, which ultimately influences the bank investment policy.

The following ratios are taken into account under this heading.

i) Liquidity Risk Ratio

The Liquidity risk ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the depositor's

demand for cash. Higher the ratio, lower is the liquid risk. Dividing cash & bank balance calculate this ratio by total deposits. This can be mentioned as,

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

ii)Credit Risk Ratio

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

This can be mentioned as,

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

iii)Capital Risk Ratio

The capital risk ratios of a bank indicate how much asset values may decline before the position of depositors and other creditors jeopardize. The capital risk is directly related to the return on equity (ROE). Higher the ratio, low is the capital risk. This ratio is computed by dividing capital (Paid up Capital + Reserves) by risk- weighted assets as computed under BASLE committee's formula.

This can be mentioned as,

$$\text{Capital Risk Ratio} = \frac{\text{Capital (Paid up \& Re serves)}}{\text{Risk Weighted Assets}}$$

E) Growth Ratios

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

The following growth ratios are calculated in this study.

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

3.5.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as trend analysis of important variables, co-efficient of correlation between different variables as well as test of hypothesis have been used which are as follows:

i) Average/Mean

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group.² There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n} \dots\dots\dots(3.1)$$

Where, \bar{X} = Arithmetic mean

$\sum X$ = Sum of all the values of the variable X

n = Number of observations

ii) Standard Deviation(S.D.)

The standard deviation (†) measures the absolute dispersion. The greater the standard deviation, the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically:

$$\dagger \text{ X } \sqrt{\frac{1}{n} \sum (X - \bar{X})^2} \dots\dots\dots (3.2)$$

iii) Coefficient of Variation

The standard deviation is absolute measures of dispersion; where as the coefficient of variation (CV) is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool.

Mathematically,

$$CV = \text{X } \frac{\dagger}{\bar{X}} \dots\dots\dots (3.3)$$

CHAPTR-IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Analysis

This is analytical chapter, where the researcher has analyzed and evaluated those major financial items, which are mainly related to the investment management and fund mobilization of NABIL Bank limited in comparison to that of other commercial Bank i.e. Investment Bank Limited. From the point of view of the fund mobilization and investment policy only those ratios are calculated and analyzed which are very important. The rations are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and needed financial ratios, which are to be calculated for the purpose of this study, are as fallows respectively.

4.1.1 Asset Management Ratios (Activity Ratio)

Asset management ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. They indicate the speed with which assets are being converted. Thus these ratios are used to measure the banks ability to utilize their available resources.

Under this asset management ratio following ratios are studied.

(i) Loan & Advances to Total Deposit Ratio

It shows the relationship between loans & advances to total deposit. The ratio measures the extent to which the banks are successful to mobilize their total deposit on loan & advances.

We have,

$$\text{Loan \& advances to total deposit ratio} = \frac{\text{Loan and Adavnces}}{\text{Total Deposit}}$$

Where,

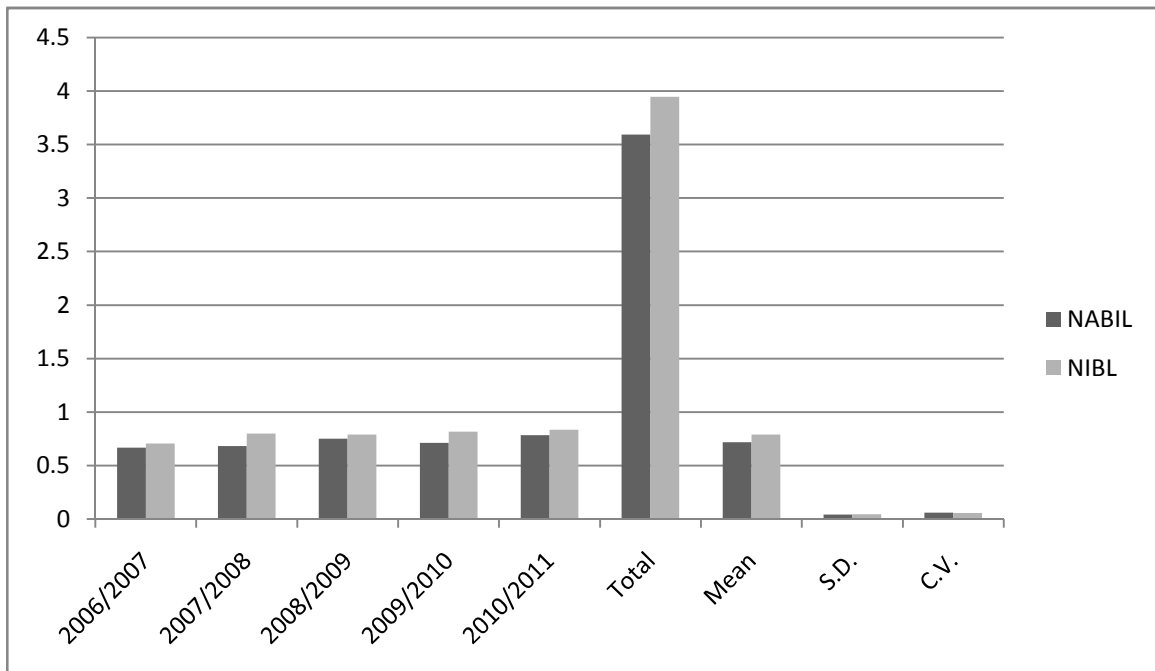
Loan & advances include loans, advances, cash credit, local and foreign bill purchased and discount. Total deposits include saving, fixed current call at short deposit and others.

Table No.:4.1
Loan & advances to total deposit ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/2007	0.666	0.7059
2	2007/2008	0.6818	0.7989
3	2008/2009	0.7497	0.7886
4	2009/2010	0.7117	0.8174
5	2010/2011	0.7829	0.8354
	Total	3.5921	3.9462
	Mean	0.7184	0.7892
	S.D.	0.0430	0.0445
	C.V.	5.98	5.64

Source: Appendix -1

CHART-1
Loan & advances to total deposit ratio



From the table 4.1 & chart-1 shows the total mean, S.D. and C.V. of loan & advances to total deposit ratio of commercial banks. Contents of the table show the percentage of loan & advances to total deposit ratio position of Nabil and NIBL.

From the table exhibits that the ratio of Nabil has increasing trend in up to FY 2008/2009 and in decreasing trend. NIBL has fluctuating trend i.e. highest in the FY 2010/2011 and lowest in FY 2006/2007.

The mean value of NIBL is highest than that of Nabil. Mean ratio of Nabil and NIBL is 0.7184 & 0.7892. Coefficient of variation of NIBL is lower than that of Nabil i.e. 5.64 < 5.98.

From the table it shows that NIBL has strong position regarding the mobilization of total deposit on loans and advances and acquiring high profit in comparison. But only higher ratio is not better from the point of view of liquidity as the loans and advances are not as liquid as cash and bank balance. Nabil has high C.V. than NIBL, which indicate that loans and advances of Nabil are not stable and inconsistent than that of NIBL.

(ii) Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposit by investing its fund in different securities issued by government and other financial or non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities.

We have,
$$\text{Total investment to total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Where,

Total investment consists investment on government securities, investment on debenture and bonds, share in subsidiary companies, shares in other companies and other investment.

Table No.:4.2

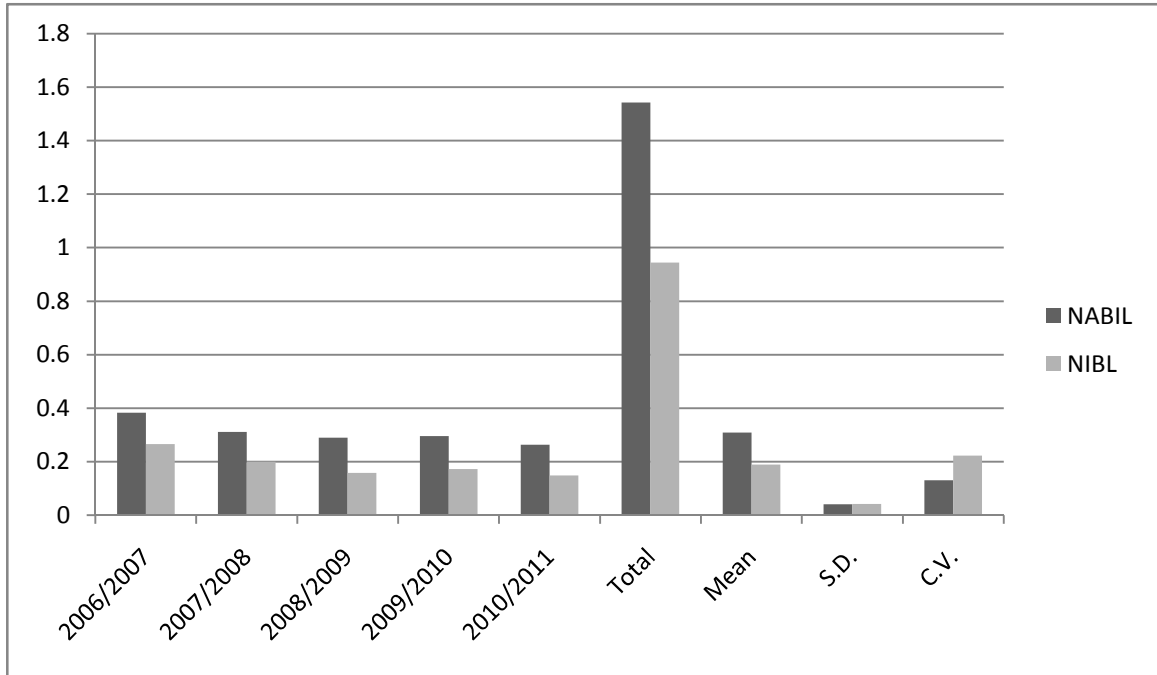
Total investment to total deposit ratio

S.No.	Fiscal Year	Nabil	NIBL
1	2006/2007	0.3832	0.2657
2	2007/2008	0.3114	0.1995
3	2008/2009	0.2899	0.1584
4	2009/2010	0.2953	0.1724
5	2010/2011	0.2632	0.1481
	Total	1.5430	0.9441
	Mean	0.3086	0.1888
	S.D.	0.0403	0.0420
	C.V.	13.06	22.24

Source: Appendix -2

CHART-2

Total investment to total deposit ratio



From the table 4.2 & chart-2 show the total mean, standard deviation & coefficient of variation of total investment to total deposit ratio of commercial banks.

From the table shows that Nabil has fluctuation trend. and in FY 2009/2010 it has follows decreasing trend. NIBL has fluctuation trend i.e. 0.2657 (in FY 2006/2007), 0.1995 (in FY 2007/2008), 0.1584 (in FY2008/2009), 0.1724 (in FY 2009/2010), and 0.1481 (in FY

2010/2011).The mean value of Nabil is higher than that of NIBL i.e. Nabil =0.3086>NIBL=0.1888.But Coefficient of variation of NIBL is higher than that of Nabil i.e. 22.24>13.06.

From the analysis of above table it is clear that Nabil has success to better utilization of deposit to investment than NIBL and also NIBL has higher consistency to investment in securities than other bank. Its investment policy is better. But it has higher risk than that of Nabil because it has higher Coefficient of variation than Nabil.

(iii) Loan and Advances to Total Working Fund Ratio

The commercial bank must be very careful in mobilizing its total asset as loan & advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan & advances for the purpose of income generating. A high ratio indicates better in mobilization of funds as loan and advances and vice versa.

We have, $\text{Loan and Advances to Working Fund Ratio} = \frac{\text{Loan and Advances}}{\text{Working Fund Ratio}}$

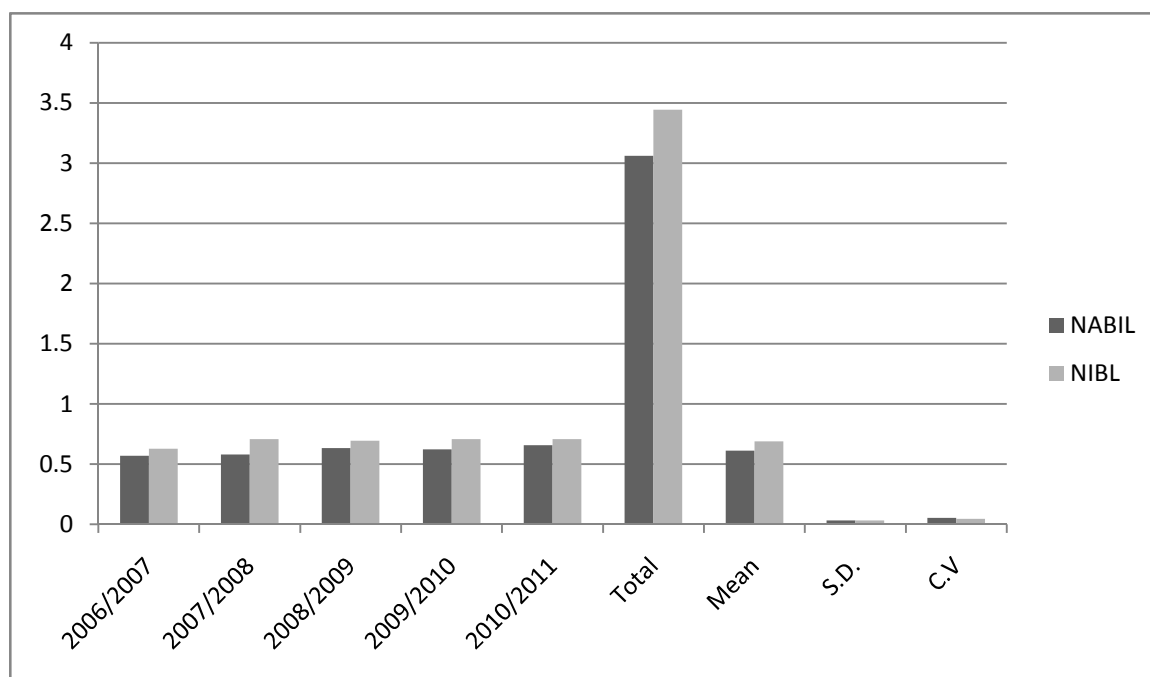
Where, Total working fund consist current assets, net fixed assets, loan for development banks and other miscellaneous assets.

Table No.: 4.3
Loan and advances to total working fund ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/2007	0.5704	0.6265
2	2007/2008	0.5798	0.7073
3	2008/2009	0.6323	0.6951
4	2009/2010	0.6225	0.7067
5	2010/2011	0.6559	0.7081
	Total	3.0609	3.4437
	Mean	0.6121	0.6887
	S.D.	0.0321	0.0316
	C.V	5.24	4.58

Source: Appendix -3

CHART-3
Loan and advances to total working fund ratio



From the table 4.3 & chart-3 show the total mean, standard deviation and coefficient of variation of loan and advances to total working fund ratio of commercial banks.

From the table shows that the loan and advances to total working fund ratio of Nabil has increasing trend up to FY 2008/2009 decreasing trend after that. NIBL has fluctuation trend .But from the FY 2008/2009 it is increasing trend.

Mean value of Nabil is lesser than that of NIBL (i.e. $0.6121 < 0.6887$). And coefficient of variation of Nabil is highest than that of NIBL.

From the above analysis it can be conclude that Nabil has success to better mobilization of funds as loan & advances for the purpose of income generation. Nabil has mobilizing its fund is higher and it has higher consistency than that of NIBL.

(iv) Investment on Government Securities to Total Working Fund Ratio

To some extent commercial bank seems to utilize its fund by purchasing government securities. Government securities are a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the

banks are successful in mobilizing their total fund on different type of government securities to maximize its income.

We have,

Investment on Govt. Securities to Total Working Fund Ratio

$$= \frac{\text{Interest on Govt. Securities}}{\text{Working Fund Ratio}}$$

Where,

Investment on government securities includes treasury bills and development bonds etc.

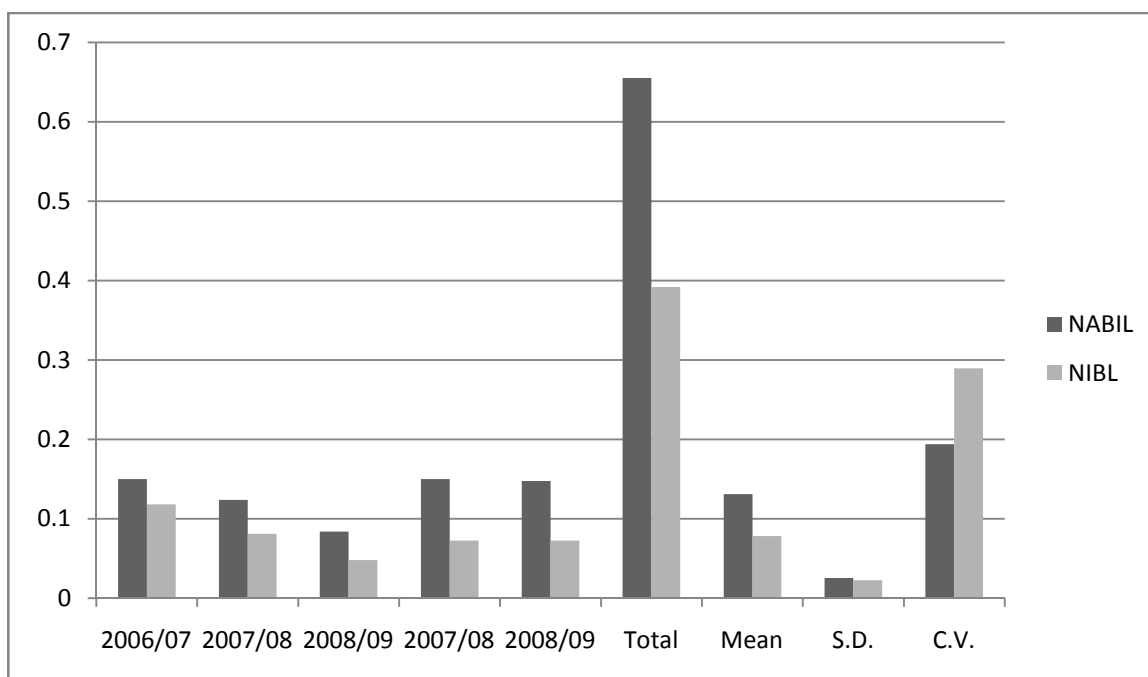
Table No.: 4.4

Investment on government securities to total working fund ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/07	0.1499	0.1180
2	2007/08	0.1238	0.0811
3	2008/09	0.0839	0.0478
4	2007/08	0.1502	0.0725
5	2008/09	0.1474	0.0726
	Total	0.6552	0.3920
	Mean	0.1310	0.0784
	S.D.	0.0254	0.0227
	C.V.	19.39	28.95

Source: Appendix -4

CHART-4
Investment on government securities to total working fund ratio



From the table 4.4 & chart-4 show the total mean, standard deviation and coefficient of variation of Investment on government securities to total working fund ratio of commercial banks.

Mean ratio of Nabil has higher than that of NIBL i.e. $0.1310 > 0.0784$. Similarly coefficients of variation of Nabil and NIBL are 19.39 & 28.95.

From the table we found that Nabil has higher mean ratio of investment on government securities. It indicates that Nabil has success to better mobilizing of funds as investment on government securities. Nabil's investment policy is also consistency than NIBL. But in the case of NIBL ,it has least investment on government securities and investment policy is high consistency.

(v) Investment on Shares and Debenture to Total Working Fund Ratio

There has been two types of investment i.e., investment on government securities and investment on shares & debenture. Investment on shares and debentures to total working fund ratio reflects the extent on which the banks are successful to mobilize their total

assets on purchase of shares and debentures of other companies to generate incomes and utilize their excess fund.

We have,

Investment on Shares & Debentures to Total Working Fund Ratio

$$= \frac{\text{Investment on Shares and Debentures}}{\text{Working Fund Ratio}}$$

Where,

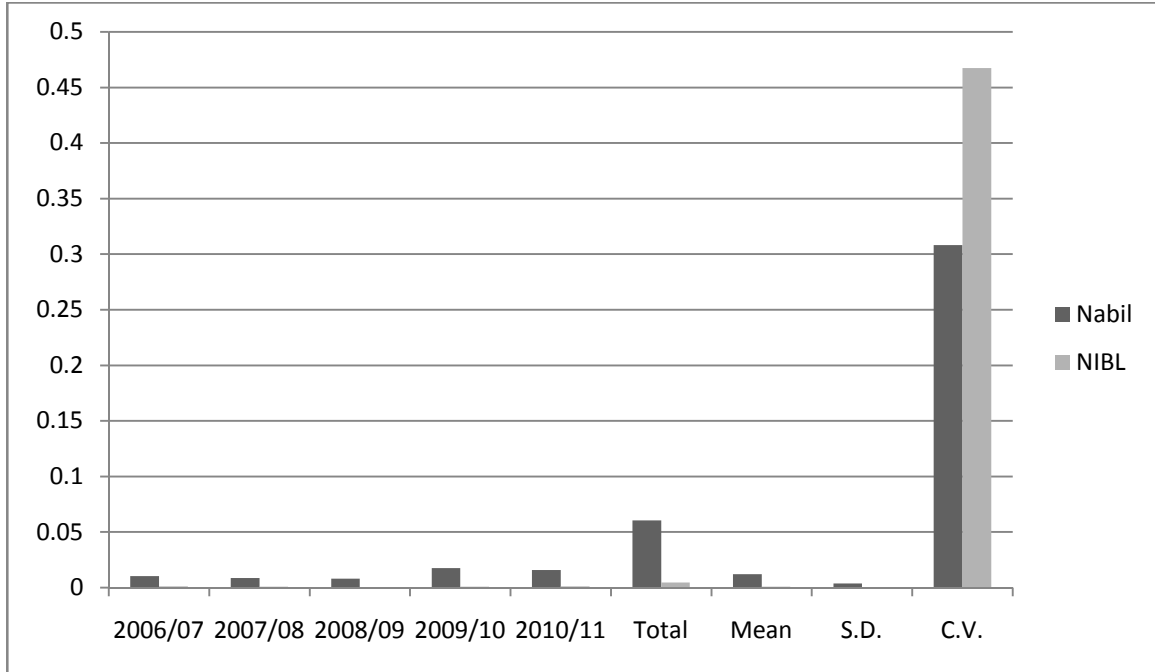
Investment on shares and debentures includes investment on debentures bonds and share of the other companies.

Table No.: 4.5
Investment on shares and Debentures to total working fund ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/07	0.0105	0.0013
2	2007/08	0.0086	0.0009
3	2008/09	0.0080	0.0001
4	2009/10	0.0176	0.0011
5	2010/11	0.0157	0.0012
	Total	0.0604	0.0046
	Mean	0.0120	0.0009
	S.D.	0.0037	0.0004
	C.V.	30.83	46.74

Source: Appendix -5

CHART-5
Investment on shares and Debentures to total working fund ratio



From the table 4.5 & chart-5 show the total mean, standard deviation and coefficient of variation of investment on shares and debentures to total working fund ratio.

From the above table shows that the investment on shares and debentures to total working fund ratio of Nabil has fluctuating trend. NIBL has also same trend. It has highest in the FY 2009/2010 (0.0176) and lowest ration in FY 2008/2009 (0.0080).

The mean value of Nabil and NIBL are 0.0120 & 0.0009. The S.D. of Nabil and Investment are 0.0037 and 0.0004 and C.V. 30.83 and 46.74.

The above analysis shows that Nabil has invested its funds in shares and a debenture in comparison of working fund is higher than NIBL. We conclude that its investment in share and debentures seems to be not consistence.

4.1.2 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need

of the community, to meet demands for deposits, withdraws, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate needs without loss to bank and consequent impact in long run profit. In fact analyses of liquidity needs are helpful to the preparation of cash budget and funds flow statement.

The following ratios are evaluated and interpreted under liquidity ratio: -

(i) Current Ratio

Current ratio indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of banking and seasonal business ratio such as 1:1 etc.

We have,

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

Where,

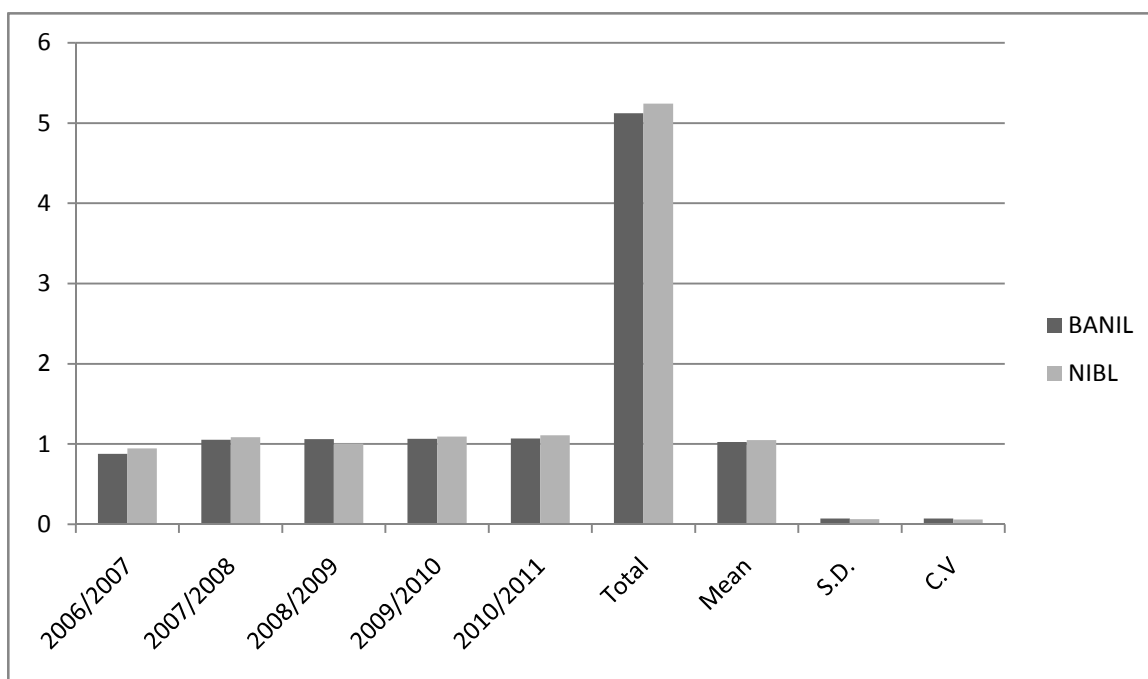
Current assets consist of cash and bank balance, money at call or short-term notice, investment in government securities and other interest receivable, non banking assets, loan advances and bills purchase and other miscellaneous current assets where as current liabilities consist of deposits, borrowings, loan and advances, bills payable, tax provision, Staff bonus, dividend payable and miscellaneous current liabilities.

Table No: 4.6
Current Ratio (times)

S.N	Fiscal year	Nabil	NIBL
1	2006/2007	0.8774	0.9466
2	2007/2008	1.0530	1.0860
3	2008/2009	1.0606	1.0069
4	2009/2010	1.0632	1.0923
5	2010/2011	1.0678	1.1105
	Total	5.1220	5.2423
	Mean	1.0244	1.0484
	S.D.	0.0735	0.0619
	C.V	7.17	5.9

Source: Appendix -6

CHART-6
Current Ratio (times)



From the table 4.6 & chart-6, the data shows that the current ratio of two commercial banks. It is calculated as per total mean, Standard deviation and coefficient of variation.

In average, NIBL has maintained higher current ratio than Nabil, which states that liquidity position of NIBL is fair. The coefficient of variation between the current ratio of Nabil is 7.17 which is comparatively higher than 5.9 of NIBL, it shows that current ratio of Nabil is less consistence than NIBL.

(ii) Cash and Bank Balance to Total Deposit Ratio (CBR Ratio)

Cash and bank balance is the most liquid asset. The ratio between the cash and bank balance and total deposit measure the ability of the bank to meet the unanticipated cash and all types of deposits.

We have,

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

Where,

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks where as the total deposits include current deposits, saving deposits, fixed deposits, money at call and short term notice and other deposits.

Table No: 4.7

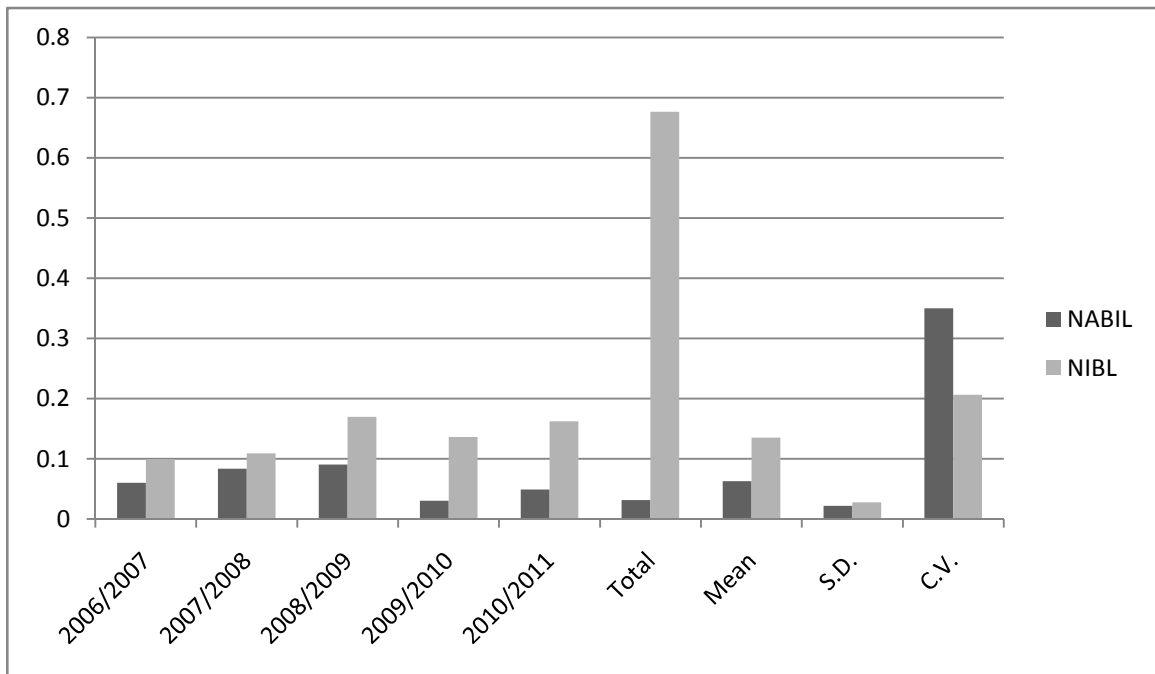
Cash and bank balance to total deposit ratio

S.N.	Fiscal year	Nabil	NIBL
1	2006/2007	0.0600	0.0997
2	2007/2008	0.0837	0.1089
3	2008/2009	0.0902	0.1695
4	2009/2010	0.0301	0.136
5	2010/2011	0.049	0.1623
Total		0.0313	0.6764
Mean		0.0626	0.1353
S.D.		0.0219	0.0279
C.V.		34.98	20.62

Source: Appendix -7

CHART-7

Cash and bank balance to total deposit ratio



From the Table 4.7 & chart-7 shows that the total mean, standard deviation and coefficient of variation of cash and bank balance to total deposit ratio of two commercial banks.

Data in the table shows that the ratio (CBR) of both Nabil and NIBL are in fluctuation trend. Mean and standard deviation ratio of Nabil are less than that of NIBL. C.V. of Nabil and NIBL are 34.98 and 20.62 respectively. From the above analysis it can be concluded that Nabil bank has better maintenance of its tight liquidity than that of NIBL. Because more liquidity indicate the inability of the bank. Nabil bank is more riskier than NIBL because the C.V. of Nabil is greater than NIBL.

(iii) Cash and Bank Balance to Current Asset Ratio

This ratio shows the banks liquidity capacity on the basis of cash and bank balance that is the most liquid asset. So this ratio visualizes higher liquidity position than current ratio.

We have,

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and Bank balance}}{\text{Current assets}}$$

Where,

Cash and bank balance represent total of local currency, foreign currencies, cheques in hand and various bank balances in local as well as foreign banks where as the current assets consists of cash and bank balance, money at call, short term notice, loan and advances, investment in government securities and other interest receivable and others miscellaneous current assets.

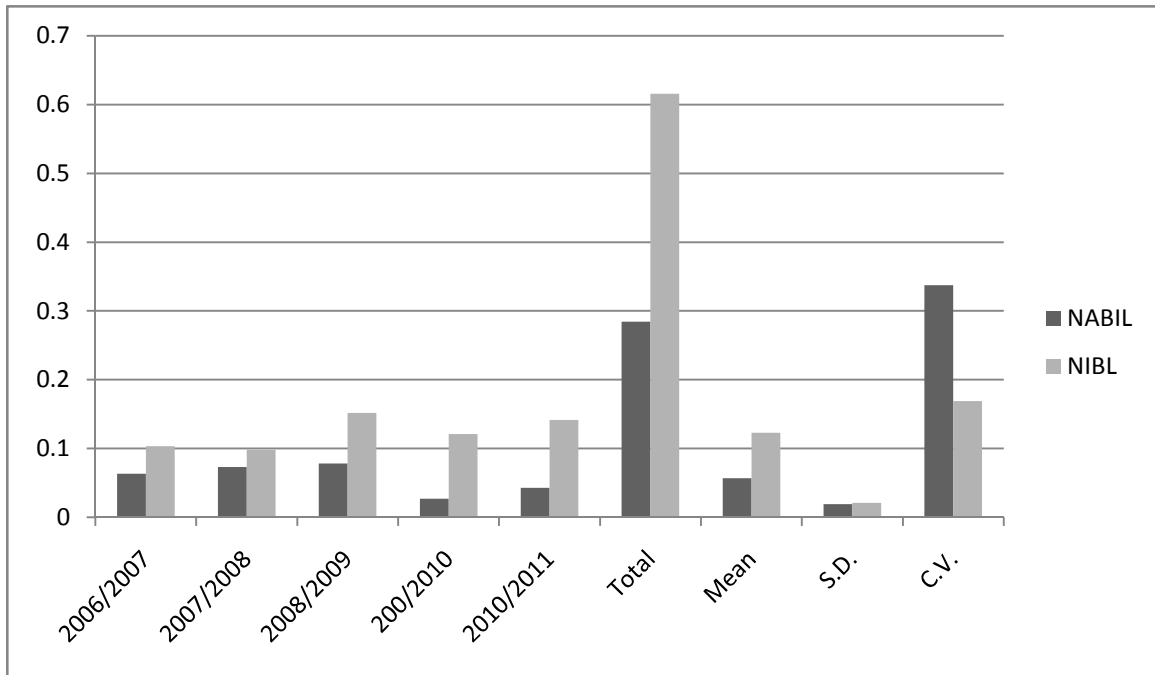
Table No.: 4.8

Cash and bank balance to current asset ratio

S. No.	Fiscal Year	Nabil	NIBL
1	2006/2007	0.0633	0.1035
2	2007/2008	0.0731	0.0984
3	2008/2009	0.078	0.1518
4	2009/2010	0.0272	0.1208
5	2010/2011	0.0426	0.1413
	Total	0.2842	0.6158
	Mean	0.0568	0.1231
	S.D.	0.0192	0.0208
	C.V.	33.74	16.89

Source: Appendix -8

CHART-8
Cash and bank balance to current asset ratio



From the table 4.8 & chart-8 shows the total mean, standard deviation and C.V. of cash and bank balance to current assets ratio of commercial banks. Current asset ratio of two banks is better as they show the ability to manage the deposit withdrawals from the customers.

From table shows that cash and bank balance to current assets ratio of Nabil bank fluctuation trend. NIBL also has fluctuating trend. we can conclude that liquidity position (only cash and bank balance) of Nabil bank is lesser than NIBL. But NIBL has higher consistency. Liquidity position of NIBL is less riskier than Nabil, because the C.V. of NIBL is less than Nabil.

(iv) Investment on Government Security to Current Assets Ratio

The government securities are not so much liquid as cash and bank balance. But they can easily sell in the market or they can be converted into cash in other ways. Investment on government securities includes treasury bills and development bonds etc.

We have,

Investment on government securities current assets ratio

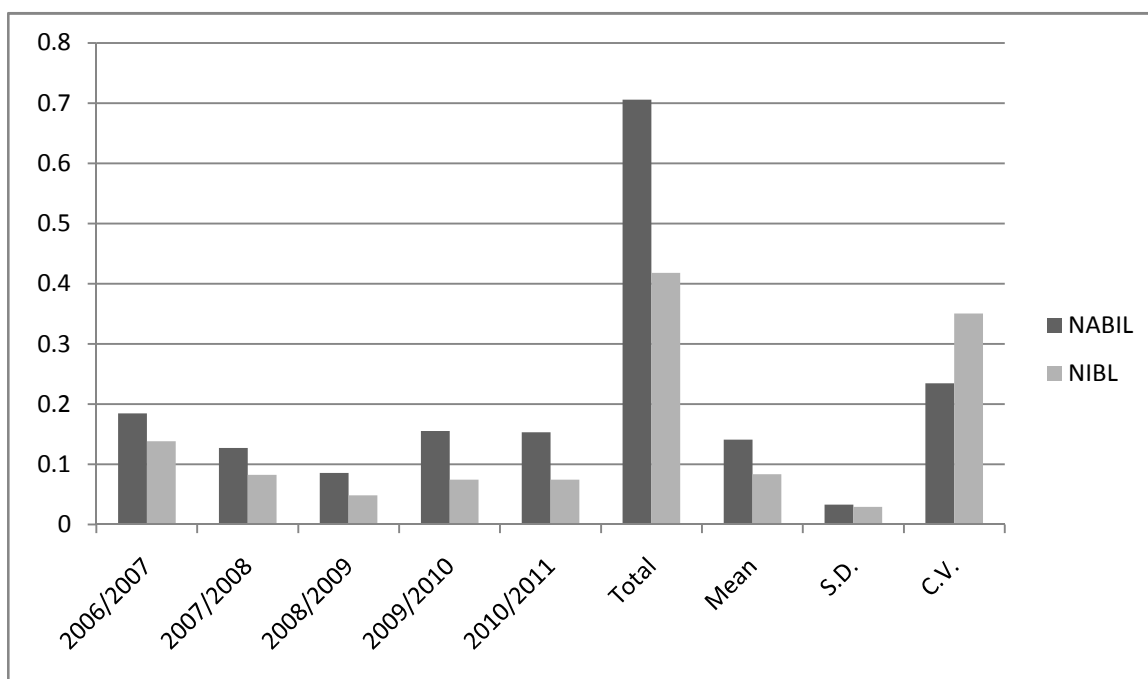
$$= \frac{\text{Investment on government securities}}{\text{Current Assets}}$$

Table No.: 4.9
Investment on government securities to current assets ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/2007	0.1848	0.1381
2	2007/2008	0.1272	0.0827
3	2008/2009	0.0858	0.0485
4	2009/2010	0.1552	0.0745
5	2010/2011	0.153	0.0745
	Total	0.706	0.4183
	Mean	0.1412	0.0836
	S.D.	0.0331	0.0293
	C.V.	23.44	35.04

Source: Appendix -9

CHART-9
Investment on government securities to current assets ratio



From the table 4.9 & chart-9 show the total mean, standard deviation and coefficient of variation of investment on government securities to current assets ratio of commercial banks.

From the table shows that investment on government securities to current assets ratio of both Nabil and NIBL has in fluctuating trend and there is no consistency.

In overall, the mean ratio of investment on government securities to current assets of Nabil is higher than that of NIBL i.e. $0.1412 > 0.0836$. But the coefficient of variation of Nabil is less than NIBL i.e. $23.44 < 35.04$.

It can be concluded that Nabil uses to invest its current asset in government securities more than NIBL and the investment is quite stable too than that of NIBL bank.

(v) Loan and Advances to Current Assets Ratio

To make a high profit mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. In the present study loan & advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currency.

We have,

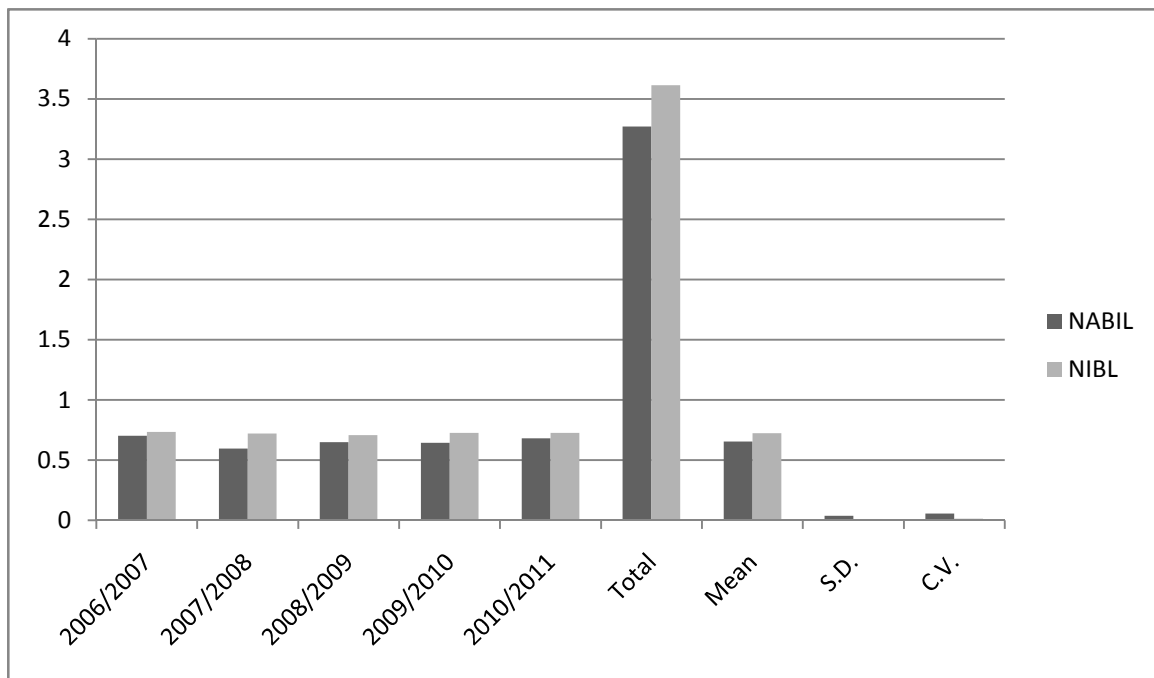
$$\text{Loan and advances to current assets ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

Table No.: 4.10
Loan & advances to current assets ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/2007	0.7032	0.7330
2	2007/2008	0.5956	0.7215
3	2008/2009	0.6480	0.7062
4	2009/2010	0.6430	0.7260
5	2010/2011	0.6807	0.7272
	Total	3.2705	3.6139
	Mean	0.6541	0.7228
	S.D.	0.0365	0.0094
	C.V.	5.58	1.30

Source: Appendix -10

CHART-10
Loan & advances to current assets ratio



From the table 4.10 & chart-10 shows that the total mean, standard deviation and coefficient of variation of loan & advances to current assets ratio of commercial banks. Through this table loan & advances to current assets ratios of the sample CBS are analyzed.

In case of Nabil loans and advances to current asset ratios are in fluctuation trend. but in F.Y.2010/11 it has been increased. Similarly NIBL ratios is also in fluctuation trend but from F.Y.2008/09 upto F.Y.2010/11 it has been increased. Mean value of this ratio of Nabil bank is 0.6541, which is less than that of NIBL (i.e. $0.6541 < 0.7228$). But coefficient of variation is higher than NIBL.

This analysis shows that Nabil use to provide high loan & advances in comparison of NIBL. Its trend of providing loan & advances is higher consistency than NIBL.

4.1.3 Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency of operation of financial institutions. Here, profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Higher the profit ratio shows that higher the

efficiency of a bank. The following profitability ratios are taken into account under this heading.

(i) Return on Total Working Fund Ratio

This ratio measures the profit earning capacity by utilizing available resources i.e. total asset. Return will be higher if the banks working fund is well managed and efficiently utilized. Maximizing taxes within the legal options available will also improve the return.

We have,

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

Where,

Net profit includes the profit that is left to the internal equities after all costs, charge and expenses

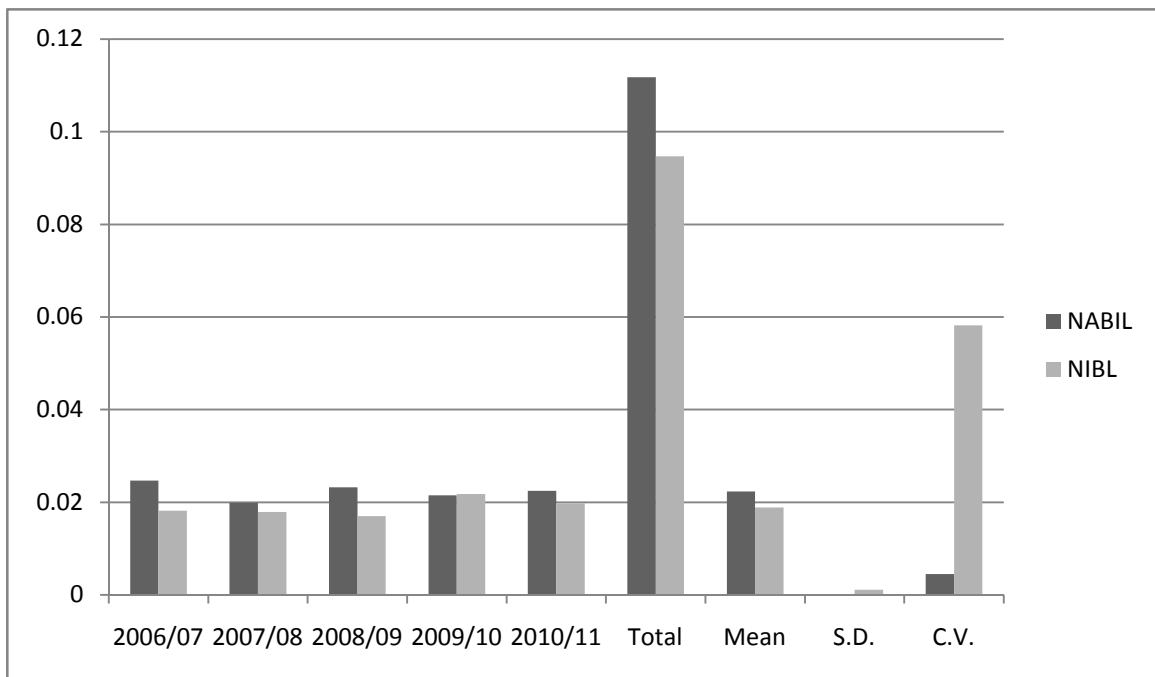
Table No.: 4.11
Return on total working fund ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/07	0.0247	0.0182
2	2007/08	0.0199	0.0179
3	2008/09	0.0232	0.0170
4	2009/10	0.0215	0.0218
5	2010/11	0.0225	0.0198
	Total	0.1118	0.0947
	Mean	0.0223	0.0189
	S.D.	0.0001	0.0011
	C.V.	0.45	5.82

Source: Appendix -11

CHART-11

Return on total working fund ratio



From the table 4.11 & chart-11 show the total mean, standard deviation and coefficient of variation of return on total working fund ratio of commercial banks.

From above table return on total working fund ratio of Nabil has fluctuation trend. In case of NIBL it has also in fluctuation trend. Mean ratio of Nabil is higher than that of NIBL (i.e. $0.0223 > 0.0189$). Similarly, C.V. and S.D of both banks has positive and no negative value.

From the mean ratio analysis it is found that Nabil bank has success to maintain the higher ratio in return on total working fund. The C.V. of Nabil is less than NIBL so; Nabil has higher consistency than NIBL.

(ii) Return on Loan & Advances Ratio

It measures the earning capacity of a commercial banks on its deposits mobilized on loan & advances. Higher the ratio greater will be the return and vice versa.

We have

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

Where,

Loan & Advances includes loan cash credit, overdraft bills purchased and discounted.

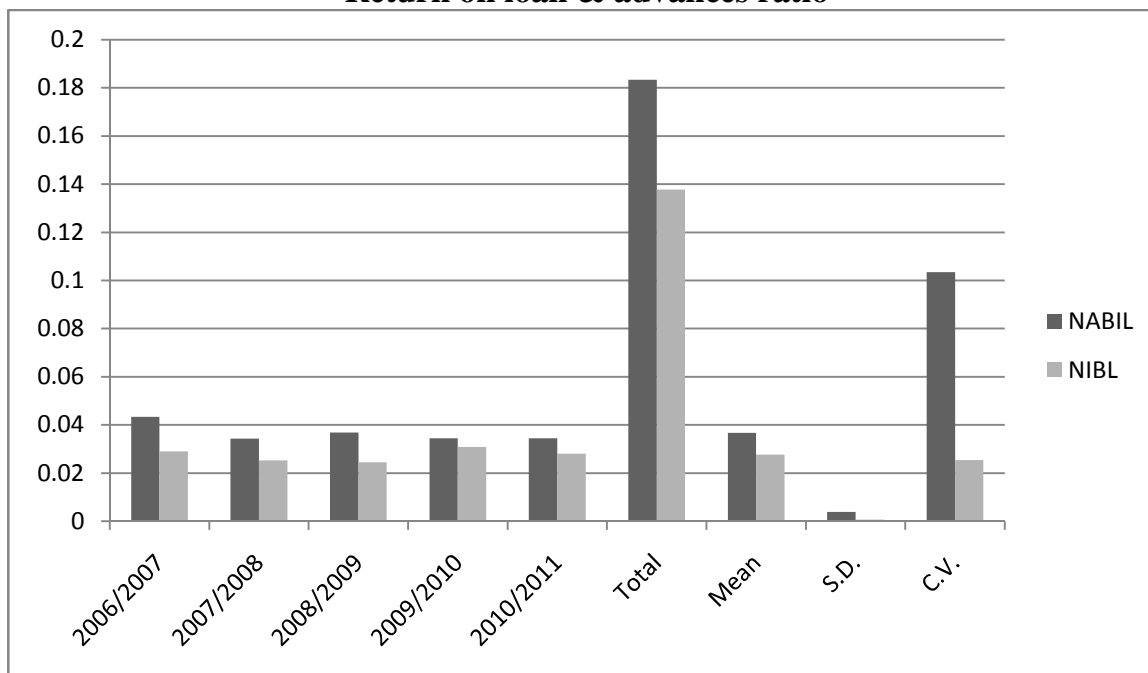
Table No.:4.12
Return on loan & advances ratio

S.N.	Fiscal year	Nabil	NIBL
1	2006/2007	0.0434	0.0290
2	2007/2008	0.0343	0.0253
3	2008/2009	0.0368	0.0245
4	2009/2010	0.0345	0.0309
5	2010/2011	0.0344	0.0281
	Total	0.1834	0.1378
	Mean	0.0367	0.0276
	S.D.	0.0038	0.0007
	C.V.	10.35	2.54

Source: Appendix -12

CHART-12

Return on loan & advances ratio



From the table 4.12 & chart-12 show the total mean, standard deviation and coefficient of variation of return on loan & advances ratio of commercial banks.

From the above table return on loan & advances ratio of Nabil bank has fluctuating trend. In case of NIBL it has also fluctuation trend. Mean ratio of Nabil is greater than that of NIBL i.e. $0.0367 > 0.0276$. Similarly, coefficient of variation of Nabil is greater than NIBL i.e. $10.35 < 2.54$.

From above analysis it is found that Nabil bank has the comparatively higher return on loan than NIBL. It concludes that Nabil has success to earn high return on its loan & advances. It indicates that investment policy of Nabil has effective than NIBL. The C.V. ratio of Nabil higher; it shows that Nabil has not consistency in return than NIBL.

(iii) Total Interest Earned to Total Outside Assets Ratio

It reflects that the extent to which the bank is successful to earn interest as major income on all the outside assets. Higher the ratio higher will be the earning power of total outside assets. This is very important ratio, as the main asset is the outside asset of a commercial bank.

We have,
$$\text{Total Interest Earned to Total Outside Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

Where,

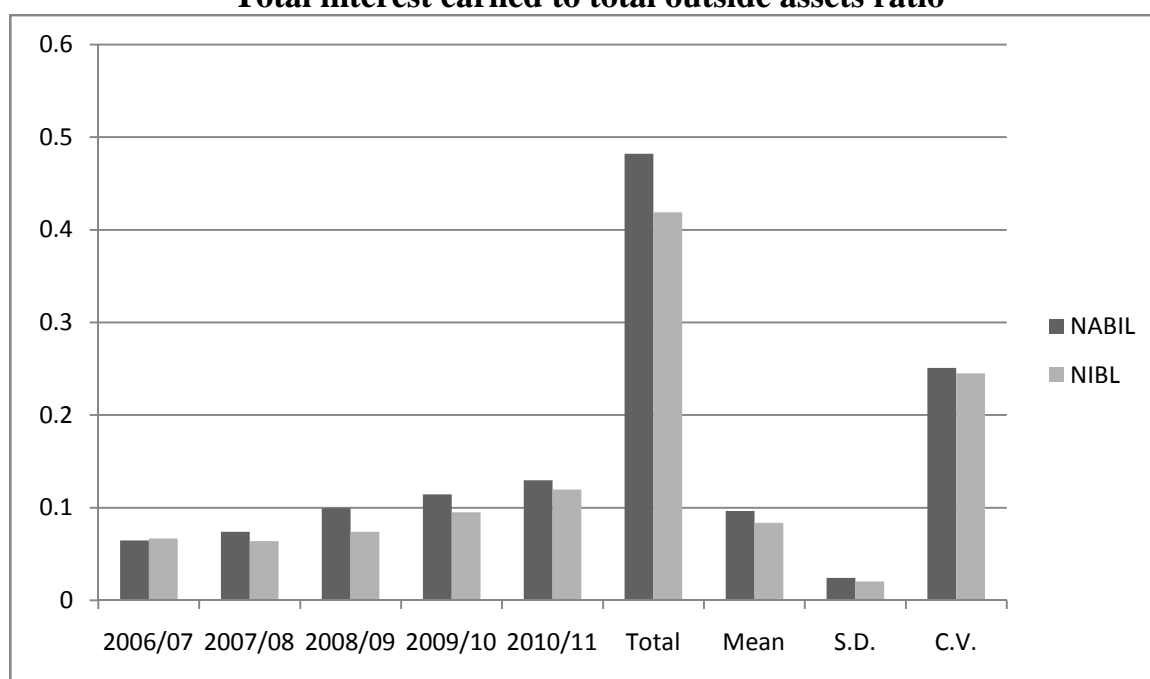
Total outside assets includes loan & advances, investment on government securities, share and debentures and other all types of investment.

Table No.: 4.13
Total interest earned to total outside assets ratio

S.N.	Fiscal year	Nabil	NIBL
1	2006/07	0.0648	0.0666
2	2007/08	0.0738	0.0638
3	2008/09	0.0994	0.0739
4	2009/10	0.1143	0.095
5	2010/11	0.1297	0.1196
	Total	0.482	0.4189
	Mean	0.0964	0.0837
	S.D.	0.0242	0.0205
	C.V.	25.10	24.49

Source: Appendix -13

CHART-13
Total interest earned to total outside assets ratio



From the table 4.13 & chart-13 show the total mean, standard deviation & coefficient of variation of total interest earned to total outside assets ratio of commercial banks.

The above table shows the ratio of total interest earned to total outside assets of Nabil is in increasing trend but NIBL has fluctuation trend. It has highest ratio i.e. 0.1297(in FY 2010/11) & 0.1196(in FY 2010/11) and lowest ratio 0.0648(in FY 2006/2007), 0.0638(in FY 2007/08). Mean ratio of Nabil is higher than NIBL i.e. $0.0964 > 0.0837$. Similarly, C.V. of Nabil is higher than NIBL i.e. $25.10 > 24.49$.

This shows that Nabil has better position with respect to the income earned from the total outside asset in comparison to NIBL.

(iv) Total Interest Earned to Total Working Fund Ratio

It reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. This ratio actually reveals the earning capacity of a commercial bank by mobilizing its working fund: A high ratio is indicator of high earning power of the bank on its total working fund and vice versa.

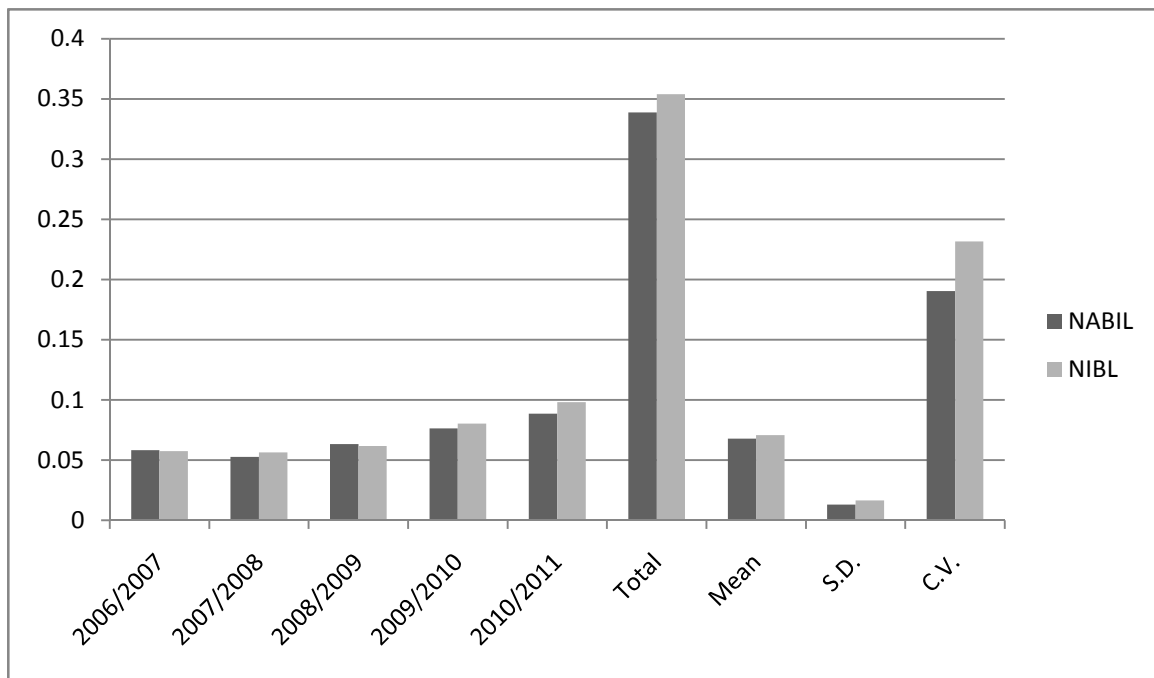
We have,
$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Table No.:4.14
Total interest earned to total working fund ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/2007	0.0583	0.0574
2	2007/2008	0.0527	0.0564
3	2008/2009	0.0632	0.0617
4	2009/2010	0.0762	0.0803
5	2010/2011	0.0885	0.0981
	Total	0.3389	0.3539
	Mean	0.0678	0.0708
	S.D.	0.0129	0.0164
	C.V.	19.03	23.16

Source: Appendix -14

CHART-14
Total interest earned to total working fund ratio



From the table 4.14 & chart-14 show the total mean, standard deviation & coefficient of variation of total interest earned to total working fund ratio of Nabil and NIBL.

From the table shows that the ratio of total interest earned to total working fund ratio of Nabil has fluctuation trend. It has highest ratio in F.Y.2010/11 (0.0885) and lowest in F.Y.2007/08 (0.0527). NIBL has also fluctuation trend. Mean ratio of Nabil bank has lesser than NIBL (i.e. $0.0678 < 0.0708$). Coefficient of variance of Nabil has lowest than that of NIBL (i.e. $19.03 < 23.16$).

From above analysis we can concluded that the ratio of total interest earned to total working fund ratio of Nabil bank is satisfactory in compared to NIBL. It means the total interest earned to total working fund ratio of the Nabil is stable and consistency in comparison to NIBL.

(v) Total Interest Paid to Total Working Fund Ratio

Total interest paid to total working fund ratio measure the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice-versa.

We have,
$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

Where,

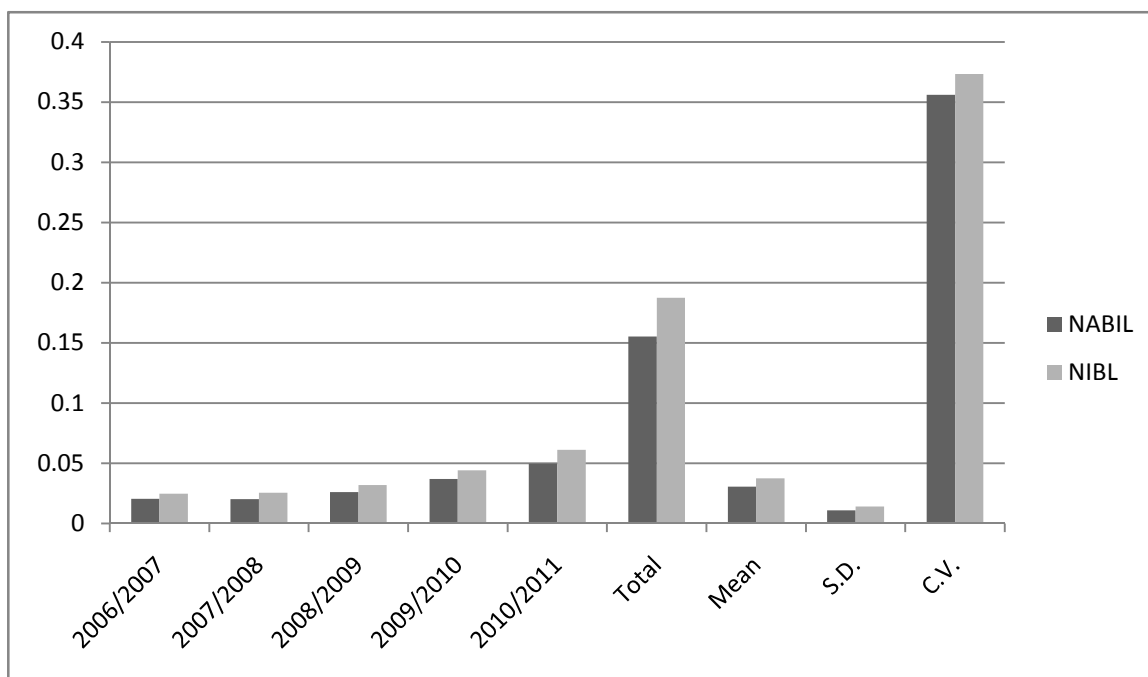
Total interest paid includes total expenses on deposit liabilities, loan & advances (borrowing) and other deposits.

Table No.:4.15
Total interest paid to total working fund ratio

S.N.	Fiscal year	Nabil	NIBL
1	2006/2007	0.0204	0.0248
2	2007/2008	0.0202	0.0255
3	2008/2009	0.0260	0.0318
4	2009/2010	0.0369	0.0441
5	2010/2011	0.0498	0.0612
	Total	0.1553	0.1874
	Mean	0.0306	0.0375
	S.D.	0.0109	0.0140
	C.V.	35.62	37.33

Source: Appendix -15

CHART-15
Total interest paid to total working fund ratio



From the table 4.15 & chart-15 show that the total mean, standard deviation and coefficient of variance of total interest paid to total working fund ratio.

From the above table shows that the total interest paid to total working fund ratio of Nabil has increase from FY 2007/2008 upto 2010/2011. NIBL has also increased trend. It has highest in FY 2010/2011(0.0612) and lowest in FY 2006/2007(0.0248). If the mean ratios are observed, it is found that the Nabil bank has the lowest. The mean ratios of Nabil and NIBL has 0.0306 and 0.0375. It means Nabil has paid lower interest in comparison to NIBL. But the coefficient of variation of Nabil is less than that of NIBL (i.e. 35.62 < 37.33). It indicates that the total interest paid to total working fund ratio of Nabil is less consistent than NIBL. It can be concluded that the position of Nabil is better than NIBL is as its ratio is always lower than NIBL. That means it is paying less interest against its working fund.

4.1.4 Risk Ratio

The possibility of risk makes banks investment a challenging task. Bank has to take risk to get return on investment. It increases effectiveness and profitability of the bank. If a bank expects high return on its investment it has to accept the risk and manage it efficiently.

Through following ratios, effort has been made to measure the level of risk.

(i) Liquidity Risk Ratio

The liquidity risk ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the depositor's demand for cash. Higher the ratio, lower the liquidity risks.

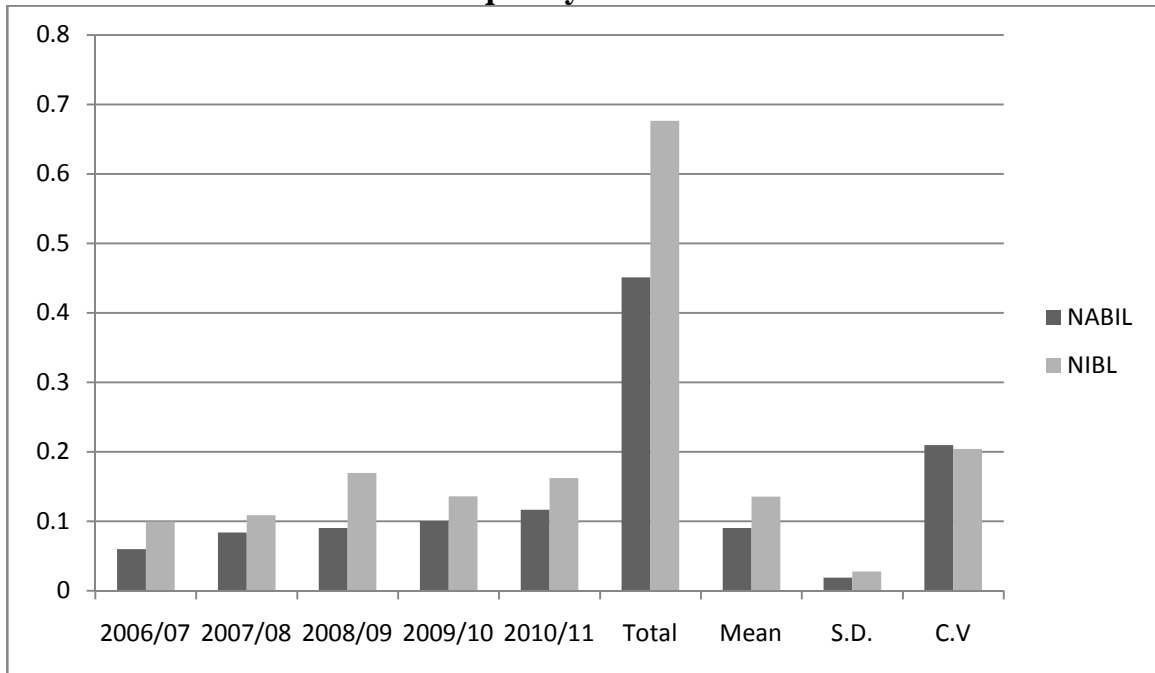
We have,
$$\text{Liquidity Risk Ratio} = \frac{\text{Total Cash \& Bank Balcne}}{\text{Total Deposit}}$$

Table No.: 4.16
Liquidity risk ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/07	0.0600	0.0997
2	2007/08	0.0837	0.1089
3	2008/09	0.0903	0.1696
4	2009/10	0.1003	0.1361
5	2010/11	0.1168	0.1624
Total		0.4511	0.6767
Mean		0.0902	0.1353
S.D.		0.0189	0.0276
C.V		20.95	20.4

Source: Appendix -16

CHART-16
Liquidity risk ratio



From the table 4.16 & chart-16 show the mean, standard deviation and coefficient of variation of liquidity risk ratio of commercial banks. Figure in the table shows the percentage of liquidity risk ratio of Nabil and NIBL.

From the above table liquidity ratios of Nabil bank has increased trend. NIBL has fluctuation trend. Nabil has maintained a highest ratio of 0.1168 in the FY 2010/2011. Similarly, NIBL has maintained a highest ratio of 0.1696 in the FY i.e. 2008/2009.

If the mean ratios are observed Nabil has lesser than that of NIBL, i.e. $0.0902 < 0.1353$. Which indicate that Nabil liquidity risk is higher than the NIBL But according to the

coefficient of variation Nabil's ratio is higher than NIBL. It indicates that Nabil's liquidity is less consistency than NIBL.

(ii) Credit Risk Ratio

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 the bank. Actually credit risk ratio shows the proportion of non-performing assets in total loan and advances of a bank.

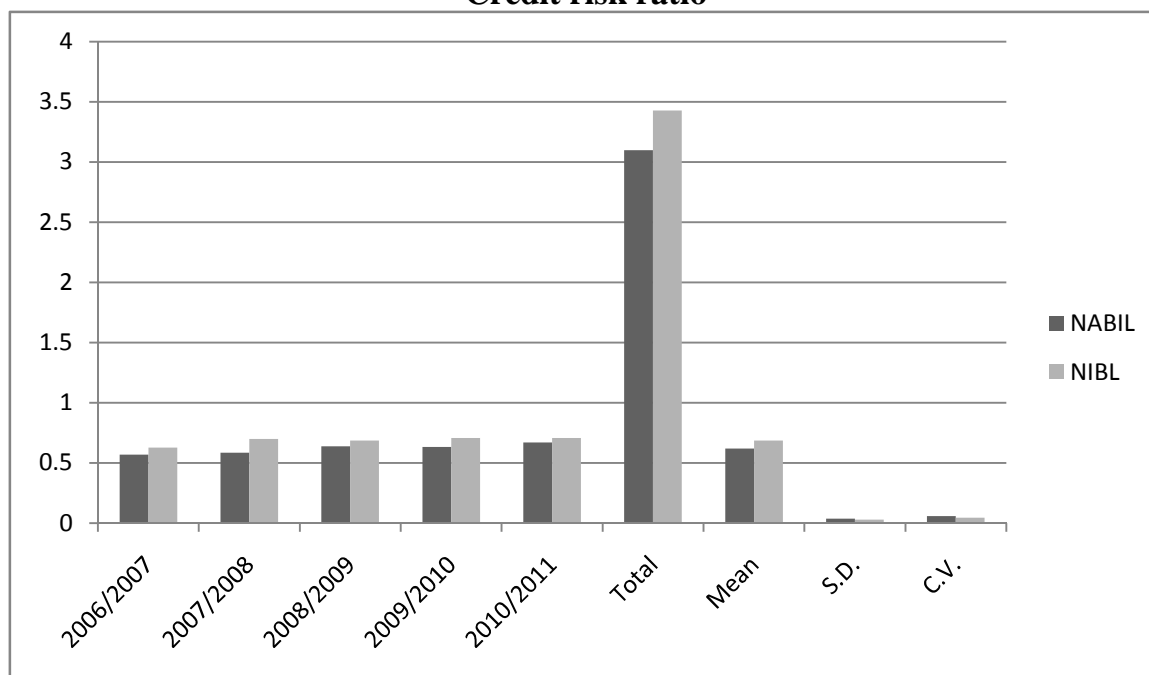
We have,
$$\text{Credit Risk Ratio} = \frac{\text{Total Loan and Advancements}}{\text{Total Assets}}$$

Table No.: 4.17
Credit risk ratio

S.N.	Fiscal year	Nabil	NIBL
1	2006/2007	0.5704	0.6265
2	2007/2008	0.586	0.6986
3	2008/2009	0.6382	0.6871
4	2009/2010	0.6334	0.7068
5	2010/2011	0.6692	0.7082
	Total	3.0972	3.4272
	Mean	0.6194	0.6854
	S.D.	0.0363	0.0305
	C.V.	5.86	4.45

Source: Appendix -17

CHART-17
Credit risk ratio



From the table 4.17 & chart-17 show that the total mean, standard deviation & coefficient of variation of credit risk ratio of commercial banks.

From the above table shows that the credit risk ratios of these two commercial banks are fluctuating trend. Nabil has maintained a highest ratio of 0.6692 in FY 2010/2011. Similarly, NIBL has maintained a highest ratio of 0.7082 in FY 2010/2011.

Mean ratio of Nabil is lesser than NIBL (i.e. 0.6194 < 0.6854). And C.V of Nabil is highest than that of NBIL. It indicates that Nabil has more consistency than NIBL.

(iii) Capital Risk Ratio

Capital ratio measures bank ability to attract deposits and inter bank funds. It also determine the level of profit, a bank can earn if a bank chooses to take high capital risk. The capital risk is directly related to return on equity.

$$\text{We have, Capital Risk Ratio} = \frac{\text{Capital (Paid upcapital \& Re serves)}}{\text{Risk Weighted Assets}}$$

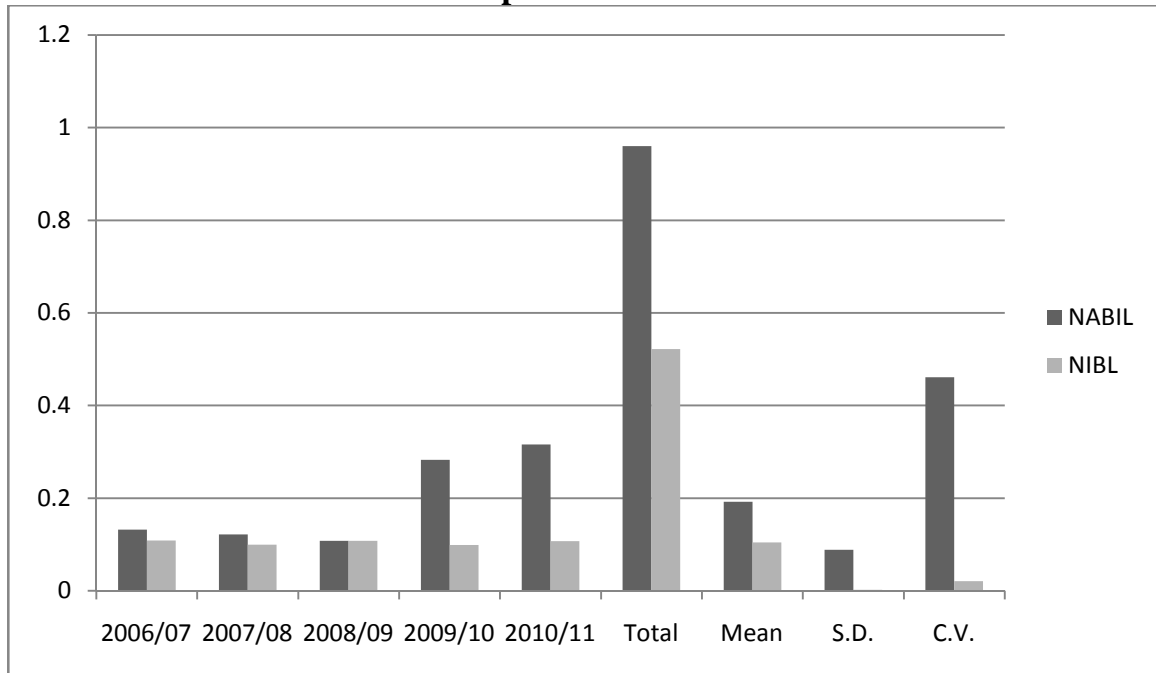
(Only loan and advances is taken as risk weighted assets)

Table No.: 4.18
Capital risk ratio

S.N.	Fiscal Year	Nabil	NIBL
1	2006/07	0.1322	0.1086
2	2007/08	0.1215	0.0995
3	2008/09	0.1079	0.1078
4	2009/10	0.2828	0.0991
5	2010/11	0.316	0.1069
	Total	0.9604	0.5219
	Mean	0.1920	0.1043
	S.D.	0.0885	0.0022
	C.V.	46.09	2.1

Source: Appendix -18

CHART-18
Capital risk ratio



From the Table 4.18 & chart-18 show the mean, standard deviation & coefficient of variance of capital risk ratio of commercial banks.

If the mean ratios are observed Nabil's ratio is higher than NIBL. Coefficient of variation is also higher than that of NIBL i.e. $46.09 < 2.1$. It is concluded that the Nabil bank is more stable than the NIBL and it is also more consistency than NIBL.

4.2 Major Findings of the Study

The main findings of the study are derived on the basis of analysis of financial data of Nabil and NIBL are given below.

1. Asset management ratio

The assets management ratio of Nabil & NIBL shows that;

-) The mean ratio of loan & advances to total deposit of Nabil is lesser than NIBL. But Nabil has high C.V. than that NIBL, it indicates that loans and advances of Nabil is not stable and consistent.
-) The mean ratio of total investment to total deposit of Nabil is higher than NIBL. It can be concluded that Nabil is success to better utilization of deposit to investment.
-) The mean ratio of loan & advances to working fund ratio of Nabil is lesser than NIBL. It can be concluded that NIBL has mobilizing its fund higher.
-) In case of Investment on government securities to total working fund ratio, Nabil has higher mean ratio than NIBL. It concludes the Nabil's investment policy is more variable and consistency than NIBL.
-) The mean ratio of investment on shares and debentures to total working fund of Nabil is higher than NIBL. But its investment in shares and debentures seems to be consistent than NIBL.

From the above analysis, it can be conclude that Nabil has highest investment policy towards investment to total deposits, government securities to total working fund, shares and debentures to total working funds. And Nabil has stable and consistent than NIBL.

2. Liquidity ratio

The liquidity position of Nabil and NIBL reveals that:

-) From the analysis of current ratio, it is found that the mean ratio of Nabil is lower than NIBL, it means Nabil has maintained lower current ratio in compared to NIBL. The ratio of Nabil is less variable than NIBL.
-) The mean ratio of cash and bank balance to total deposits of Nabil is less than NIBL. It states that the liquidity position of Nabil is not better than that NIBL. Nabil bank has better to maintain of its liquidity position.
-) The mean ratio of cash and bank balance to current assets ratio of Nabil is lesser than NIBL. But Nabil has higher consistency than that of NIBL. It states that the Nabil has utilized its funds more efficiently.
-) The mean ratio of government securities to current asset of Nabil is higher than NIBL. It states that the Nabil uses to invest its current asset in government securities more than NIBL.
-) The mean ratio of loan & advances to current assets of Nabil is lesser than NIBL. It reveals that NIBL use to provide high loan & advances in comparison to Nabil.

The above result shows that the liquidity position of Nabil is comparatively lower than NIBL. It has the lower cash and bank balance to total deposit , cash and bank balance to current assets and loan & advances to current assets ratio. It has the highest investment on government securities to current assets ratio.

3. Profitability ratio

From the analysis of profitability ratio of Nabil and NIBL it shows that;

-) The mean ratio of return on total working fund ratio of Nabil is higher than NIBL and it is more consistent. It can be conclude that Nabil has success to maintain the high ratio in return on total working fund.
-) The mean ratio of return and loan & advances of Nabil is comparatively higher than NIBL. The variability of the ratio of Nabil is higher and it is also consistency in return.

-) The mean ratio of total interest earned to total outside assets of Nabil is greater than NIBL. It indicated the Nabil has average position towards income earned from total outside asset in comparison NIBL.
-) The mean ratio of total interest earned to total working fund of Nabil is lower than NIBL.
-) The mean ratio of total interest paid to total working fund of Nabil is also lower than NIBL. It means Nabil has paid lower interest than NIBL.

From the above findings, it can be said that Nabil has higher profitable in comparison to NIBL. To earn high profit in future the bank must maintain its high profit margin.

4. Risk ratio

The risk ratios of Nabil and NIBL reveal that;

-) The mean ratio of liquidity risk of Nabil is lower than NIBL. The ratio of Nabil is less consistent than Investment.
-) The mean ratio of credit risk of Nabil is also lower than NIBL. The credit risk ratio of Nabil is less variable in comparison to NIBL.
-) Nabil has maintained higher mean ratio of capital risk than NIBL. The ratio of Nabil is more consistent than NIBL.

From the above findings, it can be concluded that Nabil has average risk ratio. The bank should maintain risk against liquidity fund to earn high profit.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of this study is summary; conclusion and recommendations which have discussed and explored the facts and matters required for various parts of the study. Through the analytical chapter by using some important financial as well as statistical tools, makes a comparative analysis of various aspects of the investment of concern commercial banks.

Having completed the basic analysis required for the study, the researcher must point out the mistakes and errors and also correct them by giving suitable suggestions for further improvement. Since researcher has the banking experience of about four years which also includes working in the 'Assets Liability Management Committee (ALCO)' of commercial bank, the recommendations prescribed here which will have more practical touch. Therefore, this summarized and recommended tasks of the researcher of the study would be meaningful to the top management of the bank to initiate the action and achieve the desired result.

5.1 Summary and Conclusion

The economic development of a country depends upon the development of commerce and industry and there is no doubt that banking promotes the development of commerce because banking 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 with the restoration democracy in the country. At present, overall economic growth rate still decline year by year. Reasons behind this decline are insecure situation faced by industry, decrease in the tourist arrival, drop in the production and export of carpet, garment and pashmina industry and political situation.

The evolution of the organized financial system in Nepal has more recent history than in other countries of the world. In Nepalese context, the history of banking is not more than six decades. After the announcement of liberal and free market economic based policy, Nepalese banks and financial sectors have greater network and access to national and international markets. Commercial banks play a vital role which deals with other people's money and stimulate saving by mobilizing idle resources to those sectors having investment opportunities. Modern bank provides various services to their customers in view of facilitating their economic and social life.

The objective of the commercial banks is always to earn more profit by investing or granting loan and advances into profitable, secured and marketable sector. But commercial bank should be careful while performing the credit creation function; the banks should never invest its funds in those securities, which are too much fluctuating. Commercial banks must follow the rules and regulations as well as different directions issued by central bank and ministry of finance while mobilization the funds or the commercial banks should invest its funds only those securities, which are legal.

There has been number of commercial banks established, the research has taken into consideration the following two commercial banks:

'Nabil Bank Ltd' – Nabil Bank Limited was the first joint venture commercial bank incorporated in 1984 by joint investment of Dubai Bank Limited and Nepali promoters. This bank is awarded by “Bank of Year” of the year 2004 by the international banking magazine “The Banker”

'Nepal Investment Bank Ltd' – Nepal Investment Bank Limited was the third joint venture bank established in 1986 under the Companies Act 1964 (now Companies Ordinance 2062) by joint investment of Banque Indosues of France and Nepali promoters. This bank is awarded by “Bank of Year” of the year 2003 and again in 2005 by the international banking magazine “The Banker”.

In the study, the word ‘investment’ covers a wide range of activities like investment of income, savings or other collected fund. If there is no savings, there is no existence of investment therefore, savings and investment are interrelated. Investment policy is a one facet of the overall spectrum of policies that guide banks' investment operations and it

ensures efficient allocation of funds to achieve the sustainable economic development of the nation. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volumes and quality of deposits, loan and investment. Therefore, the investment policy should be carefully analyzed.

Some sources of funds for the investment of the bank are capital, general reserves, accumulated profit, deposits and external & internal borrowings. Similarly, some important banking terms, which are frequently used in this study, are loan and advances, investment on government securities, shares and debentures, deposits and other use of funds.

In this study, for the analysis and interpretation of the data different financial & statistical tools are used. In the financial tools liquidity ratios, assets management ratios, profitability ratios and risk ratios have been used, where as in statistical tools mean, standard deviation, coefficient of variation have been used. Only the secondary data have been used for the analysis in this research. The data are obtained from annual reports of concerned banks, likewise, the financial statement of five years i.e. 2006/07 to 2010/2011 was selected for the purpose evaluation.

The liquidity position of Nabil is comparatively lower than NIBL but it has the highest investment on government securities to current assets ratio.

Through the assets management ratio, Nabil has highest investment policy towards investment to total deposits and government securities to total working fund and also higher into shares and debentures to total working fund.

In analysis of profitability, return on total working fund and return on loan & advances, total interest earned to total outside assets of Nabil is higher but total interest earned to total working fund and total interest paid to total working fund of Nabil is lower.

From the viewpoint of risk ratio, liquidity risk and credit risk is lower than NIBL But capital risk of Nabil is higher than NIBL.

Through the both trend analysis i.e. loan & advances to total deposits and total investment of total deposit ratios of NIBL is greater than that of Nabil. It shows the NIBL's position will be better in future.

Through the analysis and findings we can summarize that Nabil's investment policy is better in every sector and profitability ratio is also good, similarly trend of loan & advances to total deposits shows that NIBL's position will be better. However, liquidity position is not good but it has average risk ratio.

5.2 Recommendations

On the basis of analysis and findings of the two banks in previous section, they are recommended to go through following suggestion, which may overcome the weakness and less effectiveness of the existing fund mobilization and investment policy.

-) A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the customers; however, external as well as internal factors affect the liquidity position of banks. As Nabil has maintained the ratio of cash and bank balance to total deposits and current assts considerably lower than NIBL, Nabil is recommended to increase cash and bank balance to make the immediate payment to the depositor and to meet the demand of loan & advances.
-) To get success in competitive banking environment and maximize return, depositors' money must be utilized as loan and advances. If the largest item of asset side is loan and advances it has negative implication over liquidity because loans and advance are less liquid than the investment in T-bills and development bonds but it will jeopardizes the profitability. Nabil's loan & advances to total deposit ratio and loan & advances to total working fund ratio is lesser than NIBL. To overcome this situation, Nabil is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit and total working fund in loan & advances.
-) Besides investing on government securities, NIBL is recommended to invest its fund in purchase of shares and debentures of other companies. Government securities such as treasury bills have very lower yield than other companies' securities. This also helps to maintain the sound portfolio of the bank.
-) Profitability is the main indicator of the financial performance of every business organization. In this study, profitability ratio is good from the angle of return but it seems that Nabil cannot earn higher interest through the outside assets and working fund. So Nabil is recommended to increase its interest earned in outside assets and working fund by

investing more & more funds in loan & advances and different types of securities. Because higher interest earning capacity of the bank implies better performance of the bank.

-) If a bank expects high return on its investment it has to accept the risk, it increases effectiveness and profitability of the bank. The risk taken by Nabil, from the angle of capital risk is an average whereas liquidity risk and credit risk is lower than NIBL and its consistency are highly volatile which may result higher loss. The bank should not take high risk, Nabil should carefully analyze in above risk to achieve higher returns.
-) In order to collection much funds, Nabil is suggested not to be surrounded and limited only big clients i.e. multinational companies, large industries, manufacturing companies, NGOs and INGOs etc. It should also cater the lower and middle level people too. Through different kind of scheme such as easy saving scheme, cumulative deposit scheme, house building deposit scheme, deposit linked life insurance scheme, recurring deposit scheme and many other the bank can collect a large fund from lower level people of the country.
-) In the light of growing competition in the banking sector, the business of the bank should be customer oriented. The bank is recommended to adopt new technology and services such as SWIFT, business banking, remittance, ATM cards, visa electron debit card, international credit card, locker services, many more saving a/c, lending against gold and silver services, 24 hours services, holiday banking etc. The bank should involve in different kind of social and community development activities. The bank has been able to provide more personalized services and a better environment for its customer, it is an effective tool to attract and retain the customers.

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APPENDIX-10					
Loan & Advances to Current Assets Ratio			(Rs.in lakh)		
Calculation of Loan & Advances to Current Assets Ratio of NABIL and NIBL					
Particular	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
NABIL					
Loan & Advances	15545.78	21759	27999	33031	38905.48
Current Assets	22107.02	36535	43206	51370	57158
Ratio (Times)	0.7032	0.5956	0.648	0.643	0.6807
NIBL					
Loan & Advances	17286.43	27529.31	36827.16	40948.44	41887.69
Current Assets	23582.11	38158.27	52144.97	56399.86	57601.17
Ratio (Times)	0.733	0.7215	0.7062	0.726	0.7272
Fiscal Year	NABIL		NIBL		
	X ₁	X ₁ ²	X ₂	X ₂ ²	
2006/07	0.7032	0.4944902	0.733	0.537289	
2007/08	0.5956	0.3547394	0.7215	0.5205623	
2008/09	0.648	0.419904	0.7062	0.4987184	
2009/10	0.643	0.413449	0.726	0.527076	
2010/11	0.6807	0.4633525	0.7272	0.5288198	
Total	3.2705	2.1459351	3.6139	2.6124655	
Where,					
X ₁ = Loan & Advances To Current Assets Ratio of NABIL Bank					
X ₂ = Loan & Advances To Current Assets Ratio of Investment Bank					
Calculation of Mean Ratio of NABIL Bank					
	Mean =				
	NABIL =	$\frac{3.2705}{5}$	=	0.6541	
	NIBL =	$\frac{3.6139}{5}$	=	0.72278	
Calculation of Standard Deviation of Current Ratio					
S.D =	$\sqrt{\frac{\sum (X_1 - X)^2}{N - 1}}$				

