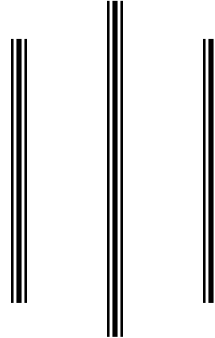
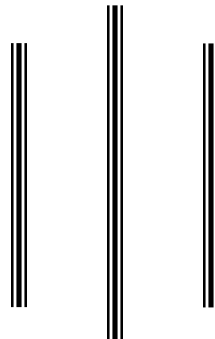


**A COMPARATIVE STUDY ON INVESTMENT POLICY
OF
SELECTED JOINT VENTURE COMPANIES**



**Kishor Kumar Dahal
Post Graduate Campus
Campus Roll No. 90/064
T.U. Reg. No. 7-1-216-76-2002**



Thesis Submitted to:

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**Biratnagar, Nepal
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TRIBHUVAN UNIVERSITY

Post Graduate Campus
Faculty of Management
Biratnagar, Nepal
Tel. No. 021526327, 522204

RECOMMENDATION

This is to certify that the thesis:

Submitted by
Kishor Kumar Dahal

Entitled
**A Comparative Study on Investment Policy of
Selected Joint Venture Companies**

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

Supervisor
Signature:

.....
(Associate Professor Dr. Arjun Kumar Baral)

Date:

Head of Department
Signature:

.....
()

Campus Chief
Signature:

.....
()



TRIBHUVAN UNIVERSITY

Post Graduate Campus

Faculty of Management

Biratnagar, Nepal

Tel. No. 021526327, 522204

VIVA-VOICE SHEET

We have conducted the Viva-Voice examination of the thesis presented by

Kishor Kumar Dahal

entitled

**A Comparative Study on Investment Policy of
Selected Joint Venture Companies**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master's Degree in Business Studies (M.B.S.)

Viva-Voice Committee

Chairperson, Research Committee :

Member (Thesis Supervisor) :
(Associate Professor Dr. Arjun Kumar Baral)

Member (External Expert) :

Date:

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Biratnagar, 2014

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ABBREVIATION

C.V.	:	Coefficient of Variation
EBL	:	Everest Bank Limited
HBL	:	Himalayan Bank Limited
NABIL	:	Nepal Arab Bank Limited
NSBL	:	Nepal SBI Bank Limited
SBL	:	Siddhartha Bank Limited
S.D.	:	Standard Deviation

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the under developed country due to the lack of political stability, landlocked country, illiteracy, political and non political insurgency. Our country is economically backward to the world. In Nepal growth is not possible without development of agricultural technology, industrialization, banking sector etc.

The onward movement of the country solely depends upon its economic condition. The farsighted infrastructure and well developed financial system of the country plays a key role to meet the expected goal for the betterment of the country as a whole. Financial institution gathers scattered financial resources form the mass and distributed fund from commercial and economic activities to develop trade, industry and facilitate a process of economic development.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sector. They provide capital for the development of industry, trade and business and other resources. In this way it is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or indirectly channeled through these banks.

A bank is an institution, which deals with money and credit. It accepts deposits from the public and mobilizes the fund to productive sectors. A commercial bank is a bank, which deals in exchanging currency, accepting deposits giving loans and doing commercial transaction. Commercial bank is a financial intermediary accepting deposits and

granting loans. It offers the widest menu of services of any financial institution.

Commercial banks are those banks who pool together the saving of the community and arrange for their productive due. They supply the financial needs of modern business by various means. They accept deposit from the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital, financing. They can't finance in fixed assets. They grant loans in the form of cash credit and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables financing advising etc to their customers.

According to **Section 2(a) of the Commercial Bank Act 2031 (1974)**, "Commercial Bank means a Bank which operates currency, exchange transaction, accepts deposit, provide loan; Performs, dealing relating to commerce except the Banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives."

According to **Bryan A. Garner (2010)**, "Commercial bank means a bank authorized to receive both demand and time deposit, to engage in trust services, to issue letter of credit, to rent time deposit boxes and to provide similar services."

Hence the term commercial bank, Joint stock bank and credit banks are frequently used inter changeably. e.g. in the context of English banking system the terms "Joint stock banks" and "Commercial banks" as distinguished from investment Banks although this distinction is often blurred in practice.

In this way, commercial bank is different from central bank and the distinction between the two terms is essentially based on their objects, while the primary objective of a commercial Bank is the maximization of profit, the central Bank is primarily concerned with the effects of its operation on the functioning of commercial Bank, their may central Bank comes out it any ordinary Banking business for the general public in complete. It confines it self mainly for controlling the operation of the Banking system in a country.

An investment policy has played very important role in the development of the organization. Investment is the implementation of financial management decision, which is basically to operate in the financial sector. Investment always involves a certain amount of risk that is there is the chance that an investment yields not a profit but a loss.

A good investment policy attracts both the borrowers and lenders which help to increase the volume and quality of the deposits, loans and investment. The bankers have the responsibilities of safe guarding the interest of the depositors, share holders and the society they are serving.

Commercial banks should formulate the sound investment policies to ensure maximum amount of investment to the entire sector with proper utilization and can be able to achieve its own objectives of profit maximization and social welfare.

1.2 Focus of the Study

The operating commercial banks are listed as below:

Table 1.1

Commercial Banks in Nepal

S. N.	Name of Commercial Banks
1.	Nepal Bank Limited
2.	Rastriva Baniiva Bank
3.	Agriculture Development Bank Limited
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.	NIC ASIA Bank Ltd.
15.	Machhapuchhre Bank Limited
16.	Kumari Bank Limited
17.	Laxmi Bank Limited
18.	Siddhartha Bank Limited
19.	Global IME Bank Limited
20.	Citizens Bank International Limited
21.	Prime Commercial Bank Limited
22.	Sunrise Bank Limited
23.	NMB Bank Limited
24.	KIST Bank Limited
25.	Janata Bank Nepal Limited
26.	Megha Bank Limited
27.	Commerz and Trust Bank Nepal Limited
28.	Civil Bank Limited
29.	Century Commercial Bank Limited
30.	Sanima Bank Ltd.

Source: www.nrb.org.np as of 25th August, 2013

The large numbers of commercial bank is leading them to huge competition. There are various factors that can make a commercial bank leader in the market, but the commercial bank having a sound investment policy can lead the market. This study is focused on the investment policies of the commercial banks. The limited resources and time lead to make this study, a comparative study of investment policy between five leading commercial banks of Nepal. The banks having

current ratio more than one, having good liquidity positions and which have followed good investment policy have been judgmentally selected for the study. For this, the investment policy of Nabil Bank Limited, Himalayan Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited and Siddhartha Bank Limited have been analyzed in the study.

NABIL Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system (www.nabilbank.com).

Himalayan Bank Limited

Himalayan Bank Limited (HBL) is one of the largest and reputed private sector banks of Nepal. The bank was incorporated in 1992 by a few eminent individuals of Nepal in partnership with the Employees Provident Fund and Habib Bank Limited, Pakistan. The bank commenced its operations in January 1993. Himalayan Bank is also the first commercial bank of Nepal with most of shares held by the private sector of Nepal. Besides commercial banking services, the bank also offers industrial and merchant banking service. Despite the cut-throat competition in the Nepalese banking sector, Himalayan bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

With its head and corporate office at Thamel, Kathmandu, the bank has 33 branches. All branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an

outside-in rather than inside-out approach where customers' needs and wants stand first (www.himalayanbank.com).

Nepal SBI Bank Limited

Nepal SBI Bank Limited (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Limited (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 with an Authorized Capital of Rs.120 Millions and was licensed by Nepal Rastra Bank on July 6, 1993. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbarmarg, Kathmandu. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006.

The Authorized and Issued and Paid up Capitals have been increased to Rs. 2000 Millions and Rs. 1661.60 Millions and 1653.60 respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team, Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Credit Officer oversee the overall banking operations in the Bank.

ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the bank is held by the SBI, fifteen percent is

held by the EPF and thirty percent is held by the general public (www.nepalsbi.com.np).

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential. Bank has also set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), is joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India With its presence virtually in all the important centers at India, Punjab National Bank has offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the bank to build strong links with trade and industry (www.everestbankltd.com).

Siddhartha Bank Limited

Siddhartha Bank was incorporated in 2002, by a group of highly reputed Nepalese businessmen having wide commercial experience, with the object of providing exemplary service combined with profitable operations. The bank provides a full range of commercial banking services through our 39 branches across Nepal. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic.

The vision statement of the bank describes the core values and purposes that guide the bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology.

In addition to its core banking products in deposits and corporate financing it has the whole range of personal and retail products for home, auto, education and mortgage loan for other miscellaneous requirements. Trade Finance, Treasury, and Siddhartha remit for remittance and Cash management services for speedy collection of receivables are other services we offer to its valued clients. A network of ATMs compliments its service and now Siddhartha connect service which is online internet banking service being offered to access the accounts and information (www.siddharthabank.com).

1.3 Statement of Problem

The numbers of commercial bank are growing day by day. In this context due to crisis in the political stability and other insurgencies had led down the economic growth, many business sectors are not doing well. There is high flow of fund in the market but the people are scared of investing their fund or saving due to unreliable and safe investment opportunities and projects. There is vast competition among the commercial banks. Commercial banks are at high time to focus their eyes for the better productive management for survival and growth.

Currently commercial banks are facing problem of investment being default. The political instability, poor management, recession, strikes and insurgencies are liable for the investment being default and in some cases credit clients are intentional defaulters. The central bank, Nepal Rastra Bank have been helping the commercial banks in this context and protecting their investments but in the same way commercial banks too must have good plans for their investments. The investment policies of

commercial banks must be in the favour of the nation's economic growth and their institutional growth.

The main problem areas of the study are:

- Liquidity and Profitability of the Banks,
- Relation between Investment, Loan and Advances, Deposits, Net Profit and Outside Assets,
- Trends of Deposit utilization on Investment,
- Investment Decisions and Profitability,

1.4 Theoretical Framework

The variables which are considered for the study of the investment policy of the commercial banks are the Current Assets, Current Liabilities, Cash and Bank Balance, Total Deposit, Investments (Govt. Securities, Loans and Advances and Other Investment), Working Funds, Total Interest Income and Expenditure, Net Profit, Total Equity Fund, Central Bank Policies and Other Financial Factors.

Hypothesis for the study is formulated as under:

- Investment policy of NSBL, HBL, EBL, SBL and NABIL are profitable,
- Investment policy of all these banks exceeds the NRB Standards,
- Investment policy of all these banks meets the NRB Standards,
- Investment policy of all these banks does not meet the NRB Standards,

Above mentioned are the main hypotheses which are formulated for the study of the investment policy of the commercial banks, in context of the Nabil Bank Limited, Himalayan Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited and Siddhartha Bank Limited.

1.5 Objectives of the study

Commercial Banks are established with the intention of earning profit and economic development of the country through providing investment facilities. Financial Analysis is tools for measuring the success of any business performance. The basic objective of the study is to examine and evaluate the investment policy of NABIL Bank Limited, Himalayan Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited and Siddhartha Bank Limited. Following are the main objectives of the study:

- To compare investment policy of concern banks and discuss the fund mobilization of these five banks,
- To evaluate the liquidity, asset management efficiency and profitability of NSBL, HBL, EBL, SBL and NABIL.
- To examine the risk position of the bank in terms of liquidity and credit ratios of the banks,
- To provide suitable suggestion and recommendation for the improvement of the banks performance,

1.6 Limitations of the Study

Every study has its own limitations. So this study is not far from the limitations. Major problems regarding to the study are as follows:

- Study is limited to the investment policy of NSBL, HBL, EBL, SBL and NABIL among all the 30 Commercial Banks,
- Study analyzes the data of last five annual reports of the respective banks,(FY 2008/09 to FY 2012/13)
- Data used in this study is mostly be based on secondary data which have retrieved from the annual reports and other sources,
- Study is limited to the numerical data and the numerical values for measuring the investment policy, keeping the thought and intensions away,

1.7 Organization of the Study

The whole study is divided into five chapters.

First chapter is Introduction Chapter which includes background of the study, focus of the study, statement of the problem, objectives of the study, significance/important of the study, limitations of the study and organization of the study.

Second chapter, Review of Literature, deals with review of available literatures in the field of the study being conducted. This section includes review of the theories of the concerned topic, review of books and review of various empirical studies.

Third chapter, Research Methodology, explain the research methodology to conduct the study and tools and techniques that is used in analysis of the data as well. This chapter includes research design, source of data, population and samples, methods of data analysis and various financial and statistical tools.

Fourth chapter, Data Presentation and Analysis is devoted to the presentation, analysis and interpretation of the study through definite course of research methodology. This chapter also contains major finding of the study.

Fifth and the last chapter, Conclusion and Recommendations is conclusive and suggestive chapter. It includes summary of the study, conclusion of the main finding and recommendation for further improvement.

Besides these, bibliography and annexure and schedules are presented at the end of the thesis. Similarly acknowledgment, table of contents, list of tables, list of Figures, abbreviations are included in the front of this thesis report.

CHAPTER II

REVIEW OF LITERATURE

Review of Literature is the study of previous research, article or book previous thesis in the related field or topics for finding the past studies conclusion and deficiencies that may be known for further research.

2.1 Conceptual Framework

2.1.1 Evolution of Bank

The evolution of banking industry had started a long time back, during ancient times. As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 AD was the first public banking institution. The later the bank of Barcelona and the Bank of Genoa have been established in 1401 AD and 1407 AD respectively. The Bank of Venice and the Bank of Genoa continued to operate until the eighteenth century, with the expansion of commercial activities. In Northern Europe there sprang a number of private banking houses. Slowly it spread throughout the world (*Dahal, Bhuwan and Dahal Sarita. (2008), A Handbook to Banking*).

2.1.2 Development of Banking Industry in Nepal

Establishment of banking industry in Nepal is very recent. In the ancient time, there are money transaction but were not much regularized due the lack of banking concept among the people and administrators. In the year 1877 AD the government established “Tejarath Adda” which played vital role in the banking development and banking system of Nepal. This institution named “Tejarath Adda” helped general public to provide credit facilities at a very low rate of 5 percent interest rate. “Tejarath Adda” distributed credit facilities to the public especially on the collateral of gold and silver.

Several branches were open in different part of the country. Hence the establishment of Tejarath Adda could be regarded as pioneer foundation of banking in Nepal. It was running smoothly for few decades.

The main defect of this institution was that there were no efforts to expand the services, and no other financial institution has set up. Tejarath Adda also don't accept any deposits from public on the absence of saving money the Adda faces the financial crisis to provide the credit and other services, after that again several unorganized and money lender are flourishing their credit and services to the general public, the government started to do the trade with India and Tibet. In the year 1936 AD, Udyog Parisad (Industrial Development Board) was been established.

In the year 1937 AD Udyog Parisad have reformed its name in to Nepal Bank Limited and formulated the company act. This was the first commercial bank in Nepal. Rastriya Banijiya Bank was established in the year 1965 AD as the second bank of the country.

Rastriya Banijiya Bank being the largest commercial bank plays the major role in the economy. The financial shape of the two old banks has a tremendous impact on the economy. The modern banking practice began between the first and second world wars.

Nepal Bank Limited was the first commercial bank and was also the first joint venture bank of the government and the private sector. Earlier banks were different from modern commercial banks in many respects. The banks which operated in the past combined central banking function such as issue of currency with commercial banking operation like accepting deposit and financing business (*Fundamental of Banking (2007), Sharma, Madhusan*).

2.1.3 Commercial Bank

Commercial banks are the major component in the financial system. They work as intermediary between depositors and lenders and facilitate in overall development of the economy of the country and earning profit for the wealth maximization of all its stake holders.

Commercial banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing overall economic development. The bankers have the responsibility of safe guarding the interest of the depositors, the share holders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation, and transformations, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers.

According to Nepal Company Act 2031, “A commercial bank refers to such types of bank which deals in money exchange accepting deposits, advancing loans and commercial transaction except specific banking related to co-operative, agriculture, industry and other objective.”

“Commercial Bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its service’(*American Institute of Banking , 1972*).

The operation of commercial bank is one of the economic activities of a country. In terms of income generation activity, it may be compared with any other venture of business. However the banking business is very distinct as compared with any other business. The main function of commercial bank is the accumulation to the temporarily idle money of the general public for trade and commerce. Its main function is to accept deposits, advancing loans, act as an agency services, exchange and purchase currency, overseas trading services and other service. The lists

of licensed commercial banks currently providing service in the Nepalese market are detailed in annexure 1.

2.1.4 Investment

In general sense investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current dollars for future dollars. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain. It is commonly known fact that an investment is possible only when there is adequate saving therefore, both saving and investments are interrelated.

Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and factors some scholars have given the actual meaning of investment, which are as below:

J. K. Francies (2005), "An investment is a commitment of money that I expected to generate additional money. Every investment entail some degree of risk, it requires a present certain sacrifice for a future uncertain benefit."

The World Book Encyclopedia (2007), "Investment buy individual, business and government involve a present sacrifice of income to get an expected future, benefit as a result investment raises a nation standard of living."

From the above definitions we can conclude that investment means use of rupee of amount today by expectation of more income in future. It is clear that investment is the utilization of funds with expected additional return in future.

The saving done by the investor may be affected by taxes, inflation, depression, labor relation, government action plan and other social

phenomena. Some time we may get negative return also, if wrongly invested without sound knowledge of investment and their related factor.

Investment has to undergo various types of risk of business risk. Possibility of being wane in earning power of investment due to competition, uncontrollable costs, change in demand, market risk possibility of strong change in market price and collateral value of securities and real properties, therefore making investment is not sufficient one should follow sound investment policy.

Above mentioned definition of different authors about investment clarify that investment means to trade money for expected future stream of payment of benefits that exceeded the current cash outflow which is the benefit to the investors for sacrificing the time and commitment or due to uncertainty and risk factors. Financial institutions must be able to mobilize their deposit collection funds in profitable, secured and marketable sector so that they can earn good return on their investment.

2.1.5 Features of Investment Policy

The success of the bank is measure by its income and profit, which depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credits created by the bank, the higher the profitability. A sound lending and investment policy is not only pro-requisite for bank's profitability but also crucial significant for the promotion of commercial saving of an economically backward nation like Nepal.

Some necessities for sound lending and investment policies which most of the banks must consider can be explained as under:

➤ Safety and Security

Every bank must take care while investing its fund. It should never invest its fund in those securities, which are subject to too much depreciation and fluctuation because a small change causes a

great loss. So, bank must not invest funds into speculative business, enterprise or entrepreneur who may be bankrupt at any time or have intension of being bankrupt. Bank should accept those types of securities which are durable, marketable and high market price. In this case, “MAST” theory must be applied for the investment.

Here,

M stands for Marketability

A stands for Ascertain Ability

S stands for Stability

T stands for Transferable

➤ **Liquidity**

Liquidity refers to the capacity of bank to pay cash against deposits. People deposit money at the bank and the bank repay their money when they need to maintain such confidence of the depositors, the bank must keep this doing in mind while investing its excess fund in different securities or at the time of lending so that it can meet current or short-term obligations when they become due to payment.

➤ **Profitability**

The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. It is a fact a commercial bank can maximize its volume of investment and lending. So they must invest their fund where they get maximum profit.

➤ **Purpose of Loan**

This is very important question for any banker that, why is the customer is in need of loan? If borrower misuses the loan granted by the heavy bad debts? Detailed information about the scheme of the project or activities should be examined before lending.

➤ **Diversification.**

“A bank should not lay all its egg on the same basket.” It is very much important for a bank to diversify its loan investment for the diversification of their risk of investment. The loan granted should be diversified in various sectors of business and industry.

Diversification of loan helps to sustain loss according to the law of average because, if the investment in one sector is deprived and becomes Non Performing Assets than there are sectors where the bank can sustain the loss from. This helps in maintaining the loan loss risk in the current competitive market.

➤ **Tangibility**

Though it may be considered that tangible property doesn't yield in income apart from direct satisfaction of possession of property, many times intangible securities have lost their value due to price level, inflation, a commercial bank should prefer tangible security to intangible one.

➤ **Legality**

Illegal securities bring our money problems for the investor, a commercial bank must follow the rules and regulation as well as different directions issued by the Nepal Rastra Bank. Ministry of Finance, Ministry of Law and other concerned authorities.

2.1.6 Some Important Terms

In the study of banking sector we need to have knowledge of some important and daily banking terms, for which efforts has been made to clarify the meaning of the terms mentioned below:

➤ **Deposits**

Deposit means the amounts deposited in different accounts as term deposit, saving deposit, current deposit, call deposit and other deposits as offered by the concerning bank. It is the main source of fund for the financial institution. For a commercial bank deposit is the most important source of liquidity. It is the barometer for measuring the strength of the financial institution. Deposits are the funds collected by bank from account holders for the security and transaction motives. It is the amount of money or a valuable item that is received into bank as security against possible loss. Deposits are the foundation upon which banks thrive and grow. They are a unique item on a bank's balance sheet that distinguishes it from other types of business firms. The ability of a bank's management and staff to attract checking and saving accounts from business and consumers is an important measure of the bank's acceptance by the public.

➤ **Loan and Advances**

Loan is the sum lent to others for certain time period with the agreement to charge interest on principal. The interest is charged calculating certain percentage on the principal. When money belonging to one is advanced to another to be used for certain time period, it is called Loan or Advance. The basic objective of loan advancement is to earn interest as the reward for lending the sum for specific period.

Commercial banks are organized institutes providing loans for the needed. The loan advancement is the main function of commercial

banks. Similarly, interest on loan has become their main source of income. Banks do deposit accepting and lending business.

➤ **Investment on Government Securities, Shares and Debentures**

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

Some of them are:

It may be required to spare its maturates so that the inflow of cash coincide with expected withdrawals of depositors or large loan demand of its customers,

-) It may be required to have high grade marketable securities to liquidate if its primary reserve becomes inadequate,
-) It may be required because of the decrease in the demand of good loan and/or excessive long term deposits,

However investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with a little or no shrinking in value.

➤ **Investment on Shares and Debentures (Other Companies)**

Commercial banks invest their excess fund to the share and debenture of the other financial and non financial companies. Due to excess funds but least opportunities to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank directives. Now-a-days commercial banks purchase share, debenture and other securities of regional development banks and other public enterprises.

➤ **Use of Funds**

Commercial banks must maintain bank balance with Nepal Rastra Bank as 6% of Fixed Deposit Accounts and 8% of each Current and Saving Accounts in the local currency i.e. NPR (Nepalese Rupee). Similarly 3% of the overall cash maintained by a commercial bank must be deposited at the Nepal Rastra Bank. Again apart of fund should be used for bank balance in foreign bank and to purchase fixed assets like land and building, furniture, computer, stationery etc.

➤ **Off Balance Sheet Activities**

Activities involving contracts for future purchase or sale of assets and all these are contingent obligation and are also the Off Balance Sheet activities. These are not recognized as assets or liabilities on balance sheet. Some examples of this item are Letter of Credit, Letter of guarantee and bills of collection etc., These activities are very important as they are main source of profit of bank though they have risk nowadays some economist and financial experts highlight such activities for the expansion of transaction of modern bank successfully.

2.2 Review of Related Studies

2.2.1 Review of Books

Banks are such an institution, which deals with credit and substitutes for money. They deal with credit and instruments. In modern era good circulation of credit is important for any bank or other financial intermediates (commercial banks, joint venture banks, finance companies, development banks, co-operatives etc.). Banks cannot get its aim of profit earning without mobilizing its fund in right sectors and different activities. Many types of activities and other things can originate for the purpose of receiving investment from the finance company.

According to **William F. Sharpe, Gordon T, Alexander and Jeffery V. Bialy (1999)**, “Investment in a broaden sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain.”

In the words of **Gitman and Joehnk (1988)**, “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.”

The term investment can cover a wide range of activities. It often refers to investing money in certificate of deposits, bonds, common stocks or mutual funds. Expert investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative position and aggressive speculation.

Frank K. Reilly (1994) defines investment as, “An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of funds.”

According to **I. M. Pandey (1994)**, “In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm’s value. The firm’s value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder’s funds maximization.

Investments will all to the shareholders wealth if it yield benefit in excess of the minimum benefits as per the opportunity cost of capital.”

Emphasizing the importance of investment policy, **H. D. Crosse (1998)** puts his view in this way, “Lending is the essence of commercial banking and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creation function effectively and minimize the risk inherent in any extension of credit.”

S. P. Singh and S. Singh (1983), “The investment or credit policies of banks are conditional, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his bank’s credit policy also in mind.”

A sound investment policy of a bank is such that funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble , its problem usually spring from significant amount of loans that have become uncollectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn.

Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds.

2.2.2 Journal and Articles

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

Morris (1990), in his discussion on “Latin American Banking System in the 1980’s” has concluded that most of the bank concentrated on compliance with central bank rules on reserve requirement 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 add that miss management in financial institution has involved inadequate and over optimist loan appraisal high risk diversification of loan portfolio and investment high risk concentration related parties lending etc are major cause of investment and loan that has gone bad.

Bajracharya (1991), has mentioned in his article “Monetary Policy and Deposit” mobilization in Nepal has concluded that the mobilization of domestic saving is one of the monetary policies in Nepal, for this purpose commercial banks stood as the vital and active financial intermediary for generating resource in the form of deposit of the private sector so far providing credit to the investors in different aspect of the economy.

Shrestha (1998), in her article “Lending operation of commercial banks of Nepal and its impact of gross domestic product (GDP)” has presented with the objectives to make an analysis of contribution commercial banks lending to the gross domestic product 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 such as

agriculture, industrial, commercial service, general and social sector as independent variables a multiple regression techniques has been analyzed in the contribution. The multiple analysis have shown that all the variables expect service sector lending have positive impact of GDP.

Thus, in conclusion she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Chopra (1999), in his article, “Role of foreign banks in Nepal” has concluded that the joint venture banks are playing increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

Pradhan (2003), 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 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 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 equation used in this study have been estimated at current prices as well as in real terms with the entire study period divided in to different sub period.

The result 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 result of the empirical analysis led to there 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 strong role played by saving and capital formation on economic development while weak-role played by investment.

L. D. Mahat (2004), in his article “Efficient Banking” he has accomplished, efficiency of banks can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

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

2.2.3 Review of Thesis

Investment Policies have been studied by many individuals and various organizations. These studies have their own status because of the nature of study, objective of study, area of study and other variables which have been sought for, from the specific study. Some of them are related to this study report are considered as reference to this study report. They are:

Tuladhar, Upendra (2000), conducted a study on “A study on investment policy of Nepal Grindlays Bank Limited in comparison to Joint Venture Banks of Nepal” with the following objectives:

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

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

Analyzing the primary data, the questionnaire data concerning the question in which sector banks should invest. 28.37% of the respondents emphasized on Educational sector as the most potential sector for good social and economical return. Similarly poverty stricken and deprived sector got second potential sector with 26.24%, industrial sector 18.44%, tourism sector 16%, agricultural sector 16% and infrastructure sector on public private partnership 4.25%.

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

- Nepal Grindlays Bank Limited has maintained consistent and successful liquidity than Nabil Bank Limited and Himalayan Bank

Limited. Higher in foreign joint venture bank. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese Banks.

- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards in shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
- Investment in various sectors has a positive impact on the national income from their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.
- Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be affected by the national income and lending and Treasury Bills rate. Then investment of commercial bank on government securities has been observed to be affected by total deposit. Cash reserve requirements and Treasury Bills and lending rates, interest rates and deposit rate were found to be good for economic development.

Thapa, Samiksha (2000), on her study, “A comparative study on investment policy on Nepal Bangladesh Bank Limited and other Joint Venture Bank” on her study, the major objectives were to evaluate the

liquidity, asset management efficiency profitability and risk position of Nepal Bangladesh Bank in comparison to Nabil Bank Limited and Nepal Grindlays Bank Limited, to analyze the relationship between loan and advance and total investment with other financial variables of sample bank. Examined the fund mobilization and investment policy of Nepal Bangladesh Bank through off-balance sheet and on-balance sheet activities in comparison to the other two banks, studies the various risk in investment and to analyzed the deposit utilization trends and it's projection for next five years of sample banks, and to provide the suggestion for improving the investment policy of Nepal Bangladesh Bank Limited is comparatively better than that of Nabil Bank Limited and Nepal Grindlays Bank Limited. It has the highest cash and bank balance to total deposit and current assets ratio. It has good deposit collection, it has made enough loan and advance but it has made the negligible amount of investment in government securities. The Nepal Bangladesh Bank Limited is not in better position regarding its on balance sheet and off-balance sheet activities in compare to Nabil Bank Limited and Nepal Grindlays Bank Limited. It does not seem to follow any definite policy regarding the management of its assets. She further found that the profitability position of Nepal Bangladesh Bank Limited is comparatively weak than that of other two banks.

Nepal Bangladesh Bank Limited has maintained higher growth rate in accordance to the Nabil Bank Limited and Nepal Grindlays Banks though it is not successful to make enough investment and can say that the bank is successful in increasing its source of funds and its mobilization. Finally she concluded that there is significant relationship between 'deposit and loan and advances' and 'outside assets and net profit' of Nabil Bank Limited and Nepal Grindlays Bank whereas Nepal Bangladesh Bank Limited has not maintained the relation of the above items.

Shahi, Prem Bahadur (1999), in his thesis, “Investment Analysis of Commercial Banks in Nepal” with the main objectives of:

- Evaluate the liquidity, asset management efficiency and the profitability and risk position of Nepal Bank Limited to Joint Venture Banks,
- Find mobilization and investment policy of Nepal Bank Limited in respect to its fee based off balance-sheet transaction and fund based on balance-sheet transaction in comparison to joint venture banks,
- Find out the empirical relationship between various important variables i.e., deposits loan and advances, investment, net profit etc and compare them with the Joint Venture Banks,
- Analyze the deposit utilization trend and its projection for next five years of the Nepal Bank Limited and compare it with that of the Joint Venture Banks,
- Provide a package of workable suggestions possible guidelines to improve investment policy of Nepal Bank Limited and the Joint Venture Banks based on the finding of the analysis, for the improvement of financial performance of Nepal Bank Limited in future,
- The research was conducted mainly on the basis of the secondary data.
- The research findings of the study are as follows:
- The liquidity position of Nepal Bank Limited is comparatively better than that of Joint Venture Banks. Highly fluctuation in liquidity positions shows that the bank has not formulated any stable policy. It can also be conducted that Nepal Bangladesh Limited has

more portions of current assets as loan and advances but less portions as investment on government securities.

- The mean ratio of loan and advances to total deposit of Nepal Bank Limited is slightly lower than that of the Joint Venture Banks. The mean ratio of investment of government securities to total working fund of Nepal Bank Limited is slightly lower than of the Joint Venture Banks. The mean ratio of total off-balance sheet operation to loan and advances of Nepal Bank Limited is found significantly lower than that of Joint Venture Banks. So it was concluded that Nepal Bank Limited is comparatively less successful in on-balance sheet as well as off-balance sheet operation than that of Joint Venture Banks. It has not followed any definite policy with regard to the management of its assets.
- Profitability position of Nepal Bank Limited is comparatively not better than that of the Joint Venture Banks. It indicates that Nepal Bank Limited must maintain its high profit margin in future.
- There is comparatively high risk in Nepal Bank Limited than that of the Joint Venture Banks, regarding various aspects of the banking function. From the analysis of different growth ratio of different growth ratios it can be concluded that the Nepal Bank Limited has not been more successful to increase of funds i.e. Deposit and mobilization of it i.e. Loan and Advances and total Investment. Similarly it seems to have failed to maintain high growth rate of profit in comparison to that of other Joint Venture Banks. In finding relationship between deposits and loan and advances, there is negative relationship between deposits and loan and advances in case of Nepal Bank Limited whereas, there is positive relation between deposits and loan and advances of the Joint Venture Banks. Nepal Bank Limited has higher trend values of loan and advances and deposits but lower trend values of net

profit and total investment in comparison to Joint Venture Banks. Highly fluctuating ratios of Nepal Bank Limited show that it has not formulated any stable policy to maintain its liquidity any stable policy to maintain its liquidity in a consistent manner.

The high portions of cash and bank balance in Nepal Bank Limited show its negligence and inefficiency in its best utilization. It has not considered the cost of fund and its opportunity costs.

Higher percentage of loan loss ratios shows that Nepal Bank Limited is weak in credit collection. There is absence of a sound credit collection policy. Nepal Bank Limited has not followed innovative appraisal, improper collateral evaluation, irregular supervision etc is a severe problem for the bank's success.

Shrestha, Dr. Sunity (1993), has concluded a study on "Investment planning of Commercial Banks in Nepal" with the following objectives:

- Evaluate the financial performance of commercial banks in Nepal,
- Examine the investments of commercial banks of Nepal with reference to securities, loan and advances,
- Establish the relationship of bank of portfolio variables with the national income and interest rates.

The research was conducted on the basis of primary and secondary data of commercial banks. The research findings of the study are summarized as:

- The general trend commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.

- The return is on the average higher for foreign Joint Venture Banks than for the Nepalese bank but return of asset found to be statistically same. Risk taking attitude is higher in foreign Joint Venture Banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese Banks.
- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial bank in shares and securities is normal and not found to have strategic decision towards in shares and securities. Yield from the securities has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.
- Investment in various in sectors has a positive impact on the national income from their respective sectors.
- Lending in priority sector showed cottage and small industry sharing higher loans.
- Priority sector lending showed positive impact on the national economy.

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

2.2.4 Research Gap

The purpose of research work is quite different from the studies done by the above persons. This study focuses the effectiveness on investment policy analysis of Nepal SBI Bank Limited, Everest Bank Limited, Himalayan Bank Limited, Siddhartha Bank Limited and Nabil Bank Limited in comprehensive manner considering the major items. The method of analysis is fully different. Financial tools and statistical tools are used in this study as ratio analysis, trend analysis and correlation coefficient.

This study is done on five banks (Nepal SBI Bank Limited, Everest Bank Limited, Himalayan Bank Limited, Siddhartha Bank Limited and Nabil Bank Limited) and tried to indicate the effectiveness of investment policy of concern banks.

CHAPTER III

RESEARCH METHODOLOGY

The following research methodologies are used in this chapter:

- Research design
- Population and sample
- Data collection procedure
- Tools for analysis
- Methods of analysis and presentation

3.1 Research Design

The analysis of the study is based on certain research design keeping in mind on the objectives of the study. Descriptive and analytical research designs have been used. Some statistical and accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate financial performance of the Banks.

For the analytical purpose some questions are asked to the concerned personal, who are considered primary data and the secondary data includes the annual reports published by the banks, financial statements of the banks by Nepal Rastra Bank, review material collected from the different concerned magazines, newspapers, library etc,. Such data's information is processed through various processes like auditing, tabulating and result have been interpreted in the form of ratio percentage and difficult types of Figures for clear view.

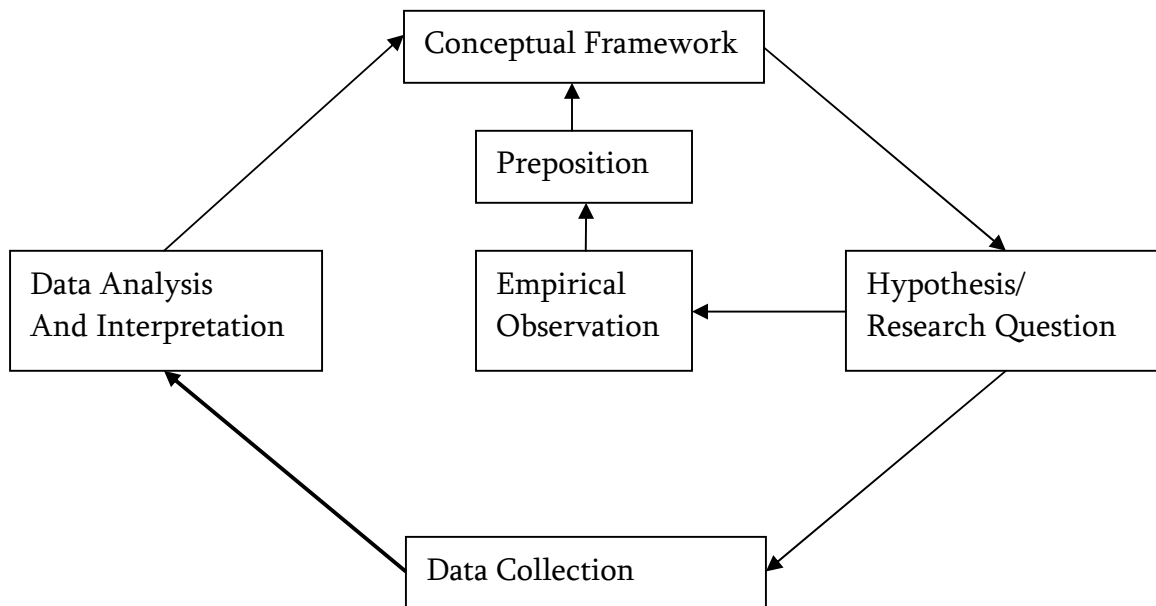


Figure 1.1 Research Design

3.2 Population and Sample

In Nepal currently there are 31 commercial banks (Table 1.1) actively providing their services to people in Nepalese market. All commercial are profit motive and very good investment policy for the betterment of the Nepalese economy by supporting the small, medium and large scale industries. Some of the banks are jointly financing large investment and boosting up the Nepalese industries.

Investment Policy of Commercial Banks can be analyzed. For these, the banks having current ratio more than one, having good liquidity positions and which have followed good investment policy have been judgmentally selected for the study.

The selected banks for the analysis are:

- Nabil Bank Limited
- Himalayan Bank Limited
- Nepal SBI Bank Limited
- Everest Bank Limited
- Siddhartha Bank Limited

Study is conducted to analyze the investment policy of the above sample banks and have few tools to measure and analyze the investment policy of Nepal SBI Bank limited, Everest Bank Limited, Himalayan Bank Limited, Siddhartha Bank Limited and Nabil Bank Limited. This study has used financial and statistical tools to measure, analyze and compare the investment policy of sample banks.

3.3 Data Collection Procedure

This study is based on the secondary data collected from the audited annual reports of the concerning banks. Data related to investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of the concerned bank's annual reports posted on their website. Supplementary data and information are collected from number of institution and regulatory authorities like Nepal Rastra Bank and Ministry of Finance.

According to the need and objectives, all the secondary data are compiled, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, this is compiled with the annual reports of auditor.

Similarly, various data and information are collected from the periodicals, economic journals, managerial magazines and other published and unpublished reports and documents from various sources and websites.

3.4 Tools for Analysis

Analyzing data is an important and vital task in a study report for achieving the objectives of the study by using some tools. The analysis of data has been done according to the data available. Various calculated results can obtained through financial, accounting and statistical tools. In this study Financial and Statistical tools are used to measure the strength of the concerning banks.

3.4.1 FINANCIAL TOOLS:

In this study, following ratios are calculated and analyzed:

➤ Liquidity Ratios

It is the applicator to measure the ability of the firms to meet short term obligations. The liquidity refers to the ratio between liquid assets and liability. The ability of firm to meet its obligation in the short term is

known as liquidity. It reflects the short term financial strength of the business. In order to ensure short term solvency, the company must maintain adequate liquidity. But liquidity ratio must be optimum. The company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding risk.

The following ratios are evaluated under liquidity ratio:

a) Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. It is calculated by dividing current assets by current liabilities, which is presented as follows:

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Current assets are those assets which can be converted into cash and bank balance within analysis accounting period such as cash and bank balance, investment in treasury bill, money at call or placement, loans and advances, bills purchased and discount, inter-branch account, other short term loans, receivable and prepaid expense etc. On the other hand, current Liabilities refer to the short-term maturing obligations. This includes all deposit liabilities, intra bank reconciliation account, bill payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions and accrued expenses.

b) Investment on Government Securities to Current Assets Ratio

The ratio is calculated to find out the percentage of current asset invested in government securities, i.e. treasury bills and government bonds like development bonds and national saving bonds. The ratio is calculated as:

Investment on Government to Current Assets Ratio = *Investment on Govt. Securities/ Current Assets*

Above equation relates the risk free investment in government securities and the current asset of the bank.

c) Loans and Advances to Current Assets Ratio

It is the relationship between loans and advances to current assets or it shows the banks the banks liquid capacity. Loan and Advances basically includes different type of loan lend by the bank to the customers in different sector i.e. bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currencies. The ratio is calculated as:

Loans & Advances to Current Assets Ratio= *Loans & Advances/ Current Assets*

Above mentioned all the ratios are the tools to measure the liquidity strength of the bank with the amount of their various investments. The bank having liquidity strength can face any difficulties in the short run.

Assets Management Ratios

Assets Management Ratios are known as Activity Ratio. Activity ratio evaluates the efficiency with which the firm manages and utilizes its assets. This ratio is also known as turnover ratio. It measures how efficiently the company employs the resources at its command. Funds are created by the collection of share as well as debt from the owner, creditors and outside parties. Those are invested in procuring various kinds of assets to generate or income. Activity ratios are the indicators of a concern with regard to its efficiency in assets management, hence they are often referred to as efficiency ratio are computed to assets finance companies efficiency in utilizing available. These ratios are designed to answer this question: does the total amount of each type of assets as

regarded on the balance sheet seem reasonable, how high, too low, in view of current assets and operating levels? Either a company or a bank must borrow or obtain funds from other sources to acquire assets. If it has too many assets its interest expenses will be too high and hence its profits will be low; on the other hand, if assets are too low, profitability sales may be lost.

The following ratios are used under this asset management:

a) Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsider's fund (total deposit) for the profit generating purpose on the loans and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given as below:

Loans & Advances to Total Deposit Ratio = *Loan & Advance / Total Deposit*

Here loan and advances refers to total of loan, advances and overdraft and total deposits refers to total of all kinds of deposits.

b) Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on government securities and share, debenture of the other companies and banks. This ratio measure the extent to which the bank are successful in mobilizing total investment on the total deposits, the amount of deposits should be soundly investment as the bank has to put only provide interest on its deposits but also has to declare a handsome dividend to its owners and shareholders. This ratio is mention as below:

Total Investment to Total Deposit Ratio = *Total Investment/ Total Deposit*

Investment consists of investment of government securities, investment on debenture and bonds, shares in subsidiary companies, share in other companies and other investment. A high ratio indicates that the bank's efficiency is more investing on its deposit and low indicates inability to put its deposit for the lending activities.

c) Loans and Advances to Total Working Fund Ratio

Loan and Advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on the working fund ratio for the purpose of income generator is computed by dividing loans and advances by total working fund. This is stated as below:

Loans and Advances to Total Working Fund Ratio = *Loans & Advances/ Total Working Fund*

Here, total working fund includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bonds and other investment in share, debenture and other etc. higher the ratio, higher the utilization, higher the profit and at the same time higher the risk.

d) Investment on Government Securities to Total Working Fund Ratio

The ratio measures to what extent, banks are successful in mobilizing their total working fund on different types of government securities to grow income. All the deposits of banks should not be utilized as loans and advances and other credits from liquidity as well as company's security point of view. That's why some of the investments should be diversified into such kind of investment that has lower risk in comparison to loans. Higher the ratio result, better the mobilization of

fund as investment on government securities. This ratio is calculated by dividing investment on government securities by total working fund. This can be stated as:

Investment in Govt. Securities to Total Working Capital Fund Ratio

= *Investment in Govt. Securities/ Total Working Fund*

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

The purpose of this ratio is to measure the successfulness of mobilizing the total working fund to shares and debenture. Share and Debenture are long term investment. Banks should invest in long term securities by maintaining a liquidity position. The investment risk can be diversified with the help of portfolio management. This ratio can be computed by dividing investment on shares and debentures by total working fund. This can be stated as:

Investment on Shares and Debenture to Total Working Fund Ratio

= *Investment on Shares and Debenture/ Total Working Fund*

Above mentioned ratio are tools for measuring the asset performance and activity of the banks in this study of their investment policy.

Profitability Ratios

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by

the return generated on sales and investment. Higher the profitability ratios, better the financial performance, of commercial banks.

Profitability ratios are:

a) Return on Loans and Advances Ratio

This ratio shows how effectively the bank has utilized its resources in the form of loans and advances. It is the rate of return on the loan and advances. Mathematically, it can be expressed as:

$$\text{Return on Loans and Advances} = \text{Net Profit} / \text{Loan \& Advances}$$

b) Return on Total Working Fund Ratio

It is also known as assets. The ratio measures the overall profitability of all working funds, i.e. total assets. A firm or a financial institution has to earn satisfactory return on assets or working fund for its survival. The ratio can be computed as:

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

c) Return on Equity Ratio

This ratio measures how efficiently the banks have used the funds of owners. The ratio can be computed as:

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

Risk Ratios

The possibility of risk makes a bank's investment a challenging risk. Bank to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So, a bank has to have idea of the level of risk that one has to bear while investing funds.

The following ratios are evaluated under this study:

a) Liquidity Risk Ratio

The liquidity risk ratio of a bank defines its liquidity need for deposits. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposits as the liquidity needs. The ratio of cash and bank balance to total deposits is an indicator of bank liquidity needs.

The ratio can be computed as:

$$\textbf{Liquidity Risk Ratio} = \textit{Cash and Bank Balance} / \textit{Total Deposit}$$

b) 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 that bank. According to definition, credit risk ratio is expressed as the percentage of non performing loan to total loan and advances. Credit risk ratio is computed as:

$$\textbf{Credit Risk Ratio} = \textit{Total Loan and Advances} / \textit{Total Assets}$$

3.4.2 STATISTICAL TOOLS

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

➤ **Coefficient of Variation**

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

variable or more consistent, more uniform, more stable or more homogenous.

We can denote this by following formula:

Coefficient of Variation = Standard Deviation x 100/ Mean

➤ **Coefficient of Correlation (r)**

Correlation is the states statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1, when r=+1, it means there is perfect relationship between two variables and vice versa. When r=0, it means there is no relationship between two variables. The Pearson's formula is:

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

Where,

r = coefficient of correlation

x = independent variable

y = dependent variable

n = number of periods

➤ **Probable Error of the Coefficient of Correlation**

After the calculation of co-efficient of correlation the next thing is to find out the extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. If a probable error is added to or subtracted from co-efficient of correlation. It would give two such limits with in which we can reasonably accept the value of co-

efficient of correlation to vary. The formula for finding our probable of error of the Karl Pearson's co-efficient of correlation is:

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

Where,

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

r = co-efficient of correlation

n = number of pairs of observations

In order to conclude whether the co-efficient of correlation is significant or not, the following points should be kept in mind:

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

3.5 Data Processing and Analyzing Procedure:

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis. Data, information, figures and facts related to the study are checked, rechecked, edited and tabulated for computation.

According to the nature of data, they are inserted in meaningful tables, which have been shown in annexes. Homogeneous data are sorted in one table and various tables are prepared in understandable manner. Data have been analyzed and interpreted using different types of analytical tools.

CHAPTER IV DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

This is most important part of the study since all the collected data are presented, processed and analyzed in this chapter. Data are collected from various secondary sources. The outcome of the study depends upon this chapter. Financial and Statistical tools mentioned in the introduction chapter of this study report are used here for interpretation.

4.1.1 Analysis of Financial Ratio

Liquidity Ratios

Liquidity ratio shows a banks obligation in the short term or short run solvency. It is also measures the speed with which a bank asset can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are calculated under liquidity ratio. To measure the liquidity portion of concerned banks following ratio has been calculated and bring analysis of the same has been done.

The following ratios are evaluated under liquidity ratio:

a) Current Ratio

Current Ratio shows the relationship between current assets and current liabilities. Current Assets are those assets which can be converted into cash within the short period of time, normally not exceeding one year, i.e. cash and bank balance, money at call, investment, loan and advances and bill purchase. Current Liabilities are those obligations which are payable within a short span of time, i.e. Borrowing and Deposits.

Mathematically,

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

Table 4.1

Current Ratio (Year 2008/09 to 2012/13)

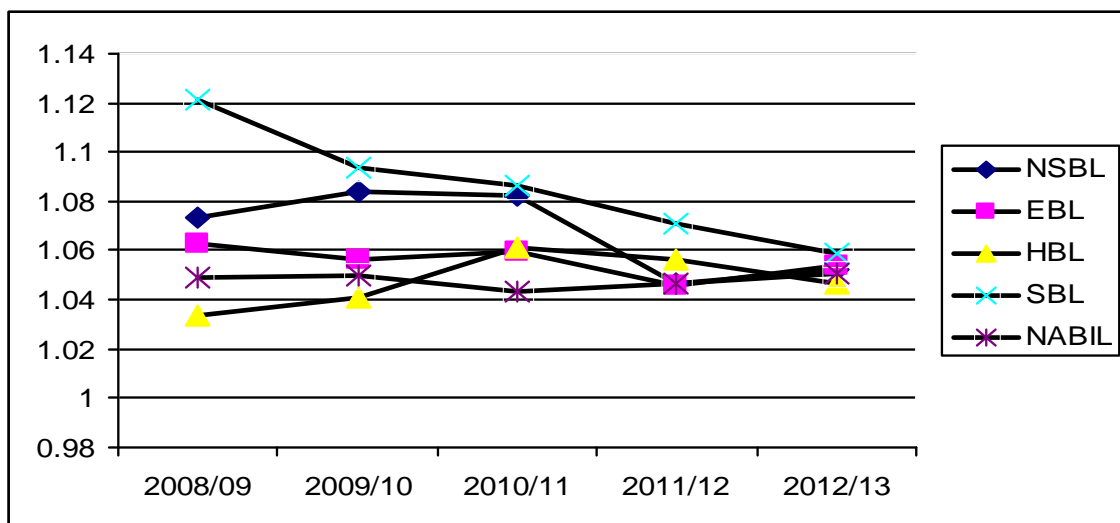
Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	1.073	1.063	1.034	1.121	1.049
2009/10	1.084	1.056	1.041	1.094	1.050
2010/11	1.082	1.060	1.061	1.086	1.043
2011/12	1.047	1.046	1.056	1.071	1.047
2012/13	1.052	1.054	1.047	1.059	1.051
Mean	1.068	1.056	1.048	1.086	1.048
S.D.	0.017	0.006	0.011	0.024	0.003
C.V.	1.600	0.608	1.060	2.174	0.311

Source: Annexure 11

The comparative numerical value of five commercial banks in terms of current ratio, mean, standard deviation and co-efficient of variation have been presented in the above table. The mean current ratio of Nabil Bank and Himalayan Bank is 1.048, which is lowest than that of other banks whereas SBL has the highest current ratio i.e. 1.086 in average. It indicates that SBL is in strong position to meet the short term obligations of the stakeholders. Whereas Nabil has the lower standard deviation and C.V than others; which shows that Nabil is more consistent in comparison to other banks for maintaining the current ratio. Though SBL is in better liquidity position; it is inconsistent for maintaining the current ratio as it has highest Standard Deviation and C.V. The clear outlook of same can be presented in the Figure as below:

Figure 4.1

(Year 2008/09 to 2012/13)



b) Investment on Government Securities to Current Assets Ratio

The ratio is calculated to find out the percentage of current asset invested in government securities, i.e. treasury bills and government bonds like development bonds and national saving bonds. The ratio is calculated as:

$$\text{Investment on Government to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

Table 4.2

Investment on Government Securities to Current Assets Ratio (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.282	0.268	0.365	0.098	0.259
2009/10	0.193	0.236	0.333	0.083	0.302
2010/11	0.181	0.188	0.348	0.072	0.237
2011/12	0.448	0.162	0.194	0.099	0.211
2012/13	0.437	0.121	0.164	0.063	0.215
Mean	0.31	0.195	0.281	0.083	0.245
S.D.	0.13	0.058	0.094	0.016	0.037
C.V.	41.67	29.751	33.528	19.089	15.155

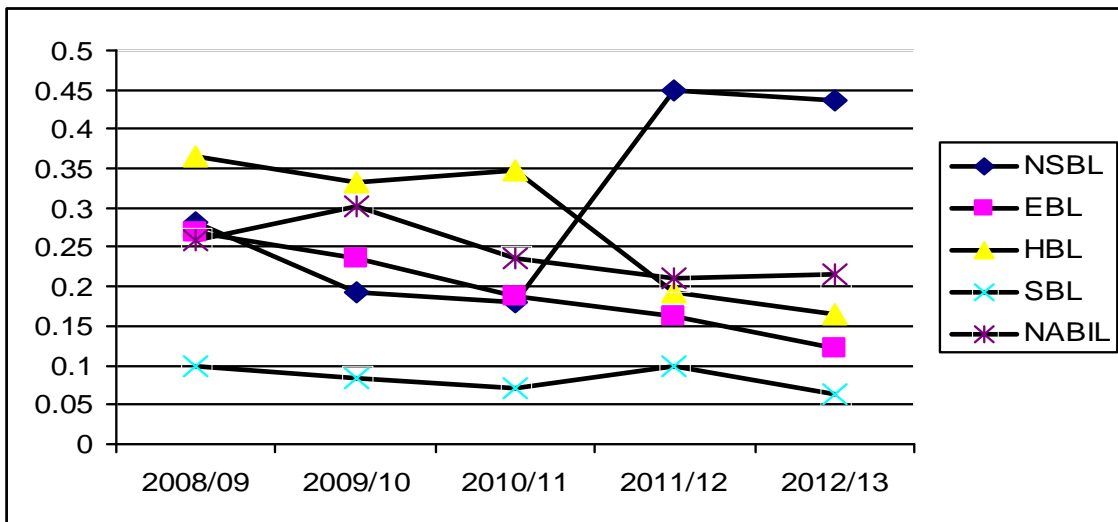
Source: Annexure 12

Above equation relates the risk free investment in government securities and the current asset of the bank. The mean Investment on Government Securities to Current Assets Ratio of NSBL is 0.31 which is the highest than other banks whereas SBL has the lowest mean Investment on Government Securities to Current Assets among other banks i.e. 0.083. NSBL has the highest standard deviation and C.V. (i.e.0.13 and 41.67 respectively) than others which shows it is inconsistent for maintaining on the Investment on Government Securities to current assets. Nabil

Bank has lower C.V. among all other banks which indicate Nabil is more consistent in comparison to other banks for maintaining the Investment on Government Securities to Current Assets Ratio.

The below Figure shows the trend of all 5 banks in the Investment on Government Securities comparative to Current Assets:

Figure 4.2
Investment on Government Securities to Current Assets Ratio
(Year 2008/09 to 2012/13)



c) Loans and Advances to Current Assets Ratio

It is the relationship between loans and advances to current assets or it shows the banks the banks liquid capacity. Loan and Advances of a bank basically includes different type of loan lend by the bank to the customers in different sector i.e. bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currencies. The ratio is calculated as:

$$\begin{array}{l} \text{Loans and Advances to} \\ \text{Current Asset Ratio} \end{array} = \frac{\text{Loans and Advances}}{\text{Current Asset}}$$

Table 4.3
Loans and Advances to Current Assets Ratio
(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.5996	0.6274	0.5182	0.8138	0.6020
2009/10	0.6960	0.6494	0.5264	0.7943	0.5876
2010/11	0.7189	0.6943	0.5602	0.8112	0.5947
2011/12	0.5113	0.6635	0.6572	0.7600	0.6516
2012/13	0.4696	0.6824	0.6892	0.7498	0.6395
Mean	0.5991	0.6634	0.5903	0.7858	0.6151
S.D.	0.1098	0.0265	0.0782	0.0294	0.0286
C.V.	18.3305	3.9926	13.2402	3.7460	4.6500

Source: Annexure 13

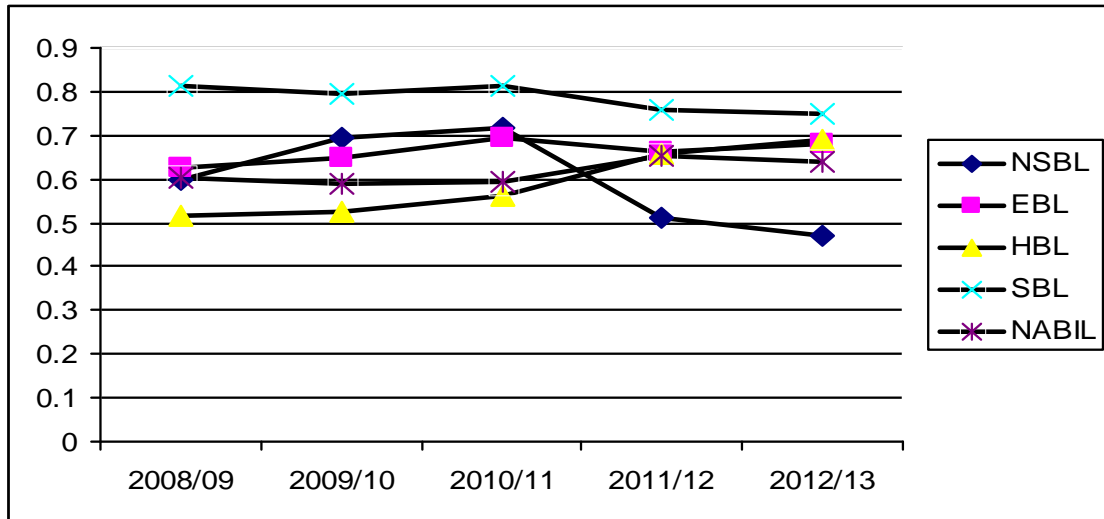
The mean Loans and Advances to Current Assets Ratio of NSBL,EBL,HBL,SBL and NABIL are 0.5991,0.6634,0.5903,0.7858 and 0.6151 respectively. The standard deviation of NSBL is 0.1098 which is greatest among other banks and standard deviation of EBL is 0.0265 which is lowest among the other banks. This shows the EBL is most consistent comparing to other banks for maintaining the Loans and Advances to Current Assets Ratio.

The clear outlook of same can be presented in Figure below:

Figure 4.3

Loans and Advances to Current Assets Ratio

(Year 2008/09 to 2012/13)



Assets Management Ratios

Assets Management Ratios are known as Activity Ratio. Activity ratio evaluates the efficiency with which the firm manages and utilizes its assets. This ratio is also known as turnover ratio. It measures how efficiently the company employs the resources at its command. Funds are created by the collection of share as well as debt from the owner, creditors and outside parties. Those are invested in procuring various kinds of assets to generate or income. Activity ratios are the indicators of a concern with regard to its efficiency in assets management, hence they are often referred to as efficiency ratio are computed to assets finance companies efficiency in utilizing available. These ratios are designed to answer this question: does the total amount of each type of assets as regarded on the balance sheet seem reasonable, how high, too low, in view of current assets and operating levels? Either a company or a bank must borrow or obtain funds from other sources to acquire assets. If it has too many assets its interest expenses will be too high and hence its

profits will be low; on the other hand, if assets are too lows, profitability sales may be lost.

The following ratios are used under this asset management:

a) Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsider's fund (total deposit) for the profit generating purpose on the loans and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given as below:

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

Table 4.4

**Loan and Advances to Total Deposit Ratio
(Year 2008/09 to 2012/13)**

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.6932	0.7101	0.5527	0.9671	0.6679
2009/10	0.8266	0.7513	0.5657	0.9392	0.6660
2010/11	0.8832	0.7649	0.6123	0.9160	0.6694
2011/12	0.5412	0.7168	0.7149	0.8407	0.7387
2012/13	0.5009	0.7461	0.7439	0.8246	0.6953
Mean	0.6890	0.7378	0.6379	0.8975	0.6875
S.D.	0.1687	0.0234	0.0870	0.0622	0.0311
C.V.	24.4868	3.1751	13.6417	6.9306	4.5166

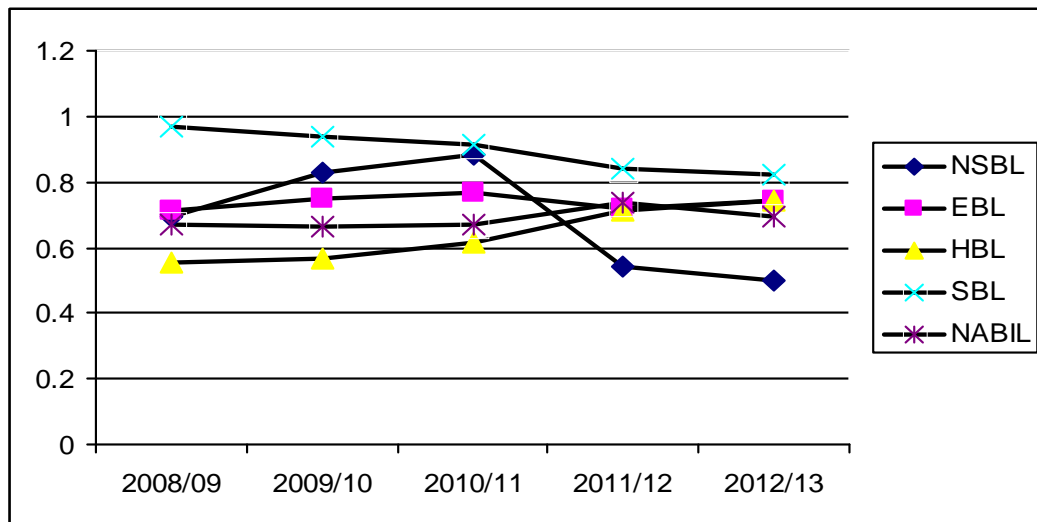
Source: Annexure 14

From the above table (Table 4.4) we can see the average or mean of the ratio, Loan and Advances to Total Deposit, NSBL 0.6890, EBL 0.7378, HBL 0.6379, SBL 0.8975 and NABIL 0.6875 and that indicate comparatively SBL has the highest and HBL has the lowest on average. Comparatively it shows the fund utilization of SBL is more and HBL is less than other banks. It also says SBL is more focused on utilizing the fund. In the same table we can see Standard Deviation of ratio of the banks, NSBL 0.1687, EBL 0.0234, HBL 0.0870, SBL 0.0622 and NABIL 0.0311. It is the average fluctuation in ratio over the period of six years as in the table.

The clear outlook of same can be presented in Figure as below:

Figure 4.4

**Loan and Advances to Total Deposit Ratio
(Year 2008/09 to 2012/13)**



b) Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on government securities and share, debenture of the other companies and banks. This ratio measure the extent to which the bank are successful in mobilizing total

investment on the total deposits, the amount of deposits should be soundly invested as the bank has to put only to provide interest on its deposits but also has to declare a handsome dividend to its owners and shareholders. This ratio can be calculated by dividing total deposit. This ratio is mention as below:

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

Table 4.5

Total Investment to Total Deposit Ratio

(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.3282	0.3043	0.4110	0.1661	0.3193
2009/10	0.2324	0.2741	0.3935	0.1306	0.3832
2010/11	0.2252	0.2110	0.4189	0.1128	0.3114
2011/12	0.4752	0.1785	0.2512	0.1373	0.2899
2012/13	0.4673	0.1356	0.2245	0.1214	0.2946
Mean	0.3457	0.2207	0.3398	0.1337	0.3197
S.D.	0.1217	0.0688	0.0940	0.0204	0.0375
C.V.	35.203	31.191	27.669	15.244	11.730

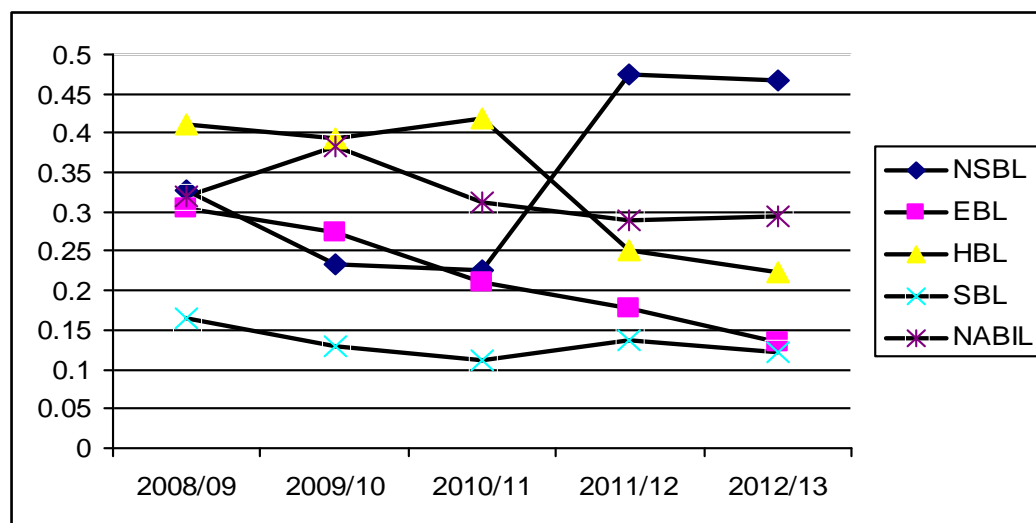
Source: Annexure 15

Above table (Table 4.5) shows Total Investment to Total Deposit ratio over sample period of six years, data considered and mean of the same ratio of five banks NSBL, EBL,HBL,SBL and NABIL. It shows the mean ratio of Total Investment to Total Deposit of NSBL is 0.3457 which is highest and SBL is 0.1337 which is lowest than other bank. Here we can say, NSBL

is holding strong side with this ratio to that of other banks as it has investing on highest ratio of total deposits collected by bank. Standard Deviation and Coefficient of Variation of the ratio of NSBL is highest comparatively and Coefficient of Variation of NABIL is lowest than that of other banks which shows NABIL is maintaining a good ratio comparatively with other banks.

The clear outlook of same can be presented in Figure below:

Figure 4.5
Total Investment to Total Deposit Ratio
(Year 2008/09 to 2012/13)



c) Loans and Advances to Total Working Fund Ratio

Loan and Advances is the major components in the total working fund, which indicates the ability of banks that are successful in mobilizing their loan and advances on the working fund ratio for the purpose of income generator is computed by dividing loans and advances by total working fund. This is stated as below:

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

Table 4.6

**Loans and Advances to Total Working Fund Ratio
(Year 2008/09 to 2012/13)**

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.5851	0.6141	0.4970	0.7965	0.5787
2009/10	0.6805	0.6375	0.5071	0.7823	0.5704
2010/11	0.7048	0.6755	0.5390	0.8001	0.5754
2011/12	0.5016	0.6470	0.6304	0.7454	0.6289
2012/13	0.4594	0.6659	0.6550	0.7304	0.6188
Mean	0.5863	0.6480	0.5657	0.7709	0.5944
S.D.	0.1075	0.0241	0.0725	0.0314	0.0273
C.V.	18.3293	3.7264	12.8161	4.0677	4.5842

Source: Annexure 16

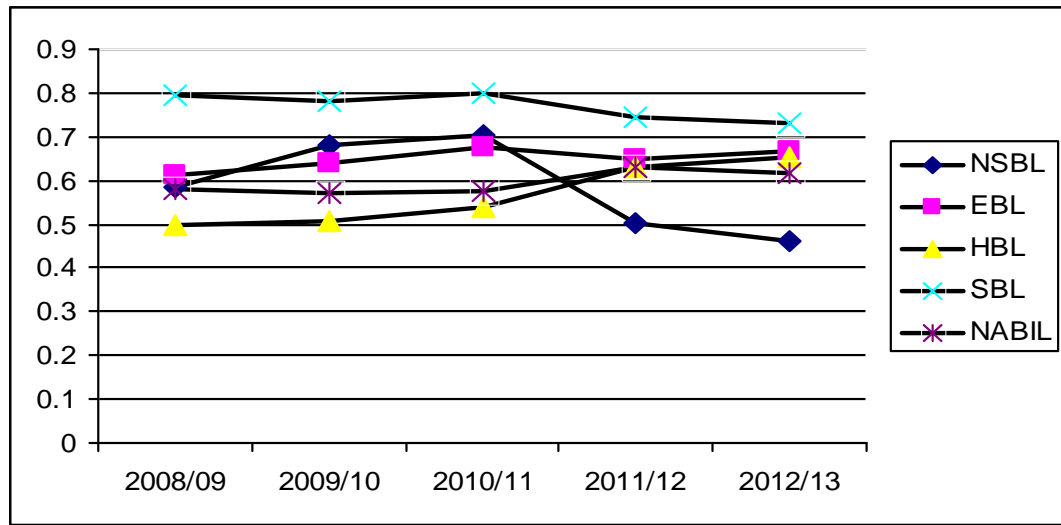
Above table (Table 4.6) shows Loan and Advances to Total Working Fund ratio for NSBL, EBL, HBL, SBL and NABIL. In the table calculated above the mean of ratio of SBL is 0.7709 which is highest than that of other banks that means it has been maintaining good ratio. Standard Deviation and Coefficient of Variation of Everest Bank Ltd. is lowest among other banks which shows EBL is efficient in using its funds available from the market.

The clear outlook of the same can be presented in Figure as below:

Figure 4.6

Loans and Advances to Total Working Fund Ratio

(Year 2008/09 to 2012/13)



d) Investment on Government Securities to Total Working Fund Ratio

The ratio measures to what extent, banks are successful in mobilizing their total working fund on different types of government securities to grow income. All the deposits of banks should not be utilized as loans and advances and other credits from liquidity as well as company's security point of view. That's why some of the investments should be diversified into such kind of investment that has lower risk in comparison to loans. Higher the ratio result, better the mobilization of fund as investment on government securities. This ratio is calculated by dividing investment on government securities by total working fund. This can be stated as:

$$\text{Investment in Govt. Securities to Total Working Fund Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

Table 4.7

**Investment on Government Securities to Total Working Fund Ratio
(Year 2008/09 to 2012/13)**

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.2755	0.2620	0.3503	0.0958	0.2487
2009/10	0.1890	0.2316	0.3210	0.0816	0.2928
2010/11	0.1778	0.1826	0.3347	0.0710	0.2293
2011/12	0.4393	0.1584	0.1860	0.0974	0.2037
2012/13	0.4277	0.1186	0.1562	0.0615	0.2082
Mean	0.3019	0.1906	0.2696	0.0814	0.2366
S.D.	0.1260	0.0572	0.0912	0.0156	0.0362
C.V.	41.756	29.983	33.805	19.109	15.311

Source: Annexure 17

Above table (Table 4.7) shows investment on Government Securities to Total Working Fund Ratio. Here, NSBL has maintained the highest mean ratio of 0.3019 and SBL has lowest one with 0.0814. Hence, NSBL have maintained higher average ratio. Standard Deviation of NSBL is highest and SBL is lowest comparing with other banks that indicate SBL is consistent in maintaining the Government Securities to Total Working Fund ratio.

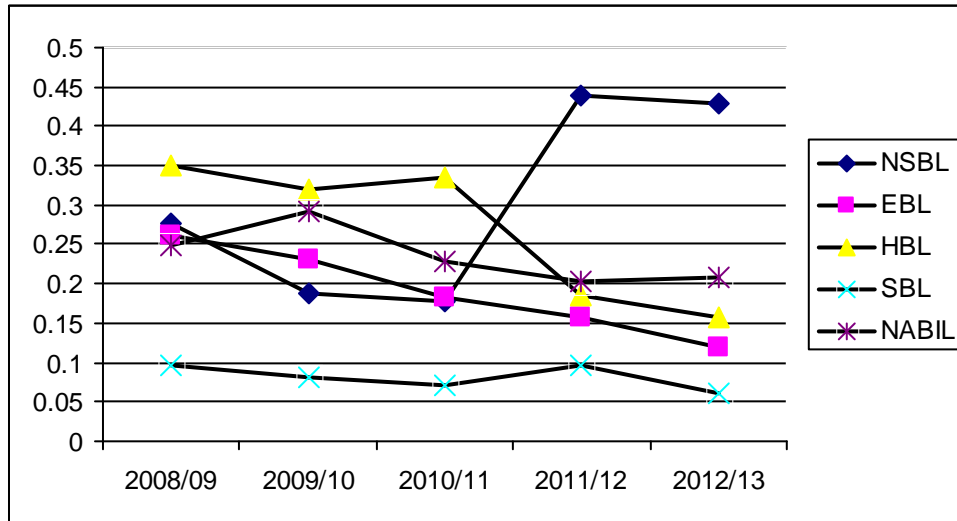
The coefficient of variation of NSBL is 41.756 which is also higher than other banks indicating its higher variability as compared. The coefficient of variation of NABIL is 15.311 which is the lowest among other banks indicates secure investment.

Below Figure shows the clear outlook of investment on Government Securities to Total Working Fund ratio.

Figure 4.7

Investment on Government Securities to Total Working Fund Ratio

(Year 2008/09 to 2012/13)



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

The purpose of this ratio is to measure the successfulness of mobilizing the total working fund to shares and debenture. Share and Debenture are long term investment. Banks should invest in long term securities by maintaining a liquidity position. The investment risk can be diversified with the help of portfolio management. This ratio can be computed by dividing investment on shares and debentures by total working fund. This can be stated as:

$$\text{Investment on Shares and Debenture to Total Working Fund Ratio} = \frac{\text{Investment on Share and Debenture}}{\text{Total Working Fund}}$$

Table 4.8

Investment on Shares and Debenture to Total Working Fund Ratio

(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.0015	0.0012	0.0193	0.0411	0.0280
2009/10	0.0023	0.0009	0.0317	0.0272	0.0354
2010/11	0.0019	0.0037	0.0341	0.0276	0.0384
2011/12	0.0011	0.0028	0.0354	0.0243	0.0431
2012/13	0.0009	0.0025	0.0415	0.0461	0.0539
Mean	0.0015	0.0022	0.0324	0.0333	0.0397
S.D.	0.0006	0.0011	0.0082	0.0097	0.0096
C.V.	38.286	51.427	25.185	29.076	24.198

Source: Annexure 18

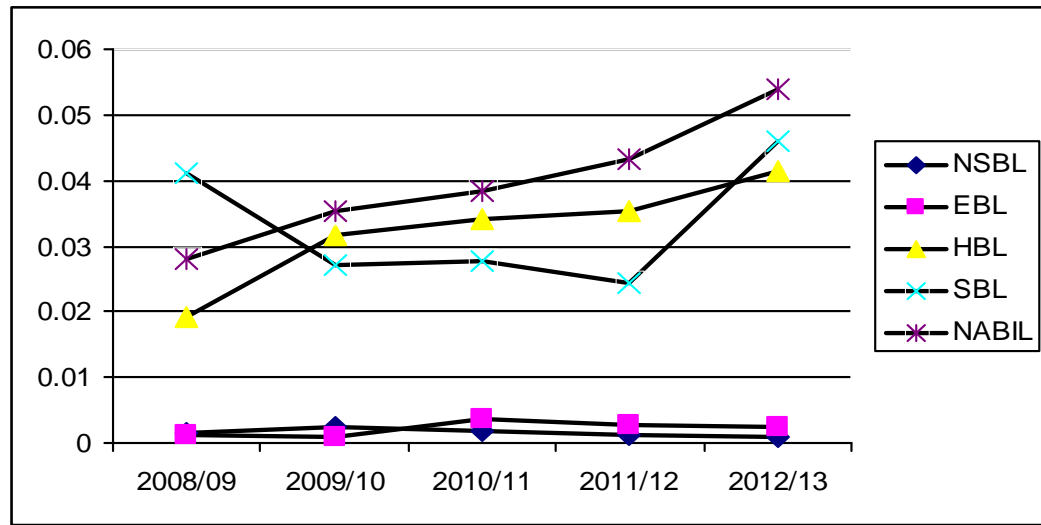
From the table (Table 4.8) the average mean value of return of NABIL is 0.0397 which is the highest and that of NSBL is 0.0015 which is the lowest than that of other banks. The coefficient of variation of EBL is 51.427 which is highest and that of NABIL is 24.198 which is lowest among the above banks , which indicate that NABIL is successful for better utilization of investment on shares and debenture than that of above banks and it is more consistent to investment on shares and debentures. Above mentioned ratio are tools for measuring the asset performance and activity of the banks in this study of their investment policy.

The clear outlook of the same can be presented in a Figure below:

Figure 4.8

Investment on Shares and Debenture to Total Working Fund Ratio

(Year 2008/09 to 2012/13)



Profitability Ratios

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratios, better the financial performance, of commercial banks.

Profitability ratios are described below:

a) Return on Loans and Advances Ratio

This ratio shows how effectively the bank has utilized its resources in the form of loans and advances. It is the rate of return on the loan and advances. Mathematically, it can be expressed as:

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

Table 4.9

Return on Loans and Advances (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.0153	0.0242	0.0312	0.0172	0.0492
2009/10	0.0269	0.0217	0.0289	0.0153	0.0409
2010/11	0.0205	0.0246	0.0326	0.0153	0.0297
2011/12	0.0209	0.0267	0.0304	0.0163	0.0230
2012/13	0.0224	0.0302	0.0182	0.0145	0.0197
Mean	0.0212	0.0255	0.0283	0.0157	0.0325
S.D.	0.0042	0.0032	0.0058	0.0011	0.0123
C.V.	19.6421	12.4766	20.4945	6.7706	37.9764

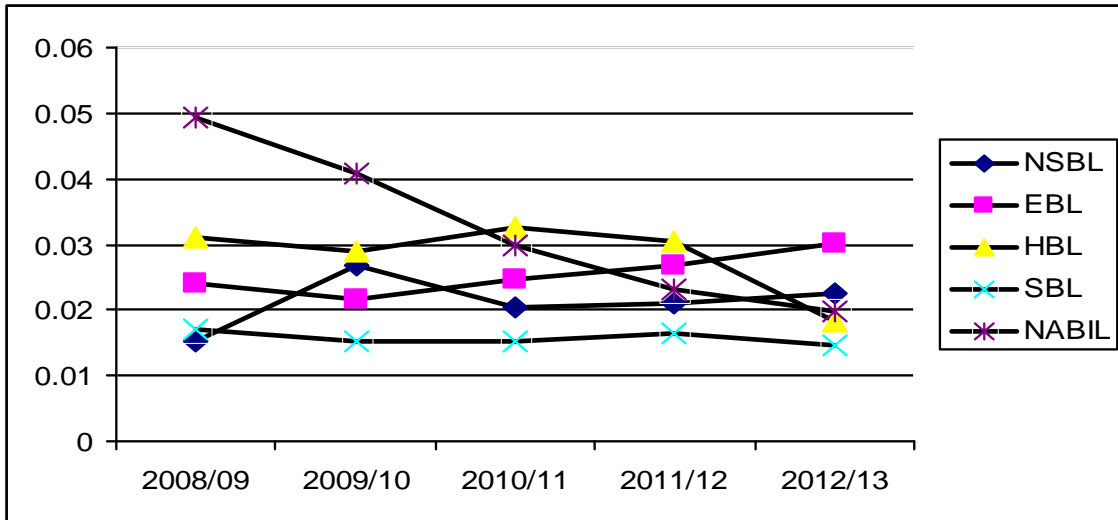
Source: Annexure 19

Mean ratio of NABIL is 0.0325 which is highest and SBL is 0.0157 which is lowest than that of above banks that indicates NABIL is more successful to earn higher return on its loan and advances. However the standard deviation and coefficient of variation of SBL is 0.0011 and 6.7706 respectively which is lowest among above banks indicating that it is consistent in maintaining the return on Loan and Advances.

In the below Figure it seems to be the return on Loan and Advances of SBL is efficient in maintaining the consistency on return.

Figure 4.9

Return on Loans and Advances (Year 2008/09 to 2012/13)



b) Return on Total Working Fund Ratio

It is also known as return on assets. The ratio measures the overall profitability of all working funds, i.e. total assets. A firm or a financial institution has to earn satisfactory return on assets or working fund for its survival. The ratio can be computed as:

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

Table 4.10
Return on Total Working Fund Ratio
(Year 2008/09 to 2012/13)

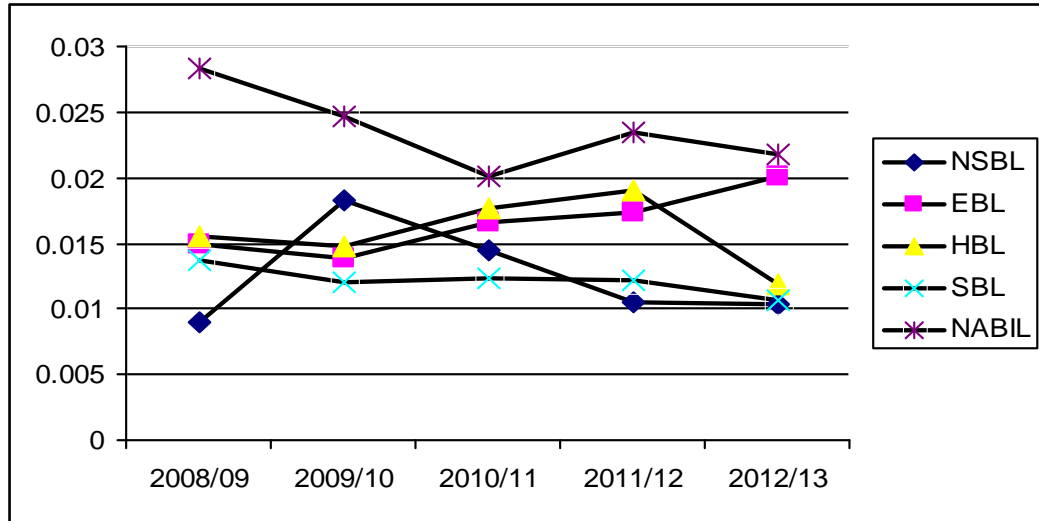
Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.0090	0.0149	0.0155	0.0137	0.0284
2009/10	0.0183	0.0138	0.0147	0.0120	0.0247
2010/11	0.0144	0.0166	0.0176	0.0123	0.0201
2011/12	0.0105	0.0173	0.0191	0.0122	0.0235
2012/13	0.0103	0.0201	0.0119	0.0106	0.0218
Mean	0.0125	0.0165	0.0158	0.0121	0.0237
S.D.	0.0038	0.0024	0.0028	0.0011	0.0032
C.V.	30.7376	14.6180	17.5969	9.2266	13.3348

Source: Annexure 20

Above table (Table 4.10) shows the mean ratio of NABIL is highest i.e. 0.0237 and mean ratio of SBL is lowest i.e. 0.0121 than that of other banks; it indicates that NABIL is successful in gaining more profit rationally than that of other banks. From the table we can see Standard Deviation of NSBL is 0.0038 which is highest and that of SBL is 0.0011 which is lowest than that of other banks and Coefficient of Variation of NSBL is highest i.e. 30.7376 and Coefficient of Variation of SBL is lowest i.e. 9.2266, it also indicates that SBL have maintained consistency over the period in earning on Total Working Fund Ratio.

Below Figure (Figure 4.10) shows the inconsistency of NSBL in earning profit to the Total Working Fund Ratio than that of other banks. However it shows the increasing trend in the profit of the NSBL.

Figure4.10
Return on Total Working Fund Ratio
(Year 2008/09 to 2012/13)



c) Return on Equity Ratio

This ratio measures how efficiently the banks have used the funds of owners. The ratio can be computed as:

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

Table 4.11
Return on Equity Capital Ratio
(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.1191	0.2465	0.2590	0.1082	0.3388
2009/10	0.2191	0.2467	0.2291	0.1201	0.3276
2010/11	0.1751	0.2349	0.2530	0.1340	0.3063
2011/12	0.1847	0.2899	0.2413	0.1704	0.3294
2012/13	0.1599	0.3015	0.1479	0.1502	0.3639
Mean	0.1716	0.2639	0.2261	0.1366	0.3332
S.D.	0.0365	0.0297	0.0452	0.0246	0.0209
C.V.	21.2889	11.2551	19.9749	17.9916	6.2670

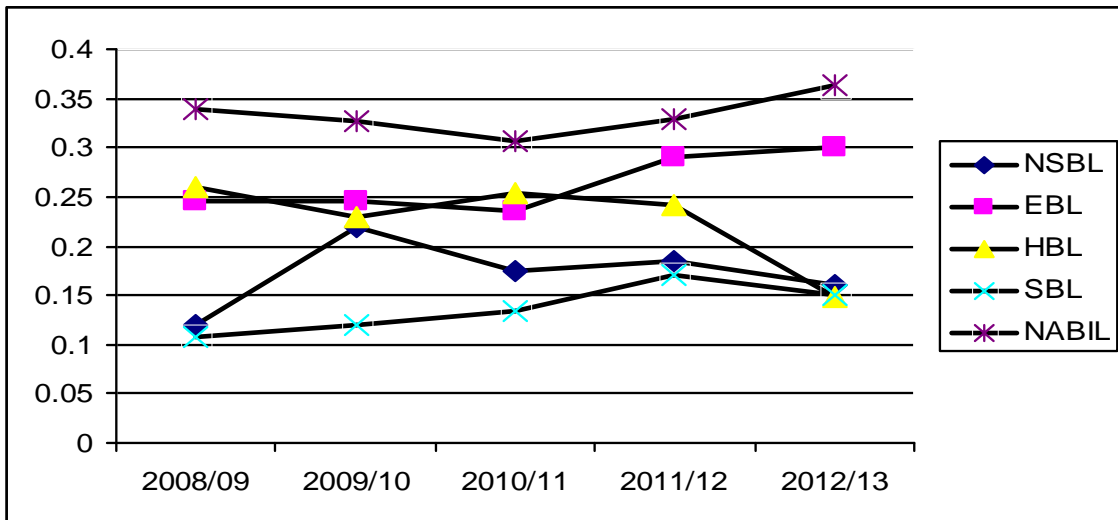
Source: Annexure 21

Above table (Table 4.11) shows the mean ratio of NABIL is highest i.e.0.3332 and SBL is lowest i.e.0.1366 than that of other banks; it indicates that NABIL is again successful in gaining more profit rationally than that of other banks. From the table we can see Standard Deviation and Coefficient of Variation of NABIL is 0.0209 and 6.2670 which is lowest among all these above banks and also indicates that NABIL have maintained consistency over the period in earning on Total Working Fund Ratio.

Below Figure (Figure 4.11) also shows the increasing trend of NABIL and as well the consistency of NABIL in maintaining the ratio than that of other banks.

Figure 4.11

Return on Equity Capital Ratio (Year 2008/09 to 2012/13)



Risk Ratios

The possibility of risk makes a bank’s investment a challenging risk. Bank to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So, a bank has to have idea of the level of risk that one has to bear while investing funds.

The following ratios are evaluated under this study:

a) Liquidity Risk Ratio

The liquidity risk ratio of a bank defines its liquidity need for deposits. The cash and bank balance are the most liquid assets and they are considered as bank’s liquidity sources and deposits as the liquidity needs. The ratio of cash and bank balance to total deposits is an indicator of bank liquidity needs.

The risk is low if funds are kept idle or as cash and bank balance but this affects profitability. When bank makes loan, its profitability increases and also the risk. Thus, higher liquidity ratio indicates less risk and less profitability ratio indicates higher risk. The ratio can be computed as:

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Table 4.12

Liquidity Risk Ratio (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.1016	0.1125	0.0648	0.0296	0.0326
2009/10	0.0981	0.1315	0.0585	0.0781	0.0600
2010/11	0.0979	0.1113	0.0455	0.0429	0.0837
2011/12	0.0421	0.1850	0.0879	0.0976	0.0903
2012/13	0.0986	0.2117	0.1028	0.1192	0.0302
Mean	0.0877	0.1504	0.0719	0.0735	0.0593
S.D.	0.0255	0.0455	0.0231	0.0372	0.0279
C.V.	29.1195	30.2486	32.1632	50.6986	47.0600

Source: Annexure 22

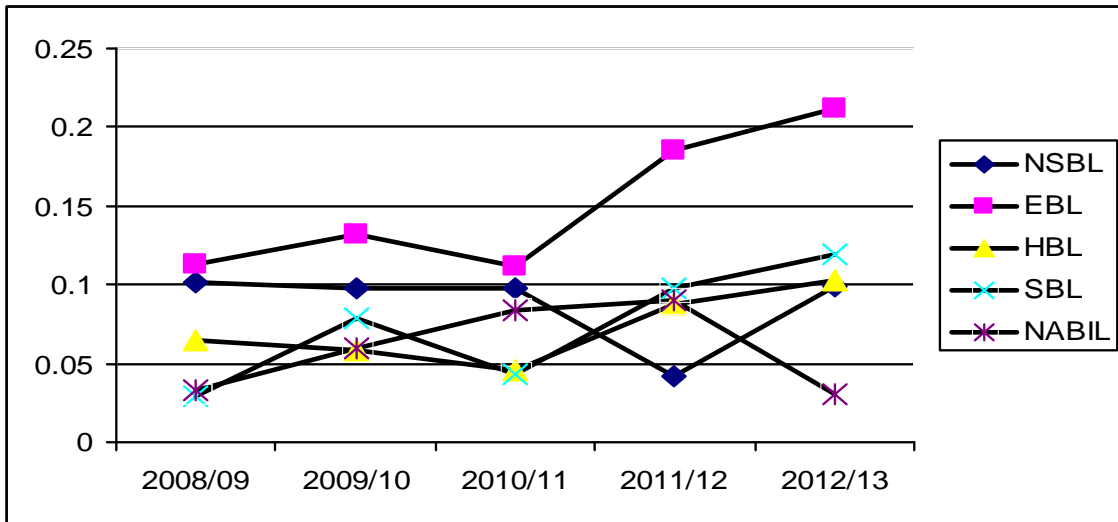
The table (Table 4.12) shows the Liquidity Risk ratio of the five commercial banks NSBL, EBL, HBL, SBL and NABIL. The above table (Table 4.12) provides comparative numerical values. The mean Cash and Bank Balance to Total Deposit Ratio of NABIL is 0.0593 which is lowest and that of EBL is 0.1504 which is highest among the above mentioned

banks; this shows EBL is in strong position to meet the short term obligations of the Deposits in comparison.

The standard deviation of HBL is 0.0231 which is lowest than that of other banks. This shows the HBL is more consistent in comparison with other banks for maintaining the Liquidity Risk Ratio.

Figure 4.12

Liquidity Risk Ratio (Year 2008/09 to 2012/13)



b) 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 that bank. According to definition, credit risk ratio is expressed as the percentage of nonperforming loan to total loan and advances. Credit risk ratio is computed as:

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

Table 4.13

Credit Risk Ratio (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.5851	0.6141	0.4970	0.7965	0.5787
2009/10	0.6805	0.6375	0.5071	0.7823	0.5704
2010/11	0.7048	0.6755	0.5390	0.8001	0.5754
2011/12	0.5016	0.6470	0.6304	0.7454	0.6289
2012/13	0.4594	0.6659	0.6550	0.7304	0.7356
Mean	0.5863	0.6480	0.5657	0.7709	0.6178
S.D.	0.1075	0.0241	0.0725	0.0314	0.0700
C.V.	18.3293	3.7264	12.8161	4.0677	11.3231

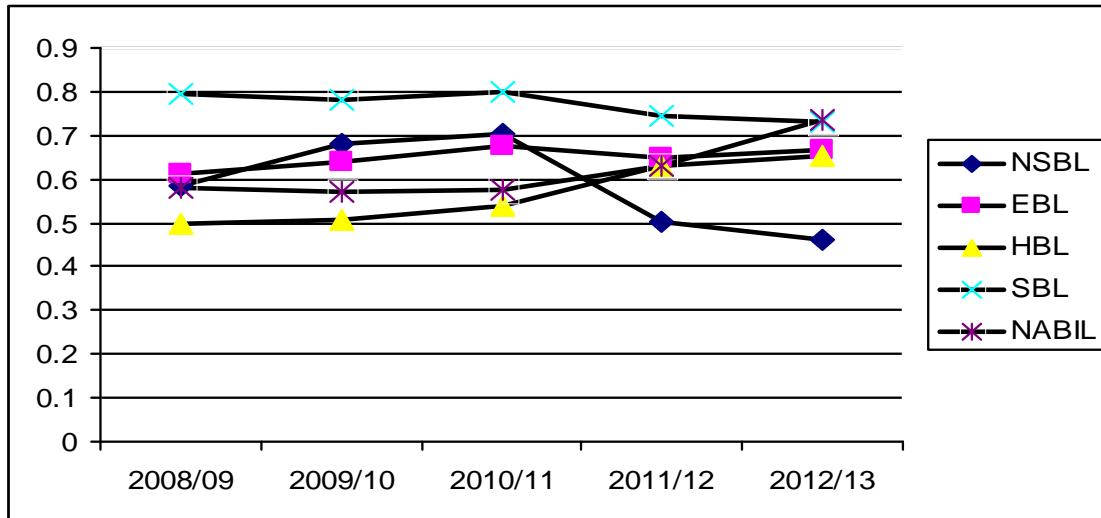
Source: Annexure 23

From the table (Table 4.13) we can see the average or mean of the ratio of Credit risk, of SBL is 0.7709 which is the highest among all other above banks. It shows the fund utilization of SBL is more than that of other banks. It also says SBL is more focused on utilizing the fund. In the same table we can see Standard Deviation of ratio of the banks, NSBL 0.1075 which is the highest and EBL 0.0249 which is the lowest than that of other banks. It is the average fluctuation in ratio over the period of Six years as in the table.

Below Figure demonstrates the credit risk ratio of these 5 banks in different fiscal years.

Figure 4.13

Credit Risk Ratio (Year 2008/09 to 2012/13)



4.1.2 Analysis of Statistical Ratio

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

➤ Coefficient of Correlation (r) and Probable Error (P.E.r)

The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1, when $r=+1$, it means there is perfect relationship between two variables and vice versa. When $r=0$, it means there is no relationship between two variables. The Pearson's formula is:

After the calculation of co-efficient of correlation the next thing is to find out the extent to which it is dependable. If a probable error is added to or subtracted from co-efficient of correlation. It would give two such limits with in which we can reasonably accept the value of co-efficient of correlation to vary. The formula for finding our probable of error of the Karl Pearson's co-efficient of correlation is:

Total Deposit and Total Investment

Coefficient of Correlation between Total Deposit and Total Investment measures the degree of relationship between these two variable factors. The main objective of the correlation analysis between Total Deposit and Total Investment is to find out whether Total Deposit is significantly used as Total Investment.

Table 4.14

Correlation between Total Deposit and Total Investment

Evaluation Criteria	NSBL	EBL	HBL	SBL	NABIL
R	0.99	0.698	-0.61	0.99	0.97
r²	0.9827	0.4868	0.3707	0.9722	0.9359
P.E.r	0.0052	0.1548	0.1898	0.0084	0.0193
6.P.E.r	0.031	0.929	1.139	0.050	0.116
Significance	Significant	Not Significant	Not Significant	Significant	Significant

Source: Schedule {2(a), 2(b), 2(c), 2(d) & 2(e)}

Here, Total Deposit is the dependent variable 'x' and Total Investment is dependent variable 'y'. The main objective of computing 'r' between these two variables is to justify whether Total Deposit is significantly used as Total Investment.

The above table (Table 4.13) shows the value of 'r', 'P.E.r' and '6.P.E.r' between Total Deposit and Total Investment of NSBL, EBL, HBL, SBL and NABIL during study period FY 2005/06 to FY 2009/10.

From the above table in respect to NSBL, it is found that there is high degree of positive relation (r lies between 0.7 to 0.999) between Total Deposit and Total Investment is 0.99. The relation is significant as the value of 'r' 0.99 is higher than '6.P.E.r' 0.031. Furthermore, when we consider the value of coefficient of determination 'r²', is 0.9827 which

does mean 98.27% of the variation in the dependent variables is explained by the independent variable. Considering the value of 'r' and comparing with '6.P.E.r' which does mean that NSBL is capable in investment mobilizing its Total Deposit.

On the other hand EBL also have the moderate degree of correlation (r lies between 0.5 to 0.699) between Total Deposit and Total Investment. But the relation is not significant as the value of 'r' 0.698 is lower than '6.P.E.r' 0.929 and the value of 'r²' is 0.4868 which does mean only 48.68% of the dependent variable which has been explained by the independent variable. This indicated that EBL is not capable in investment mobilizing its Total Deposit.

But, HBL have the negative correlation (r is negative) between Total Deposit and Total Investment. The relation is not significant as the value of 'r' -0.61 is lower than '6.P.E.r' 1.139. The value of 'r²' is 0.3706, which indicates that only 37.06% of the dependent variable which has been explained by the independent variable. This indicated that HBL is also not capable in investment mobilizing its Total Deposit.

In respect to SBL, it is found that there is high degree of positive relation (r lies between 0.7 to 0.999) between Total Deposit and Total Investment which is 0.99. The relation is significant as the value of 'r' 0.99 is higher than 6.P.E.r. The value of r² 0.9722 indicates that 97.22% of the variation in the dependent variables is explained by the independent variable. Considering the value of 'r' and comparing with '6.P.E.r' which does mean that SBL is capable in investment mobilizing its Total Deposit.

As per above table Nabil Bank has high degree of positive relation (r lies between 0.7 to 0.999) between Total Deposit and Total Investment which is 0.97. The relation is significant as the value of 'r' 0.97 is higher than 6.P.E.r. The value of r², 0.9359 indicates that 93.59% of the variation in

the dependent variables is explained by the independent variable. Considering the value of 'r' and comparing with '6.P.E.r'; it can be said that Nabil Bank is capable in investment mobilizing its Total Deposit.

As per above study, NSBL, EBL and NABIL are successful in mobilizing their Total Deposit as Total Investment. HBL and SBL are not in better position. However, NSBL is at the best position amongst the banks in mobilizing Total Deposit as Investment in comparison to other banks.

4.2 Major Findings:

The main finding from analysis of the data presented in the chapter, collected and retrieved from annual reports of NSBL, EBL, HBL, SBL & NABIL and other sources are:

1. The mean current ratios of all banks are almost same (NSBL 1.068, EBL 1.056, HBL 1.048, SBL 1.086 and Nabil 1.048). So we can say all banks have maintained good current ratio. NABIL have more consistency than that of other banks because NABIL have maintained lower C.V. and Standard Deviation than Others.
2. The mean ratio of Investment on Government Securities to Current Assets of SBL lesser than that of other banks. It states that SBL uses to invest its Current Assets in Government Securities more than that of others, and SBL have more consistent to maintain of its uses to invest Current Asset than that of other banks because EBL have lower C.V. and Standard Deviation.
3. The mean ratio of Loan and Advances to Current Assets of NSBL and HBL is lesser than other banks (NSBL 0.59, EBL 0.66, HBL 0.59, SBL 0.78 and NABIL 0.61). It shows that NSBL & HBL use to provide rationally less Loan and Advances than that of Other Banks, but EBL and SBL have more consistency in maintaining

this ratio than of NSBL, HBL and NBIL because EBL and SBL have lower C.V. and Standard Deviation.

4. The liquidity positions of all banks are somewhat similar. In the ratios where one has higher mean ratio, the others have consistency and where others have higher mean ratio one have consistency. As per the study it is found that SBL has somehow liquidity problems than others.
5. The mean ratio of Loan and Advances to Total Deposit of HBL (0.63) is lesser than others, but EBL & NABIL have lower C.V. which indicates that Loan and Advances of EBL is stable and consistent to its total deposit rationally.
6. The mean ratio of Total Investment to Total Deposit of NSBL (0.345) is higher than that of others. It shows that NSBL have better utilization of deposits to investment. Whereas NABIL has consistency in maintaining the ration than that of the others because NABIL have lower C.V.
7. The mean ratio of Loan and Advances to Total Working Fund of SBL is higher than that of others. It shows that SBL have better utilization of its Total Fund than other banks. But EBL have consistency in maintaining the ratio than that of SBL because of the lower C.V. and Standard Deviation.
8. The mean ratio of Investment on Government Securities to Total Working Fund of NSBL is highest. It shows that NSBL have better investments than that of other banks, but have been lacking the consistency of the ratio. SBL have maintained consistency which can be seen from its C.V. and Standard Deviation.
9. The mean ratio of investment on Shares and Debenture to Total Working Fund ratio of NABIL Bank is on higher side. But, the ratios of all banks are fluctuating over the period. In measuring the

consistency of ratio NSBL have maintained well than of other banks.

10. Analysis of the Assets Management Ratios, it can be seen that NSBL have higher investment policy towards total investment to total deposit but it is slightly low at other ratios.
11. The mean ratio of Return on Loan and Advances of NABIL Bank (0.035) is higher than that of the other banks (NSBL 2.40, EBL 0.025, HBL 0.0283 and SBL 0.015). It shows that NABIL have earned good profit rationally to its investment in Loan and Advances. SBL have maintained its consistency of return on Loan and Advances which can be seen from the C.V. of all banks' ratios (NSBL 19.64, EBL 12.47, HBL 20.49, SBL 6.77 and NABIL 37.97).
12. The mean ratio of Return on Total Working Fund of EBL (0.0165) is higher than that of the other banks. It shows that EBL have earned good profit rationally by utilizing its Total Working Funds. SBL have maintained its consistency of return on Total Working Fund which can be seen from the C.V. of all banks ratios (NSBL 30.74, EBL 14.61, HBL 17.60, SBL 9.22 and NABIL 13.33).
13. The mean ratio of Return on Equity Fund of NABIL (0.3332) is higher than that of others. It shows that NABIL have earned good profit rationally by utilizing its Equity Fund. NABIL have maintained its consistency of return on Equity Fund which can be seen from the C.V. of the banks ratios (NSBL 21.28, EBL 11.26, HBL 19.97, SBL 17.99 and NABIL 6.26).
14. The mean ratio of Liquidity Risk of EBL (0.1504) is higher than that of others (NSBL 0.087, HBL 0.019, SBL 0.0735 and Nabil 0.0593). It shows that EBL have good liquidity position than other banks. NSBL have maintained its consistency of Liquidity Risk

Ratio which can be seen from the C.V. of all banks' ratios (NSBL 29.12, EBL 30.25, HBL 32.16, SBL 50.70 and Nabil 47.06).

15. The mean ratio of Credit Risk of SBL (0.77) is higher than that of other banks. It shows that SBL have good opportunity of earning return from their investment as Loan and Advances than that of NSBL. EBL have maintained its consistency of Credit Risk Ratio which can be seen from the C.V. of all banks' ratios (NSBL 18.32, EBL 3.72, HBL 12.81, SBL 4.067 and NABIL 11.32).
16. As per statistical analysis, NSBL, EBL and NABIL are successful in mobilizing their Total Deposit as Total Investment. HBL and SBL are not in better position. However, NSBL is at the best position amongst the banks in mobilizing Total Deposit as Investment in comparison to other banks.

CHAPTER V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary:

The development of any country depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 31 Commercial Banks operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of Commercial Banks, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these Commercial Banks should take initiative action in search of the new opportunities. So, that they can easily survive in this competitive banking business world & earn profit. A bank manager its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector

which deals in the process of channeling the available resources in the needed sector. It plays the role of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted abroad into unproductive sectors.

Development of trade, industry and business is the main ground of banks to conduct its activities and fulfill its profit making objectives. The sound investment policy helps all the banks to make profitable investment and which in turns also helps to develop the economic condition of the nation. Investment policy of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment.

Commercial banks are not able to utilize its deposits properly i.e. providing loan and advances or lending for a profitable project, the reason behind it is lack of sound investment policy, increasing trend of this type of situation certainly lead closure of the banking institutions.

Hence, the sufficient return is not earned due to the lack of stable, strong and appropriate investment policy. They have not been able to utilize their funds more efficiently and productively. Though the directions and guidance are being provided by the NRB but the long term and published policy about their operation does not sound good in the Joint Venture Banks. Therefore, the banks investment policy must be such that it is sound and prudent in order to protect public funds.

The main focus of the study is to comparative study of investment practices of commercial banks of Nepal and to suggest for its improvement in the investment policy. For this, NABIL Bank Limited, Nepal SBI Bank Limited, Himalayan Bank Limited, Everest Bank Limited and Siddhartha Bank Limited have been included in the study. The study has been constrained by various common limitations.

The study is based on secondary data from the fiscal year 2005/06 to 2009/10. The data are collected from annual reports, financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank have also been made.

For the fulfillments of the objectives of the study many analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Under financial tools, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, profitability ratio, risk ratio, and growth ratio have been studied and interpreted. Under statistical analysis, some relevant statistical tools, i.e. correlation coefficient, trend analysis and hypothesis test have been studied and tested. This analysis gives clear picture of the performance of the bank with regard to its investment practices. Financial & statistical tools are used to reckoning and secondary data were compiled, processed, tabulated and graphed for better presentation.

5.2 Conclusion:

The liquidity position of NSBL is comparatively better than other banks. NSBL has maintained highest cash and bank balance to current assets ratio; Investment on government securities to current assets ratio and lowest and loan and advances to current assets ratio and good current ration. NABIL have more deposit collections than other banks. It has made average investment on loan & advances and government securities.

From the analysis of assets management ratio it can be concluded that NSBL have successfully maintained and managed its assets towards different income generating activities. The ratio of loan and advances to total deposit and total investment to total deposit is higher than other banks but Investment on government securities to total working fund is in lower position in comparison to others. The mean ratio of Investment on share and debenture to total working fund of NABIL is higher than other banks. But EBL is more consistent and homogeneous than other banks.

In profitability ratio, the mean of return on loan and advances ratio, return on total working fund and return on equity of NABIL is higher than other banks. So, the profit earning capacity of NABIL is high is comparison to other banks. The growth ratio NABIL is successful in increasing its sources and its mobilization.

There is high degree of significant relationship between total deposit and total investment of NSBL, SBL and NABIL in comparison to EBL and HBL. NSBL, EBL and NABIL are successful in mobilizing their Total Deposit as Total Investment. HBL and SBL are not in better position. However, NSBL is at the best position amongst the banks in mobilizing Total Deposit as Investment in comparison to other banks.

Total deposit, total investment and net profit of all banks are in increasing trend. Other things remaining the total deposit of SBL is on lower position in compare to other banks and total investment of NSBL is

in better position in comparison to others. The net profit of NABIL is the highest.

5.3 Recommendations:

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

- Current ratios of sample banks are not sufficient to achieve standard ratio i.e. 2:1, so it is recommended to banks to maintain required current ratio. They need to maintain the present mean current ratio for the proper management of their liquidity position.
- The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situation. As banks are maintaining lower cash and bank to total deposit and current assets ratio, Banks are recommended to increase cash and bank balance to meet current obligations and loan demand.
- To get success in competitive banking environment, depositors money must be utilized as loan and advances. Negligence in administering these assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank failure. It has been found from the study that SBL and HBL have greater ratios at all, because its large portion of fund invested as loan and advances and negligence to invest on other sector. To overcome this situation, Banks are strongly recommended to follow liberal lending policy.

- As bank of private sector commercial banks cannot keep this eyes closed from the profit motive. They should be careful is increasing profit is a real sense to maintain the confidence of shareholders, depositors and it's all customers. Nabil Bank has high profit earning capacity.
- Out of working fund, NSBL, HBL and NABIL have invested its more funds as total investment in comparison to others. Though, the percentage of invested by all banks have very nominal. So, it is recommended that banks to invest their more funds in different types of companies' indifferent areas.
- Most of the joint venture banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level bank balance and the amount needed to open an account in these banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, all banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors' funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.
- In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an "Innovative approach to Bank Marketing" and formulate new strategies of serving customers in a more convenient and satisfactory way.

- Although all banks taken in the study have recently expanded their branches over the country but all of these banks do not have branches in the rural areas of the country. Their branches are limited to the urban or sub-urban areas only. Therefore, banks are recommended to open branches in rural areas too to help in economic development of the country.

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APPENDIX

Current Ratio (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	1.073	1.063	1.034	1.121	1.049
2009/10	1.084	1.056	1.041	1.094	1.050
2010/11	1.082	1.060	1.061	1.086	1.043
2011/12	1.047	1.046	1.056	1.071	1.047
2012/13	1.052	1.054	1.047	1.059	1.051
Mean	1.068	1.056	1.048	1.086	1.048
S.D.	0.017	0.006	0.011	0.024	0.003
C.V.	1.600	0.608	1.060	2.174	0.311

Source: Annexure 11

Investment on Government Securities to Current Assets Ratio (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.282	0.268	0.365	0.098	0.259
2009/10	0.193	0.236	0.333	0.083	0.302
2010/11	0.181	0.188	0.348	0.072	0.237
2011/12	0.448	0.162	0.194	0.099	0.211
2012/13	0.437	0.121	0.164	0.063	0.215
Mean	0.31	0.195	0.281	0.083	0.245
S.D.	0.13	0.058	0.094	0.016	0.037
C.V.	41.67	29.751	33.528	19.089	15.155

Source: Annexure 12

Loans and Advances to Current Assets Ratio
(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.5996	0.6274	0.5182	0.8138	0.6020
2009/10	0.6960	0.6494	0.5264	0.7943	0.5876
2010/11	0.7189	0.6943	0.5602	0.8112	0.5947
2011/12	0.5113	0.6635	0.6572	0.7600	0.6516
2012/13	0.4696	0.6824	0.6892	0.7498	0.6395
Mean	0.5991	0.6634	0.5903	0.7858	0.6151
S.D.	0.1098	0.0265	0.0782	0.0294	0.0286
C.V.	18.3305	3.9926	13.2402	3.7460	4.6500

Source: Annexure 13

Loan and Advances to Total Deposit Ratio
(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.6932	0.7101	0.5527	0.9671	0.6679
2009/10	0.8266	0.7513	0.5657	0.9392	0.6660
2010/11	0.8832	0.7649	0.6123	0.9160	0.6694
2011/12	0.5412	0.7168	0.7149	0.8407	0.7387
2012/13	0.5009	0.7461	0.7439	0.8246	0.6953
Mean	0.6890	0.7378	0.6379	0.8975	0.6875
S.D.	0.1687	0.0234	0.0870	0.0622	0.0311
C.V.	24.4868	3.1751	13.6417	6.9306	4.5166

Source: Annexure 14

Total Investment to Total Deposit Ratio
(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.3282	0.3043	0.4110	0.1661	0.3193
2009/10	0.2324	0.2741	0.3935	0.1306	0.3832
2010/11	0.2252	0.2110	0.4189	0.1128	0.3114
2011/12	0.4752	0.1785	0.2512	0.1373	0.2899
2012/13	0.4673	0.1356	0.2245	0.1214	0.2946
Mean	0.3457	0.2207	0.3398	0.1337	0.3197
S.D.	0.1217	0.0688	0.0940	0.0204	0.0375
C.V.	35.203	31.191	27.669	15.244	11.730

Source: Annexure 15

Loans and Advances to Total Working Fund Ratio
(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.5851	0.6141	0.4970	0.7965	0.5787
2009/10	0.6805	0.6375	0.5071	0.7823	0.5704
2010/11	0.7048	0.6755	0.5390	0.8001	0.5754
2011/12	0.5016	0.6470	0.6304	0.7454	0.6289
2012/13	0.4594	0.6659	0.6550	0.7304	0.6188
Mean	0.5863	0.6480	0.5657	0.7709	0.5944
S.D.	0.1075	0.0241	0.0725	0.0314	0.0273
C.V.	18.3293	3.7264	12.8161	4.0677	4.5842

Source: Annexure 16

**Investment on Government Securities to Total Working Fund Ratio
(Year 2008/09 to 2012/13)**

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.2755	0.2620	0.3503	0.0958	0.2487
2009/10	0.1890	0.2316	0.3210	0.0816	0.2928
2010/11	0.1778	0.1826	0.3347	0.0710	0.2293
2011/12	0.4393	0.1584	0.1860	0.0974	0.2037
2012/13	0.4277	0.1186	0.1562	0.0615	0.2082
Mean	0.3019	0.1906	0.2696	0.0814	0.2366
S.D.	0.1260	0.0572	0.0912	0.0156	0.0362
C.V.	41.756	29.983	33.805	19.109	15.311

Source: Annexure 17

**Investment on Shares and Debenture to Total Working Fund Ratio
(Year 2008/09 to 2012/13)**

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.0015	0.0012	0.0193	0.0411	0.0280
2009/10	0.0023	0.0009	0.0317	0.0272	0.0354
2010/11	0.0019	0.0037	0.0341	0.0276	0.0384
2011/12	0.0011	0.0028	0.0354	0.0243	0.0431
2012/13	0.0009	0.0025	0.0415	0.0461	0.0539
Mean	0.0015	0.0022	0.0324	0.0333	0.0397
S.D.	0.0006	0.0011	0.0082	0.0097	0.0096
C.V.	38.286	51.427	25.185	29.076	24.198

Source: Annexure 18

Return on Loans and Advances (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.0153	0.0242	0.0312	0.0172	0.0492
2009/10	0.0269	0.0217	0.0289	0.0153	0.0409
2010/11	0.0205	0.0246	0.0326	0.0153	0.0297
2011/12	0.0209	0.0267	0.0304	0.0163	0.0230
2012/13	0.0224	0.0302	0.0182	0.0145	0.0197
Mean	0.0212	0.0255	0.0283	0.0157	0.0325
S.D.	0.0042	0.0032	0.0058	0.0011	0.0123
C.V.	19.6421	12.4766	20.4945	6.7706	37.9764

Source: Annexure 19

**Return on Total Working Fund Ratio
(Year 2008/09 to 2012/13)**

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.0090	0.0149	0.0155	0.0137	0.0284
2009/10	0.0183	0.0138	0.0147	0.0120	0.0247
2010/11	0.0144	0.0166	0.0176	0.0123	0.0201
2011/12	0.0105	0.0173	0.0191	0.0122	0.0235
2012/13	0.0103	0.0201	0.0119	0.0106	0.0218
Mean	0.0125	0.0165	0.0158	0.0121	0.0237
S.D.	0.0038	0.0024	0.0028	0.0011	0.0032
C.V.	30.7376	14.6180	17.5969	9.2266	13.3348

Source: Annexure 20

Return on Equity Capital Ratio

(Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.1191	0.2465	0.2590	0.1082	0.3388
2009/10	0.2191	0.2467	0.2291	0.1201	0.3276
2010/11	0.1751	0.2349	0.2530	0.1340	0.3063
2011/12	0.1847	0.2899	0.2413	0.1704	0.3294
2012/13	0.1599	0.3015	0.1479	0.1502	0.3639
Mean	0.1716	0.2639	0.2261	0.1366	0.3332
S.D.	0.0365	0.0297	0.0452	0.0246	0.0209
C.V.	21.2889	11.2551	19.9749	17.9916	6.2670

Source: Annexure 21

Liquidity Risk Ratio (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.1016	0.1125	0.0648	0.0296	0.0326
2009/10	0.0981	0.1315	0.0585	0.0781	0.0600
2010/11	0.0979	0.1113	0.0455	0.0429	0.0837
2011/12	0.0421	0.1850	0.0879	0.0976	0.0903
2012/13	0.0986	0.2117	0.1028	0.1192	0.0302
Mean	0.0877	0.1504	0.0719	0.0735	0.0593
S.D.	0.0255	0.0455	0.0231	0.0372	0.0279
C.V.	29.1195	30.2486	32.1632	50.6986	47.0600

Source: Annexure 22

Credit Risk Ratio (Year 2008/09 to 2012/13)

Year \ Bank	NSBL	EBL	HBL	SBL	NABIL
2008/09	0.5851	0.6141	0.4970	0.7965	0.5787
2009/10	0.6805	0.6375	0.5071	0.7823	0.5704
2010/11	0.7048	0.6755	0.5390	0.8001	0.5754
2011/12	0.5016	0.6470	0.6304	0.7454	0.6289
2012/13	0.4594	0.6659	0.6550	0.7304	0.7356
Mean	0.5863	0.6480	0.5657	0.7709	0.6178
S.D.	0.1075	0.0241	0.0725	0.0314	0.0700
C.V.	18.3293	3.7264	12.8161	4.0677	11.3231

Source: Annexure 23

Correlation between Total Deposit and Total Investment

Evaluation Criteria	NSBL	EBL	HBL	SBL	NABIL
R	0.99	0.698	-0.61	0.99	0.97
r²	0.9827	0.4868	0.3707	0.9722	0.9359
P.E.r	0.0052	0.1548	0.1898	0.0084	0.0193
6.P.E.r	0.031	0.929	1.139	0.050	0.116
Significance	Significant	Not Significant	Not Significant	Significant	Significant

Source: Schedule {2(a), 2(b), 2(c), 2(d) & 2(e)}

Source: As per Balance Sheet Report from Financial Institution (F/Y 2008/09 to 2012/13)

Source: www.nrb.org.np as 25th August 2013.

iv. Call & Short Dep.	0.00	0.00	4944.96	2540.70	2801.41
v. Other	470.40	403.36	438.75	390.69	323.96
13. Short Term Loan	285.20	0.00	417.30	961.46	229.66
14. Bills Payable	38.07	69.70	67.75	108.94	173.50
15. Tax Provision	0.00	0.00	0.00	0.00	0.00
16. Staff Bonus	54.97	52.60	44.12	66.36	71.94
17. Dividend Payables	12.32	143.52	11.80	94.14	36.88
18. Misc. Curr. Liability	807.22	1121.38	337.32	456.87	522.12
G.19. DEFERRED LIABILITIES	62.84	78.10	98.10	113.01	110.78
i. Long Term Loan	0.00	0.00	0.00	0.00	0.00
ii. Other Differed Liabilities	62.84	78.10	98.10	113.01	110.78
NET WORTH	984.07	1062.83	1146.42	1314.18	1481.68
H. SHARE CAPITAL	392.80	491.65	491.65	491.65	491.65
20. Ordinary Share	50.00	50.00	50.00	50.00	50.00
21. Bonus Share	342.80	441.65	441.65	441.65	441.65
22. Preference Share	0.00	0.00	0.00	0.00	0.00
I. SHAREHOLDERS' RESERVES	591.27	571.18	654.77	822.53	990.03
Balance Sheet Total	15314.74	18808.88	17629.25	16562.61	16745.59

NABIL BANK LTD
COMPARATIVE PROFIT & LOSS STATEMENT

(Rs. in Million)

For the Period Ending	07/15/00	07/15/01	07/15/02	07/15/03	07/15/04
A. OPERATING INCOME	1309.11	1573.31	1639.11	1340.51	1333.65
1. Interest (Earned)	1047.03	1266.70	1120.18	1017.87	1001.62
2. Commission & Discount	139.59	146.84	114.34	144.41	135.96
3. Exchange Income	122.19	159.51	154.22	144.08	157.32
4. Dividend	0.30	0.26	0.00	0.00	0.00
5. Other	0.00	0.00	250.37	34.15	38.75
B. COST OF SERVICE	530.93	724.22	606.96	527.93	463.78
6. Interest Paid	432.96	578.36	462.68	317.35	282.94
i. On Borrowings	18.68	13.57	5.31	9.85	17.47
ii. On Deposit	414.28	564.79	456.77	307.50	265.47
7. Salaries, Allowances & P.F.	97.97	145.86	144.88	210.58	120.84
C. 8. Provision for Bonus	54.97	52.60	44.12	66.36	71.94
D. 9. Other General Exp.	203.77	298.50	538.70	182.73	187.36
E.10. GROSS PROFIT	519.44	497.99	449.33	563.49	610.57
F.11. Depreciation	25.01	26.27	39.75	35.04	46.27
G.12. OPERATING PROFIT	494.43	471.72	409.58	528.45	564.30
H.13. Income From Other Sources	0.31	1.64	0.00	86.95	92.78
I.14. PRE-TAX PROFIT	494.74	473.36	409.58	615.40	657.08
J.15. Provision For Taxes	165.62	181.99	137.95	199.15	201.76
K.16. NET PROFIT	329.12	291.37	271.63	416.25	455.32

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KANTIPATH KATHMANDU

Authorized Capital Rs. 50000000.00 Paid-Up value/share Rs. 100 & Rs. 0
 Issued Capital Rs. 491654400.00 No. of Shareholder/s: 5076
 Paid-up Capital Rs. 491654400.00 Incorporation Year-B.S.: 2041 A.D.: 1984
 Par value/Share Rs. 100 & Rs. 0 Listing Date - B.S.: 08/09/42 A.D.: 1986

**NABIL BANK LTD
 COMPARATIVE BALANCE SHEET**

AS at Balance Sheet	07/15/00	07/15/01	07/15/02	07/15/03	07/15/04
(Rs. in Million)					
TOTAL ASSETS (Working Funds)	15024.20	18367.15	17629.25	16562.61	16745.61
A. CURRENT ASSETS	14788.91	13161.68	13313.40	13868.30	14244.04
1. Cash & Bank balance	1088.75	812.90	1051.82	1144.77	970.49
2. Money at Call & Short Notice	4631.83	522.55	31.37	670.20	918.73
3. Loans & Advances for comm. banks	7334.76	8324.44	7437.90	7755.95	8189.99
4. Loans, Cash Cr. & Overdrafts	6902.19	7993.28	7135.54	7454.26	7953.76
5. Bill Discounted & Purchase	432.57	331.16	302.36	301.69	236.23
6. Investment	1234.82	2733.96	4121.29	3588.77	3672.63
i. Govt. Securities	1233.82	2722.96	4120.29	3588.77	3672.63
ii. Other	1.00	1.00	1.00	0.00	0.00
7. Interest Receivable	373.01	372.35	171.09	177.60	174.49
8. Misc. Current Assets	125.74	395.48	499.93	531.01	317.71
FIXED ASSET (NET)	219.17	235.12	237.63	251.91	338.13
9. Gross stock	327.55	364.13	395.66	433.12	550.17
10. Less Depreciation	108.38	129.01	158.03	181.21	212.04
LOANS FOR Dev. banks	0.00	0.00	0.00	0.00	0.00
INVESTMENTS	1234.82	2733.96	4121.29	3588.77	3672.63
i. Shares	16.12	18.82	22.22	22.22	22.22
ii. Debentures	0.00	0.00	0.00	0.00	0.00
iii. Other	0.00	0.00	0.00	0.00	0.00
MISC. ASSETS	0.00	4951.53	0.00	0.00	0.00

