

**INVESTMENT POLICY AND STRATEGY FOLLOWED BY  
JOINT VENTURE BANKS  
(With Reference to Nepal SBI Bank and NABIL Bank Ltd.)**

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*In partial fulfillment of the requirement for the degree of  
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# **RECOMMENDATION**

This is to certify that the thesis

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Entitled:

## **INVESTMENT POLICY AND STRATEGY FOLLOWED BY JOINT VENTURE BANKS**

**(With Reference to Nepal SBI Bank and NABIL Bank Ltd.)**

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## DECLARATION

I hereby declare that the work reported in this thesis entitled “**Investment Policy and Strategy Followed By Joint Venture Banks (With Reference to Nepal SBI Bank and NABIL Bank Ltd.)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (M.B.S) under the supervision of. **Prof. Dr. Kamal Das Manandhar** and **Kiran Thapa** of Shanker Dev Campus, T.U.

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## ABBREVIATIONS

&	And
'r'	Coefficient of Correlation
BOKL	Bank of Kathmandu Limited
C.V.	Coefficient of Variation
CB	Commercial Banks
CRR	Cash Reserve Ratio
EBL	Everest Bank Limited
FY	Fiscal Year
i.e.	That is
Ltd.	Limited
MBS	Master of Business Studies
MMD	Modeling and Decision Mathematics
N	Number of Year
Nabil	Nabil Bank Ltd.
NRB	Nepal Rastra Bank
NSBI	Nepal SBI Bank Ltd.
P. E.	Probable Error
P. Er	Probable Error
S.E.E.	Standard Error of Estimate
SD	Standard Deviation
TU	Tribhuvan University

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Investment in financial sense is placing of money in the other for their use expecting a return or the participation in expected profits. But for manufacturing and trading firms the terms investment will be long term expenditures that aim at increasing return of efficiency or at building up goodwill thereby producing and increasing return over as period. Investment also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other risks.

Investment by individuals, business and government involves a present sacrifice of income to get on expected on future benefit as a result investment raises an economy of nations.

Investment usually involves putting money into a bet, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other hand speculation is usually a shorter run phenomenon. Speculators tend to buy assets with the expecting of a profit than can be earned from subsequent price change and sale. Investment are usually made expecting a certain stream of income, which has existed, will not change in the future.

According William F. Shape. Gordon J. Alexander and Jeffery V. Baily "Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved - time and risk. The sacrifice takes place in the present and its magnitude generally is certain"

In the study of the financial institutions the investment and investment problems will revolve around the concept of managing the surplus financial assets in such a way which will lead to the wealth maximization and providing a significant further source of income. Thus the investment is the management of the surplus recourses in such a way as to make it work for providing benefits to the supplier of the funds by letting it to third party. However, the

investment needs to be a procedural task. It must follow a definite investment process, which definitely being the formulation of proper investment policy.

"Investment as the sacrifice of money today for prospective money tomorrow". "Investment in its broadest sense means sacrifice of current rupees for future rupees" it is defined by William J Sharpe and Alexander J Gordon for the term 'Investment'. Therefore, every investment entails some degree of risk.

### **Investment Policy**

Investment policy is the proper management of any fund or wealth to maximize value or to obtain this high or favorable return with low risk considering the protection of Invest from the inflation and other possible harms. Banks are disbursing their money as investment in trade business and industry. Due to the growth on banking sector in Nepal and huge competition, investments are highly prone to losses. Therefore, Banks should follow the principle of investment for profit. An investment policy should ensure maximum profit and minimum Risk. Investment policy determines the investor's objective and the amount of its investable wealth because there is possible relation between risk and return for sensible investment strategies.

Banking sector specially commercial bank play a vital role in the Process of analyzing the available resources in the needed sectors. Financial system consists two component i.e. depositary financial institution and non-depositary financial institution. Commercial banks are depositary financial institution whereas employed providence fund, development bank insurance companies etc are non depositary financial institutions. All the economic activities are directly or indirectly channeled through banks. Banks accept money as a deposit from public and invest it in form of loan and advances. Financial institutions act as an intermediary role between the persons who lend and who borrow. Bank pools the scattered fund and mobilizes them in productive sector. Bank came into existence mainly with the objective of collecting the idle funds, mobiles them into productive sector causing an overall economic development. The bankers have the responsibility of safeguarding the interest and deposited amount of depositor. The word CAMELS can be used to judge the soundness of bank. It stands for

- C : Capital Adequacy
- A : Asset Quality
- M : Management Quality
- E : Earning
- L : Liquidity
- S : Sensitivity for Risk

### **1.1.1 Evolution of Money and Bank**

As a public enterprise, banking made its first beginning around the middle of 12th century in Italy and the bank of Venice founded in 1157 A.D. was the first public banking institution. Following were Bank of Barcelona and Bank of Genoa in 1401 A.D. and 1407 A.D. 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 sprung up a number of private banking houses in Europe and slowly it spread throughout the world. In Nepal, modern banking starts from the establishment of Nepal Bank Ltd.

In Nepal development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. In involvement of landlord, rich merchants shopkeepers and other individual money holder has acted as fence to institutional credit in presence of unorganized money market. In Nepalese chronicle it was recorded that the new era known as Nepal sambat was introduced by Shankhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. Towards the end of 8<sup>th</sup> century, Gunkamdev had borrowed money to rebuild the Kathmandu valley. Malla regime was an evidence of banking activities. It is believed that financing for foreign trade with Tibet became quite popular during the regime of Malla. However the absence of regulatory measures money lenders were known to have charged High rate of interest and extra on loans.

When "Tejarath adda" established during the year 1877 A.D. it played a vital role in banking system as regulatory and promotional organ. It helped the general public to provide credit facilities at a very low rate of 5% specially on the collateral of gold and silver. Hence the establishment of Tejarath adda could be regarded as pioneer foundation of banking in Nepal.

The main defect of this institution soured as there was no other financial institution set up and no effort to expand the services. Above all of defects the 'adda' didn't accept Any deposit form public. After that again for a long time, several unorganized bankers continued to flourish as the sole provider of credit and services to the general public.

At the same time, the government started trade with India and Tibet and various bankers handled even the finance because transfer of money made only safe through these banker in the absence of modern banking institution. Hence, the need of banking institution realized. This was strongly supported by the situation caused during 1934 A.D. earth Quake where there was need of finance for reconstruction of KTM. During the year 1934 AD, first commercial bank of Nepal. Nepal bank ltd established with the imperial Bank of India into existence under Nepal Bank act 1937 inaugurated by king Tribhuvan November 1937. Nepal Rastra Bank, the central Bank of Nepal came into existence in 1956 under the Nepal Rastra Bank act 1955.

Rastriya Banijya Bank the second commercial bank was established in 1965, RBB being a largest commercial bank plays a major role in the economy, and the financial shapes of two old banks have a tremendous impact on the economy. That is reason why these banks still exist in spite of there bad position.

On the long run commercial bank act was felt. According it was established in 1974 AD. According to section 2 (a) of commercial bank act 1974 A.D. with opening of Nabil Bank in 1985 the door of opening commercial bank was opened to the private sector as the commercial bank grew up they stopped entertaining small project. Thus, scope of finance company emerged. Though in 2042BS finance company act passed but private sector remained stonely silent .In 2049 B.S. Nepal Housing and development finance company broke up the stoney silence on shrawon 2049 B.S. The second came in poush of same year.Nepal finance and saving company. All together there are 32 commercial banks working and 87 development banks , 79 Financial companies, 21 Micro-Credit Development Banks ,16 Cooperatives (limited banks), 38 NGO's (Limited Banks). In total 273 financial institutions are operating the financial activities as per Mid July 2011 statistics.

### **Nepal NSBI Bank Ltd.**

Nepal NSBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal 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 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 325.

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 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 87.45 Crores, respectively. The management team and the Managing Director who is also the CEO of the Bank are deputed by NSBI. NSBI also provides management support as per the Technical Services Agreement. Fifty five percent of the total share capital of the Bank is held by the State Bank of India, fifteen percent is held by the Employees Provident Fund and thirty percent is held by the general public.

### **Capital Structure of Nepal NSBI Bank Nepal Ltd.**

State Bank of India: 55.05%

General Public: 29.94%

Other Entities: 15.01%

### **Nabil Bank Limited**

Nabil Bank was formerly known as Nepal Arab Bank Limited was established in July' 12<sup>th</sup> 1984 under a technical service agreement with Dubai Bank Ltd., Dubai which was later merged with Emirates Bank, UAE. It is the pioneer joint venture Bank of Nepal. Nabil is the only joint venture bank with 17 points of representing Nepal registering strong growth in the balance sheet performance as well as profits year after year. The initial capital of Rs. 30 million has gone to Rs. 2029 million as at mid-July 2011. Nabil launched its operation with the marketing concept. Nabil has also been pioneer in introducing modern banking and

innovative products in Nepal like consortium finance, credit card etc. Nabil is the sole bank to a multitude of international aid agencies, NGOs, Embassies and Consultancy in Nepal. Nabil has been providing wide range of banking services to various parts of the society. Nabil bank ranks among the top three financial institutions in Nepal in terms of markets share of handling Nepal's trade. Nabil bank has been managed by a team of qualified and highly experienced professionals.

**Capital Structure of Nabil Bank:**

Foreign Entity: 50%

Other Licensed Institutions: 6.15%

Other Entities: 10%

Individuals: 3.85%

General Public: 30%

**1.2 Statement of the Problem**

After 2046 B.S. privatization and liberalization adopted by the government of Nepal. Due to that policy, in these days commercial banks, development banks and financial companies are operating with high competition. The fast growth of such organizations has made pro-rata increment in collecting deposit and their investment. They collected the huge amount from public but couldn't allocate in new investment sectors. The increasing rate of liquidity has increased the trend in investment due to banks offered the loan in lower interest rate. Though it increased in loan demand it has bad impacted on interest rate depositors.

Though several commercial banks have been established in short period, most of the banks have not been able to earn sufficient return. Strong, stable and appropriate investment policy has not been fully followed by banks as per the NRB rules. A huge collection and investment policy plays vital role for the economic development of whole country.

A very unhealthy activity is happening in the banking business. After the loan is provided by the bank, regular inspection and monitoring are not made to know whether the debtor has used the loan in productive or not. Due to This reasons, there is great amount of unrecovered bank loan. Banks only depend upon the direction and guidelines of Nepal Rastra Bank but they don't have clear view and have not formulated their own organized investment policy.

The main focus of this study will be towards the investment practices of the banks. They are Nepal NSBI Bank Ltd. and Nabil Bank Ltd. This study basically deals with the following issues of sample banks.

- ) Are the available fund properly utilized or not?
- ) What is the relationship between investment on loan and advance and deposit, net profit and gross profit?
- ) What is the investment portfolio behavior of the banks?

### **1.3 Objectives of the Study**

The main objective of the study is to assess the investment policy and strategy followed by the bank with reference to Nabil Bank Ltd and NSBI. The main objectives of this study mentioned below:

- ) To analyze the deposit utilization of sample banks.
- ) To examine the relationship between total investment, deposit, loan & advance and net profit.
- ) To evaluate the liquidity, efficiency, risk position and profitability of the selected banks.
- ) To analyze the financial position of sample banks in terms of deposit collection and investment procedure.
- ) To suggest on the investment policy of sample banks.

### **1.4 Significance of the Study**

Suitable strategy plays vital role in a bank for their sustain existence. The study will be helpful to aware the shareholder regarding investment policies of their banks. The study suggests to the management how they can improve their managing power and recommends what is the clue to raise the profit. Though, this is only study but it gives feedback to policy makers, will useful them who formulate the policy for regulation. All stakeholders can identify which bank is the best and to whom have to invest.

### **1.5 Limitations of the Study**

- ) This study is mainly concerned to only two banks i.e. Nabil Bank ltd and Nepal NSBI bank ltd.

- ) The whole study is based on secondary data from the respective banks and websites on net, article, newspapers.
- ) The study will base only on the latest five year data.
- ) Lack of sufficient time and resources.
- ) In This study only selected tools and technique are used.
- ) This study is conducted only for suggestion not for directing.

## **1.6 Organization of the Study**

The study will be organized into five chapters:

### **Chapter -I: Introduction**

This chapter deals with the subjects matters of the study consisting background of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

### **Chapter - II: Review of Literature**

This chapter deals with review of the different literature of the study field. Therefore, it includes conceptual framework along with the review of major books, journal, research work and thesis etc.

### **Chapter -III: Research Methodology**

This chapter deals with research methodology and it includes research design, population and sample, source and technique of data collection, data analysis tools and limitation of the methodology

### **Chapter -IV: Data Presentation and Analysis**

This chapter deals with analysis and interpretation of the data using financial and statistical tools describe in chapter three. Similarly this chapter also includes the major findings of the study.

## **Chapter -V: Summary, Conclusion and Recommendations**

This chapter deals with summary of the study held, the conclusion made ultimately and the possible suggestion.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

In this study, effort has been to cover as much literature, articles, thesis and research paper as possible to make the study informative & broad. This chapter has been divided into two main sections: The first sector of the chapter implores with the conceptual frame work of study. Second sector implores the review of previous studies.

#### **2.1 Conceptual Frame Work**

##### **2.1.1 Commercial Bank**

Commercial bank Act 1975 defined "A commercial bank is one which exchange money, deposits, accepts deposits, grant loans & performs commercial banking function & Co-operatives, agriculture & industries for such specific purpose"

Commercial bank is a corporation which accepts demand deposits subject to check & makes short term loans to business enterprises, regardless of the scope of its other service (Banking USA, 2009 : 17).

A bank is one who in the ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account is receives it (Oxford Dictionary, 1995).

Commercial bank has main role in the economic development. For economic development, commercial bank should mobilize the collection towards the profitable, secured & marketable sectors.

The income & profit of the bank depends upon the lending procedure applied by the bank, as well as lending policy. Investment in different securities also affect the income & profit of the bank. It is always taken in MMD that "the greater the credit created by the bank-Higher will be the profitability." Sound policies help commercial banks to maximize the quality & quantity of investment and thereby: achieve the own objective of profit maximization & social welfare.

### 2.1.2 Investment

Investment can be defined as sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future and return is uncertain too. Uncertainty is measured by risk, that is why there is always involvement of risk in investment.

Investment usually involves putting money into a bet, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other hand, speculation is usually a shorter than phenomena. Speculators tend to buy assets with expecting of a profit that can be earned from subsequent price change & sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

Regarding the investment we can borrow some opinions of famous writers as a below:

William F. Sharp, J. Alexander and Jeffery Bailey Jack Clark Francis has said in his book “Investment analysis and management” that investment in its broadest sense means the sacrifices of current dollars for future dollars. Two different aspects are generally involved: Time & Risk. The sacrifice takes place in the present and is certain. The reward comes later of at all and the magnitude is generally uncertain.

- ) Real Investment: Generally, if involves some kind of tangible assets such as: land, machinery & factories.
- ) Financially Investment: Involves contract written on piece of paper such as: common stocks & bonds.

American Institute of Banking explains in its book, “Principle of Bank Operation” - sectors of the economy including agriculture, industry, commercial and social service sectors are directly or indirectly affected by the bank operations . The lending policy of commercial is based on the profit maximizing of the institution as well as the economic enhancement of the country.

Investment is made in assets. Assets in all are of two types - real assets (land, building, furniture etc.) and financial assets (stock, bond, treasury bills etc.). These two investments are not competitive but complementary.

According to J.B. Baxley has defined the word Investment in his book “Banking Management” as “Investment has many Factors. Money can invest into bonds, notes, common stocks, real state, mortgage, oil venture, cattle and theater etc. It may involve specially in bull market or selling short in bear markets. It may involve options, straddles, silver mutual funds, money market fund, index funds & result in accumulation of wealth or dissipation of resources. Diversity and challenge characterized the field. With the lack of information can be disastrous.”

Hempal D. Crosse on his book “Management Policies of Commercial Banks” focuses on the individual investment. He states, it is important that the investor set the appropriate investment objectives & the accompanying investment horizon. In addition, in developing investment strategies to achieve the objectives, the investor must understand the tax conservancies and expected risk & return associated with the various investment alternatives perhaps most importantly the investor should recognize that achieving an investment objective involves the creation of a portfolio of assets and not a collection of individual assets. He further states that, individual assets may be very risk. Combining these assets into a portfolio of other assets may actually reduce the risk of the overall risk.

From above definition, it is clear that an investment means to trade a known rupee amount for some expected future steam of payment or benefits that will exceed current outlay by an amount that will compensate the investor for the time of uncertainly involved in expected future cash flows. This investment is the most important function of commercial banks. It is very challenging task for commercial banks. So, a bank has to be very cautions while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

Investment is nothing but deploying our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income (Delhi Stock exchange 2002, Page No. 29). The term investment covers a possibility where there are a devour saving. If all

the income & saving are consumed to solve the day to day problems of hand to month and to other basic needs then there is no existence of investment.

### **Features of Sound Investment Policy**

The commercial banks are inspired with the goal of earning profit. There are many reasons after the goals of gaining profit. In order to reach their desired goals, they must invest in the profitable resources. It is not better to keep the available resources idle. The bank should be able to clear the policy of its investment by making a deep study on the subjects that which sector would be the trust worthier & dependable to invest the funds collected in the bank. They should have the ability to use the policy of banking investment in its goal. The income and profit of the bank depends upon its investment policy and procedure. The greater the credit created by the bank, the higher will be the profitability. A sound blending & investment policy is not only prerequisite for the bank's profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Therefore, the following principles or features of investment policy must be abided by the commercial banks in order to achieve the goals.

#### **A. Safety and Security**

Commercial banks must pay a special attention to the principle - safety and security. There will be a loss whether it is small or big, if the bank has not invested in secured and safe sectors. Investment in unsafe and insecure sectors with the hope of getting more return is to accept the security of law quality. The condition of unsafe arises when a bank invest in large loan against less securities by receiving commission, invests in new places without careful observation, landing to long-term borrowers etc. All these unsafe conditions should be avoided as much as possible. A bank should be very much conscious in investing procedures and profitable sectors. It should never invest its fund on those securities, which are subjected to too much for volatility (Depreciation are fluctuation) because a little alternation may cause a great loss. It must not invest its fund into speculative businessman, who may be bankrupt at once and who may earn millions in minute also. Only Commercial durable, marketable and high market valued securities should be accepted. For This purpose "MAST" should be followed, where MAST stands for:

- M - Marketable
- A - Ascertainable

- S - Stability
- T - Transferability

## **B. Profitability**

The profit of commercial bank mainly depends on the interest rate, volume of loan and its time period and nature of investment in different securities. It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. Ambition of profit to commercial bank seem reasonable as the bank has to cover all the expenses and make payment in the forms dividend to the shareholder who contribute to build up to bank's capital and interest to the depositors. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity. Obligation, it will go a head for investment good bank is one who invests more of its fund in different earning assets standing. Safety from the problem of liquidity, i.e. keeping cash resurvey to meet day to day requirements of the depositors.

## **C. Liquidity**

It is the position of the firm to meet current or short-term obligations. General public or customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customers, every firm must keep proper cash balance with them while investing in different securities and granting loan from excess fund.

## **D. Purpose of Loan**

The very important question for any banker is that, why a customer is in need for loan. If borrower misused the loan granted by the bank, he can never repay. Therefore, in order to avoid this situation each and every bank should demand all the essential detailed information about the scheme of the project or activities would be examined before lending.

## **E. Diversification**

"A bank should not lay all its eggs on the same baskets." This saying is very important to the bank and it should always be careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to

sustain loss according to the law of average; if a security of a company is divided there may be an appreciation in the securities of other companies. In this way, the loss can be recovered.

#### **F. Tangibility**

A commercial bank should prefer tangible security to an intangible one, though it may be considered that tangible property does not yield an income apart from intangible securities.

#### **G. Legality**

A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of Law and other while mobilizing its funds.

## **2.2 Some Important Terms**

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

#### **A. Loan and Advances**

Loan, advances and overdraft are the main source of income for a bank. Bank deposit can cross beyond a desired level but the level of loans, advances and overdraft will never cross it.

#### **B. Investment on Government Securities, Shares and Debentures**

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

#### **Some of them are given as**

It may want to spare its maturity so that the inflow of cash coincides, with expected withdrawals by depositors or large loan demands of its customers.

- ) It may also be forced to invest because the demand for loans of it decreased or is not sufficient to absorb its excess reserves.

J It may wish to have grade marketable securities to liquidate if its primary reserve becomes inadequate.

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

### **C. Deposits**

Financial institution collect deposits from the customers in various accounts, like: current account, saving account and fixed account. Therefore, the sums of money collected by the financial institutions from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

### **D. Investment on Other Company's Share and Debenture**

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

## **E. Off-balance Sheet Activities**

Off-balance sheet activities involve contracts for future purchase sale of assets and all these activities are contingent obligations. These are not recognized, as assets and liabilities on balance sheet. Some good examples of these items are letter of credit (L/C), letter of guarantee, bill of collection etc.

### **2.2.1 Investment Related Provision to Banks & Financial Institutions**

Nepal Rastra Bank has made following provisions through its unified directives 2070 for financial institutions:

#### **2.2.1.1. Implementation of Investment Policy and Procedures upon Approval**

The licensed institutions shall implement the policies and procedures regarding the investment in Government of Nepal securities, Nepal Rastra Bank bonds, and other corporate bodies' share and debentures only upon the approval of investment policy and procedures by the Board of Directors.

#### **2.2.1.2. Provision for Investment in Government of Nepal Securities and Nepal Rastra Bank Bonds**

There shall be no restriction as to investment by the licensed institutions in the securities of Government of Nepal and Nepal Rastra Bank bonds.

#### **2.2.1.3. Provisions for Investment in Shares and Debenture of Corporate Bodies**

Licensed Institutions shall invest only in the shares and debentures of corporate bodies listed in the Nepal Stock Exchange after the public issues of shares.

Provided that, where the investment has been made in the shares and debentures of corporate bodies which are not listed in the stock exchange, and if such listing is not completed within one year from the date of investment, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve by creating such reserve fund. The outstanding amount in such Reserve shall not be utilized for any other purpose till the said shares and securities of the corporate body are listed. With respect to investment in newly opened corporate body that where such company is not listed in stock exchange within two years from the date of operation or

investment being made, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve. However, no Investment Adjustment Reserve is required to be created in case of investment in shares of Rural Development Bank, Rural Micro Finance Development Centre, Credit Information Centre Ltd., Nepal Clearing House Ltd. and National Banking Training Institute.

While carrying out projects such as land development, land purchase and housing construction for residential purpose and sale and management of such houses and land as per Banking & Financial Institutions Act 2063 by 'B' and 'C' class licensed institutions, institution shall not invest more than twenty-five percent of the core capital of immediately preceding month.

While investing in housing construction and land development by a licensed institution other than those mentioned above, it may invest an amount not exceeding ten percent of the core capital maintained immediately preceding month. If found to have been invested more than the limit, the core capital shall be maintained having deducted the amount equal to the exceeded investment from the core capital. While making such investment, investment shall be made only in the building construction and land development companies that have been incorporated as public companies.

Licensed institutions may invest in shares and securities of any one corporate body up to 10 percent of its core capital maintained at immediately preceding trimester and not exceeding the cumulative amount of such investment in all the companies by more than 30 percent of its core capital. Similarly, while investing in shares and debentures of corporate bodies by a licensed institution, investment shall be made not exceeding 10 percent of the paid up capital of the institution in which the investment is being made and not exceeding 25 percent of the same in case of investment made in class "D" institutions. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the Core capital fund.

#### **2.2.1.4 Provision for Review of Investment Portfolios**

Licensed institutions shall review its investment portfolios on half-yearly basis. With respect to such review, a statement from the Internal Auditor of the licensed institution certifying that the investments are made according to the existing investment policy and according to this Directives be obtained and shall also be approved by the management of the institution within 1 (one) month from the close of the half yearly period. A copy of the approval of the management of the institution shall be submitted within Falgun 15 (end of February) and Bhadra 15 (end of August) of each fiscal year to this Bank's Bank and Financial Institutions Regulation Department and concerned Supervision Department.

#### **2.2.1.5. Valuation of Shares and Debentures**

The investments of the licensed institutions in shares and debentures shall be separated company wise according to Directives Form No. 8.1, 8.2 and 8.3 (See Annex-XV). It shall be shown in its assets having evaluated it semiannually based on the purchase price or the market price, whichever is lesser.

Provided that, where the market price of any company's shares or debenture falls below the cost price, the difference amount has to be debited to the Profit and Loss Account and credited to provision for loss in investment account. Moreover, while evaluating investment, it shall have to be evaluated according to the provision made in Sub Point No. 2.B.(3) of Points No. 2 (Investment Policy) of Directives No. 4/067 (See Annex XVI) and the details thereof shall be prepared in the format of Nepal Rastra Bank Directive form No. 8.2.

#### **2.2.1.6 Provisions Relating to Purchase/Investment in Fixed Assets (House/Land) For Own Purpose**

The banks and financial institutions incorporated and in operation shall be allowed to purchase/invest in the fixed assets (house/land) for the self purpose in the case they meet the following terms and conditions:

- )] Entire pre-operating expenses of the bank/financial institution is written off.
- )] The first general meeting is completed upon issue of shares to general public as prescribed in the Memorandum of Association/Articles of Association.
- )] The institution is in profit continuously 2 years at the time of purchase of the property.
- )] The capital fund is adequate according to the Directives issued by this Bank.

J While purchasing land, building or constructing building, bank should do the same remaining within the limit of 15% of core capital each time.

Moreover, in case of purchase of investment in the fixed assets without meeting the said terms and conditions; the amount equivalent to that to be deducted while calculating the core capital fund.

#### **2.2.1.7 Additional Arrangement Regarding Investment**

Licensed institutions shall not invest in any shares, securities and hybrid capital instruments issued by any other institution of "A", "B" and "C" class licensed by this Bank.

Provided that, this clause is not applicable in case of share investment in class "D" institution and income of share investment with approval from this Bank.

The core capital maintained in the Directives relating to investment means, the core capital maintained at the immediately preceding trimester except specifically stated otherwise.

### **2.3 Review of Journal and Article**

Dr. Manohar Krishna Shrestha in his article, "Commercial Banks and Comparative Performance Evaluation, Karmachari Sanchaya Kosh 2047, Page No. 31 " concluded that the credit deposit ratio would be 51.30% other things remaining same in 2004 A.D. which was the lowest under the period of review. So, it is strongly recommended that the commercial banks should try to give more credit earning field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

B. Sharma, & Bhatt in their article "Priority receiver sector, Business News Magazine, 2002, Page No. 13" has stated "The commercial banks should take care of broad national interest & they should not confine their lending activities only to commercial area providing quick interest if some proportion could be directed to the area conclusive to build economic infrastructures of the country. It would create atmosphere conducive to their investment in future. In our society where ignorance & literacy is in wild scale, it is necessary that the banks search entrepreneurs instead of entrepreneurs searching book. So, they have opinioned

that the priority sector program is a timely opportunities there by increasing production & the general living standard or rural poor. But the success largely depends upon the interpreted operation with other program design for rural development. Further they agree that various programmers: rural development land reform, back to the village national, champion audit literacy etc. couldn't materialize their objectives despite their some theoretical philosophy & food objectives.”

Sekhar Bahadur Pradhan (2003), in his research paper “Role of saving, investment and capital formation in economic development in a case of Nepal” has studied about the strong role & 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 been collected for the period of 1974/75 to 2000/01. The role & impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equation used in this study have been estimated at current prices as well as in real term with the entire study period divided into different sub-period.

The results presented in this paper suggest that in all cases, investment 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 three important conclusions: first, saving, investment & capital formation have positive impact on economic development. Second, the current values & past values of saving, investment & capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving & capital formation on economic development while weak role-played by investment.

### 2.3.1 Review of Thesis

Many researchers have published research article on the topic “Investment Policy”. The following mentioned thesis were reviewed as they are relevant to the present research.

**Rojina Shrestha (2007)**, in her study "*A Comparative Study on Investment Policy of Joint Venture Banks*" has studied primarily of four Commercial banks i.e. Himalayan Bank Ltd., Nepal NSBI Bank Ltd., Everest Bank Ltd. and Bank of Kathmandu Ltd. The main objectives of her studies are as follows;

- ) To compare, analysis and evaluate the investment policy of these four commercial banks.
- ) To evaluate liquidity, activity and portfolio ratios of these banks.
- ) To find out the deposit collection and the effectiveness of fund mobilization.

The study is limited on four commercial banks and the study period is up to FY 2006/07 and can not define the investment policy of other Commercial banks.

The conclusion of the research study is as follows:

- ) HBL is more successful in mobilizing the fund in proper way in comparison to other three commercial banks.
- ) All these banks should have to increase the deposit collection, investment in securities shares and debenture.
- ) Four of the banks should be in rural areas and have to take effectives marketing strategy for their promotion.
- ) New technologies have to be introduced so as to develop new banking system.

**Rabindra Dhital (2008)**, in his thesis work "*A Comparative Study of Investment Policy of Nepal NSBI Bank Nepal Ltd. and Bank of Kathmandu Ltd.*", tried to evaluate the liquidity, assets management, profitability and risk position of the concerned banks-along with its deposit utilization trend.

His study period is limited to 2006/07 and can not represent the investment policy of succeeding years. He has not analyzed the risk factors and his study focuses on two banks only and cannot analyze the investment policy of commercial banks and finance companies.

The findings if his study are:

- )] The liquidity position of banks is far better than NSBINL although they both are doing quite satisfaction.
- )] Most of the portion of deposit of NSBINL is in investment where as BOKL has in loan and advances.
- )] BOKL has high degree of liquidity and credit risk than NSBINL.

Profitability position of NSBINL is better than BOKL he has presented the following suggestions:

- )] The banks should increase cash and bank balance to meet the need of demand of loan and advance and investment.
- )] They should follow the liberal lending policy.
- )] They have to extend their branches in the rural areas and priority sectors.
- )] Adopt project- oriented approach.

**Niroj Shrestha (2008)**, prepared a thesis report on “*investment policy of NSBI.*”. His objectives of study are as follows:

- )] To evaluate tile liquidity, efficiency of assets management and profitability position.
- )] To determine the growth rate of bank in terms of deposits loan and advances, investment and profitability of the bank.
- )] To determine the proportion of investment in risky and risk - free assets and advances, investment and profitability of the bank.
- )] To determine the proportion of investment in risky and risk free assets and to evaluate the off- balance sheet operation of the bank.

To suggest measures to improve the investment policy of the bank.

The study primarily forces on the analysis of liquidity, profitability and assets management, Various financial and statistical tools have been used to obtain these objectives tools are mean, standard deviation co-efficient of co-relation, coefficient of variation, co-efficient of determination and trend analysis. The study is limited up to five years data from 2003 A.D. to 2007 A.D. Only one bank has been taken as sampled bank. So it might not have a true picture of the overall conditions of the bank. Following are the conclusions of his study.

Liquidity position of the bank is good enough to meet the short term obligations. The bank has utilized about 85% of its deposit liquidity in income generating assets and most of them in the form of loans and advances and it has invested 71% of its total assets for income generating purpose profitability ratio are more constants and less volatile as a result of profitability of the bank in increasing.

- ) Growth ratio of the investment seems to be higher the bank must have used a major position of its deposit in investment or risk free assets rather than in loans and advances or risky assets.
- ) The bank has to increase its investment in more productive sector in the form of loans and advances.

**Amrit Amatya (2009)**, in his research study entitled. "*A Comparative study on Investment Policy of Commercial Bank and Finance Companies of Nepal*", has pointed out the followings objectives:

- ) To find out the relationship between profitability and assets structure of the banks and finance i.e. Nepal NSBI Bank Ltd and BOK Ltd and finance companies i.e. international leasing and finance company, Standard finance company and universal finance company.
- ) To project the deposit utilization and investment of the banks in comparison to finance companies.
- ) To recommend the policies to be adopted by sample Banks and finance based on financial analysis for its future development.

The study is based on secondary data *and*. time period is limited of 9 years from 1999/2000 to 2007/08. His study has mentioned only three Banks and three finance companies.

The conclusions of the study are as follows:

- ) Finance company has successfully invested their deposit collection as loan and advance in comparison to commercial bank as they have higher loan and advance to total deposit ratio.
- ) Profitability position of the commercial banks except BOK Ltd is better than that of finance companies.

- ) Trend value of net profit is increasing trend and commercial banks have comparatively higher value than finance companies.

He has made the following recommendation:

- ) The sampled firms have not properly analyzed the causes and effects of the variables so they are recommended to prepare future investment policies and plan after detail analysis of causes and effect of the variables.
- ) Evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid the large amount of doubtful debts and risks as they have main trends a large amount of loan loss provision.
- ) Commercial banks and finance companies need to add *extra* amount or investment on government securities as they are less risky investment and are considered as liquid assets.

**Rajes Silwal (2009)** has conducted a study on "*Lending Policy of Commercial Banks in Nepal.*" The research was conducted mainly on the basis of secondary data. The findings of the research study summarized as follows:

- ) Effectives of lending policy is directly based upon a sounding banking system, but due to geographical variation, transportation and other regional disparities
- ) It very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize then sources collected from different sectors.
- ) By paying higher interest rate, the banks are increasing deposits, which in truth increase saving habits of the general public. Then the bank will be able to utilize these idle funds in productive channels. This type of business of commercial banks is really a necessary one an agriculture country like Nepal, where public investment has limited capacity.

**Puja Bhatta (2010)** conducted a study on "*A Comparative Study of Investment Policy of Nepal Investment Bank Ltd. and Himalayan Bank Ltd*" with objective of:-

- ) To compare investment policies of concern banks and discuss the fund mobilization of these two banks

- )] To evaluate the liquidity, asset management efficiency, profitability and risk Position of Investment Bank and Himalayan Bank Ltd.
- )] To determine the growth rate of bank in terms of deposit, loan and advances Investment and profitability of the banks.
- )] To provide suitable suggestion and recommendation for the improvement of the banks performance.

The study was conducted through secondary data.

The research findings of the study are as follows:-

- )] The liquidation position of NIBL has comparative higher than that of HBL.
- )] Himalayan bank limited has the higher investment on government than that of NIBL.
- )] Nepal Investment Bank limited has strong asset management policy than HBL.
- )] Profitability returns on loans and advance of both banks is same.
- )] Nepal Investment Bank Limited has higher growth ratios than that of Himalayan Bank Limited.

**Pradeep Kumar Basnet (2010)**, conducted a study on “*Investment Policy of Commercial Banks in Nepal*”, with objective of:-

- )] To evaluate investment practices of EBL and BOKL including with liquidity management, asset management efficiency, profitability position and risk position.
- )] To find out the relationship between various important variables such as deposit, loan and advance ,investment and net profit and compare them.
- )] To analyze the deposit utilization trend, projection and achievement for five years period of EBL and BOKL.
- )] To evaluate the non – performing assets position of the sampled banks. The improvement of efficiency and profitability of EBL and BOKL in the future.

The study was conducted through secondary data.

The research findings of the study are as follows:-

- )] Current Assets dominated current liabilities. It means both banks are able to meet its current obligation.
- )] BOKL & EBL have maintained almost equal level of cash and bank balance out of its total deposit.

- ) Assets management ratios are almost equal of both Banks. EBL is investing higher risk than BOKL.
- ) Investment on government security is higher of EBL than that of BOKL.
- ) BOKL has high profitability ratio than that of EBL. BOKL has been exercising more to generate profit through mobilizing its assets than EBL.

The growth rate of net profit shows that EBL has improvement in earning net profit than what earned by BOKL. However both banks has rate in increasing trend that means profit of the banks are increasing by every year.

## **2.4 Research Gap**

The purpose of the research work is quite different from the studies made by the above persons (related to commercial bank). This study focuses in effectiveness in investment. Policy analysis of Nabil Bank & NSBI Bank Ltd. in comprehensive manner considering the major items. Different financial & statistical tools have been used in this study. Among them, ratio analysis, regression analysis are the strong financial tools. This study is a little bit different than previous studies. It may be one of them research study of investment policy in few research work with reference to Nabil & NSBI Bank. This study tries to indicate the effectiveness of investment policy of concerned banks.

## **CHAPTER -III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

After having introduction and review of literature in chapter I & II, now the task has come to make decisive choice of research methods to support them in realistic term with sound empirical analysis. The study tries to come at conclusion regarding with what position Nabil & NSBI has got in the commercial banking sectors in Nepal. Then these chapters will deal the research methodology used in the study for analysis of the two sample banks.

#### **3.2 Research Methodology**

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method & process applied in the entire aspect of the study. It is a way to solve the research problem systematically & scientifically. A fact research methodology is much vague than research methods i.e. research method is just a part of research methodology. It considers the logic behind the use of the methods in the context of research study & explains why a particular method or techniques is used. Thus research methodology is concerned not only about the different types of methods used but also about various other facts like what data have been collected, what are the purpose & problem of research etc. So, the research methodology that has been adopted for the study is mentioned in this chapter, which deals with the research design, sources of data, data collection, population & sample, processing & tabulating procedures.

#### **3.3 Research Design**

Research design means an overall framework for the activities to be taken during the course of a research study. It enables the way of research providing the tools & techniques for the data collection & analysis and sampling plan to be followed. Generally research design describes the general plan for collecting analyzing & evaluating data after identifying. It is an integrated system that guides the researcher in formulating, implementing & controlling the study conceived so as to obtain answers to research questions & to control variance. Both

analytical & descriptive methods have been used to attain the overall objectives. Firstly, it specifies the sources & type of information relevant to research question, secondly it specifies; the data. Thus, a research design specifies various methods & procedures for acquiring the information including from which sources & by what procedure it is obtained.

### **3.4 Sources of Data**

After defining the research design, how the work comes to define the sources of relevant data for the research study. Generally, Secondary data are sources of this study.

Secondary data are those data that are collected by someone else or used already & made available to other in the form of published statistics such as annual reports, periodicals, newspapers, magazines etc. once a primary data is used, it loses its originality & becomes secondary. This study mainly depends on the use of secondary data that consists of annual reports of the concerned bank. However besides the annual reports various other sources of data have also been used for the purpose of the study e.g. newspaper, magazine, economic journals, NRB reports etc.

### **3.5 Population & Sample**

Population or universe refers to the industries of the same-nature of its service & product. It is the collection or the aggregate of objects or the set of results of an operation. On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusions about the population under study.

In context of Nepal, 31 commercial banks are in operation (after merger of NIC bank and Bank of Asia Ltd.). These thirty one banks are regarded as population. But, it is not possible to study all data related with these thirty one banks. Hence two banks have been taken as sample from the whole population. The sample banks are as follows:-

- ) Nabil Bank Ltd.
- ) Nepal SBI Bank Ltd.

### **3.6 Sampling Procedure**

There are all together 31 commercial banks in Nepal, among them Nepal NSBI and Nabil Banks have been taken into account for research purposes as samples in this project study to compare their investment policy.

These two banks are taken in account for comparative study. Their investment policy may be different, depending upon the basis of establishment period.

### **3.7 Data Analysis Procedure**

To achieve the objectives of the study, the collected data are categorized, tabulated, processed & analyzed using different financial tools like liquidity, assets management, risk ratio, profitability along with statistical tools like mean, standard deviation, coefficient of variation, Karl Pearson's coefficient of correlation are adopted in the study. Calculated results were tabulated under different headings the objectives to compare with each other & their significance carried out to interpret the result.

### **3.8 Data Analysis Tools**

Data analysis refers to the analyzing the data in order to determine the inherent facts or meanings from the tabulated data, presentation & analysis of data is the care of the research work. Data that has been collected are first presented in systematic manner in tabular forms & then analyzed by applying different financial & statistical tools to achieve the objectives of the study. The tools applied are as follows:

#### **3.8.1 Descriptive Analysis**

In This analysis the relationship between accounting Figure is analyzed. To compare a firm's financial performance & status to that of other firms, or itself over time of period & to trace out the strength & weaknesses. Following financial ratios are calculated & analyzed.

##### **3.8.1.1 Liquidity Ratio**

Liquidity ratios are used to judge a firm's ability to meet short-term obligation if a company. Under this ratio the following ratios are calculated.

#### **a. NRB Balance to Total Deposit**

NRB has made the Commercial Banks to deposit certain fund of the Commercial Bank in the central bank which is changing time to time as the demand of the time. The ratio is calculated as followed:

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{NRB Deposit}}{\text{Total Deposit}}$$

#### **b. Total Liquid Fund to Total Deposit**

Total liquid fund to total deposit ratio is the indication of the short term obligation capacity of the demand of the depositor money. Higher ratio shows the higher capacity of payment on demand of the money and vice versa. We have,

$$\text{Total Liquid Fund to Total Deposit} = \frac{\text{Total Liquid Fund}}{\text{Total Deposit}}$$

### **3.8.1.2 Activity Ratio (Assets Management Ratio)**

Activity ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. A commercial Bank must manage its asset properly to earn high profit. Under in this research study, deposit collection and investment procedure of the selected bank is also explained with the help of activity ratio. Under in this chapter following ratios are analyzed.

#### **a. Loan & Advances to Total Deposit**

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances are outside asset which yield profit to the bank. Increment of loan and advances is the main target of all Commercial Banks. So higher the ratio better is the mobilization of the funds.

We have,

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

#### **b. Total Investment to Total Deposit**

A Commercial Bank mobilizes its deposits by investing its funds in different securities issued by government and other financial institution. In this ratio is calculated to know how the banks are mobilizing their deposit in the investment of the various securities. A high ratio indicates the success in mobilizing the funds in securities.

We have,

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

#### **c. Investment on Deprived Sector to Total Deposit Ratio**

NRB has directed all the commercial banks to extend minimum 3% of total loan and advances (including bills purchased and discounted) to the deprived sector in order to contribute to the national economy.

We have,

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

#### **d. Investment on Financial Institution to Total Deposit Ratio**

Commercial Banks have various options to mobilize their funds. Credit to financial institution is one of them. But from the view point of profit commercial banks avoid to extent loan on this area. However it has to invest certain portion of their total credit outstanding to this sector.

We have,

$$\text{Inv. on Financial Institution to Total Deposit Ratio} = \frac{\text{Inv. on Financial Institution}}{\text{Total Deposit}}$$

### **e. Investment on Shares, Debentures and Bonds to Total Deposit**

Ratio: Commercial banks use their fund by making investment in different sector. They make investment in government securities, debentures and bonds. It is the total amount that the bank mobilizes. This is the asset that the commercial bank mobilizes in order to get the profit.

We have,

Investment on Shares, Debentures and Bonds to Total Deposit Ratio

$$= \frac{\text{Inv.on Shares, Debentures \& Bonds}}{\text{Total Deposit}}$$

### **f. Loan Loss Ratio**

Loss of loan is occurred when the debtor's fail to pay their loan. Loss of loan is not only the default of debtor's but it is because of the failure of recovery of loan by the bank. Negligence in its part makes a negative impact on the earnings and capital of a bank very badly. Greater loan loss provision is made high income statement if high loss is expected. But this will lead to low profit and possible losses that produce low increase or decrease in capital. The loan loss ratio shows how efficiently the bank manages its loan and advances and, makes effort for timely recovery of loan. We have,

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

### **3.8.1.3 Risk Ratio**

Risk ratio measures the risk associated with the banking variables. A bank raise capital accepts deposit and filially grant loan. These entire things come along with the risk. A bank must consider the risk associated with it. Higher the ratio higher will be the profit and vice versa. Under this ratio following ratios are analyzed:

#### **a. Credit Risk Ratio**

This ratio measures the possibilities that loan will not be repaid or that investment will deteriorate in quality of going into default with consequently loss to the bank. According to definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. We have,

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

### **b. Interest Risk Ratio**

The possibility of loss due to change in interest rate is known interest rate risk. There is higher degree of risk related with interest rate.

We have, Interest Rate Risk Ratio =  $\frac{\text{Interest Sensitive Asset}}{\text{Interest Sensitive Liabilities}}$

### **c. Capital Risk Ratio**

Capital risk ratio measures banks<sup>1</sup> ability to attract deposits and inter bank funds. It also determines the level of profit a bank can earn if banks choose to take high capital risk and its ROE will be higher and vice versa.

We have,

Capital Risk Ratio =  $\frac{\text{Share Capital}}{\text{Risk Weighted Assets}}$

### **3.8.1.4 Profitability Ratio**

Profitability ratio measures the overall banking operation of the company in regards to the profit. Profitability ratio is determined by the financial institution to find out their profit earning capacity on various kinds of funds they employed. Profit indicates the efficiency of the bank. A bank can make the profit through the sound lending policy and the quality of service it provides. Higher is the profit ratio higher will be the efficiency of the bank. Following are the some profitability ratio studied in this report.

#### **a. Return on Loan and Advances**

Return on loan and advance ratio indicates how efficiently the bank has utilized its resources in form of loan and advances. This ratio is calculated as:

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

#### **b. Return on Total Working Fund Ratio**

This ratio shows the overall profitability of all working fund i.e. total assets, it is also known as Return on Assets (ROA). A firm has to earn satisfactory return on assets of working fund in order to provide long-term service. This ratio is calculated as

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

**c. Total Interest Earned to Total Outside Assets**

This ratio measures the capacity of the firm for earning interest through proper utilization of outside assets. Higher ratio shows die efficiency of using outside assets to earn interest. This ratio can be calculated as:

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

## CHAPTER-IV DATA PRESENTATION AND ANALYSIS

This chapter "Data presentation and Analysis" is an important part of the study. Here, the calculated data are interpreted and analyzed to fulfill the objectives of this research.

Under This chapter various financial ratios are used which are related to analyze the investment policy of the selected banks. The financial indicators of selected banks are compared with the help of statistical tools i.e. mean, S.D, C.V etc.

### 4.1 Liquidity Ratio

Liquidity ratio measures the ability of banks to meet the investment purposes. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the customer also. Banks have to maintain enough liquidity because they have to meet the demand of deposits, withdrawals, pay maturity etc.

#### 4.1.1 NRB Balance to Total Deposit Ratio

NRB has directed all the commercial banks to deposit certain percentage of total deposit In NRB balance. The ratio is calculated as:

$$\text{NRB Balance to Total Deposit} = \frac{\text{NRB Deposit}}{\text{Total Deposit}}$$

**Table 4.1**

**NRB Balance to Total Deposit Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	5.73%	7.09%	1.19%	2.97%	6.69%	4.73%	0.0255	53.97%
NSBI	2.94%	1.59%	5.28%	5.50%	6.13%	4.29%	0.0193	45.06%

*(Source: Annexure A-I)*

In the above table, the ratio of two commercial banks are obtained from annexure A-I. Through This table it is analyzed the short term obligation capacity of two banks. NRB has directed all the commercial banks to deposit certain percentage of total deposit in the

NRB balance. Due to the changes in directives from time to time it seems fluctuating to maintain the liquidity position of the selected banks.

From the above table it has found that Nabil Bank has maintained average 4.73% as NRB balance out of its total deposit. It has highly fluctuating trend of liquidity position. It has maintained highest ratio of 7.09% in the year 2009 and lowest ratio of 1.19% in the year 2010. The S.D of Nabil Bank is 0.0255 and C.V is 53.97%.

NSBI bank has maintained an average ratio of 4.29% as NRB balance. It has lower fluctuating trend of liquidity position than that of Nabil. It has maintained highest ratio of 6.13% in the year 2013 and lowest ratio of 1.59% in the year 2009. The S.D of NSBI is 0.0193 and C.V is 45.06%.

It is clear from the above table that the selected banks have followed the NRB requirement. The mean ratio of NSBI is lower than that of Nabil Bank. It indicates that NSBI has maintained less liquidity in NRB balance than that of Nabil Bank. NSBI has more consistency and uniformity to maintain liquidity position as it has lower ratio of C.V. i.e. 45.06%.

#### 4.1.2 Total Liquid Fund to Total Deposit Ratio

The capacity of short term obligation of the bank is measured by the ratio of total liquid fund to total deposit. Higher ratio shows the higher capacity of payment on demand of money and vice versa. The ratio is calculated as; Total liquid fund to total deposit = total liquid fund / total deposit

**Table 4.2**

**Calculation of Mean, S.D and C.V of Total Liquid Fund to Total Deposit**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	14.49%	10.51%	9.75%	9.84%	9.27%	10.77%	0.02	19.71%
NSBI	10.89%	4.21%	9.86%	11.50%	10.66%	9.42%	0.03	31.56%

*(Source: Annexure A-II)*

Liquid fund is the amount kept by bank which is equivalent to the cash. Liquid funds are required to meet the short Term obligation and to gain the image and satisfaction of the

customers. NRB has directed all the commercial banks to maintain minimum 5% CRR (as per unified directives 2070) which is changing from time to time. NRB has decreased its minimum requirement from 6% to 5%. Hence, the selected banks have decreased the liquidity ratio so as to increase the amount of loan and advances.

From the above table it is found that Nabil Bank has maintained average 10.77% as liquid fund of its total deposit. It has decreasing trend of liquidity position. It has maintained highest ratio of 14.49% in the year 2008 and lowest ratio of 9.27% in the year 2012. The S.D of Nabil Bank is 0.02 and C.V is 19.71%.

NSBI bank has maintained an average ratio of 9.42% as liquid fund. It has highly fluctuating trend of liquidity position. It has maintained highest ratio of 11.5% in the year 2011 and lowest ratio of 4.21% in the year 2009. The S.D of NSBI is 0.03 and C.V is 13.56%.

It is clear from the above table that the selected banks have maintained the minimum requirement set by the NRB. The mean ratio of Nabil Bank is 10.77% and that of NSBI is 9.42%. That mean Nabil has maintained higher level of liquidity position than that of NSBI Bank. C.V of NSBI is higher than That of Nabil Bank which represents more consistency and uniformity in liquidity position of Nabil bank than that of NSBI.

## **4.2 Activity Ratio (Assets Management Ratio)**

A commercial bank must be able to manage its assets very well to earn High profit, to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manages the resources it mobilizes. Under This research study deposit collection and investment procedure of the selected bank is also explained with the help of activity ratio. The following ratios measured the assets management ability of the NSBI and Nabil Bank in comparisons.

#### 4.2.1 Loan & Advances to Total Deposit Ratio

This ratio measures the ability of the bank to mobilize their' total deposit on loan and advances. Increase in loan and advances results increase in profit of the banks. Hence, commercial banks target to increase the loan and advances to yield higher profit. Higher ratio indicates better utilization of fund. The ratio is calculated as;

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

**Table 4.3**

#### **Total Loan & Advances to Total Deposit**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	66.94%	73.87%	69.63%	76.53%	75.61%	72.52%	0.04	0.06
NSBI	88.32%	54.12%	50.09%	50.37%	49.01%	58.38%	0.17	0.29

*(Source: Annexure A-III)*

The table shows that Nabil Bank has an average mean ratio of 75.52%. During 5 years period, the highest investment of Nabil Bank in loan and advances is 76.53% in FY 2011 and lowest ratio is 66.94% in the year 2008. S.D of This bank is 0.04 and C.V is 0.06%.

NSBI has an average mean ratio of 58.38%. It's highest ratio of Loan and advances is 88.32% in the year 2008 and lowest ratio of 49.01% in the year 2013. S.D of the bank is 0.17 and C.V is 0.29%.

It is clear from the table that Nabil has invested more deposits in loan and advances than that of NSBI. It shows that C.V of Nabil Bank is 0.06% and that of NSBI is 0.29%. Since Nabil has lower ratio of C.V it indicates more consistency in This regard. Nabil seems stronger than NSBI to advance loan to the market. From this we can conclude that Nabil has accepted higher risk to survive in the market and became aggressive.

#### 4.2.2 Total Investment to Total Deposit Ratio

The main objective of the commercial banks is to make more profit. They make investments in different securities issued by government and other financial institutions. The ratio is calculated to know the efficiency of the commercial banks in utilizing the available deposits in different investment alternatives.

The ratio is calculated as;

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

**Table 4.4**

**Calculation of Mean, S.D and C.V of Total Investment to Total Deposit**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	31.14%	28.99%	29.35%	26.32%	25.55%	28.27%	0.02	0.08
NSBI	22.52%	47.52%	46.73%	44.59%	45.87%	41.44%	0.11	0.26

(Source: Annexure A-IV)

The above table shows that the ratio of Nabil Bank is in decreasing trend but it has increased during FY 2010. The mean ratio of Nabil Bank is 28.27%. The S.D is 0.02 and C.V is 0.08%. It has the highest ratio of investment of 31.14% in the year 2008 and lowest ratio of investment 25.55% in the year 2012.

The mean ratio of NSBI is 41.44% and ratios are also in fluctuating trend during 5 years of period. It has the highest ratio of investment of 47.52% in the year 2009 and lowest ratio of investment of 22.52% in the year 2008. It is clear from the above table that NSBI Bank has Higher mean ratio than that of Nabil bank. C.V of NSBI is higher than that of Nabil Bank. This represents more consistency of investment procedure of Nabil bank. It seems that Nabil bank is more uniform in investment procedure in one hand and on the other hand, it has more investment alternative than that of NSBI.

### **4.2.3 Investment on Deprived Sector to Total Deposit Ratio**

The banks are operated not only for profit motive but also for social welfare. An effort it is made to find out how much of amount the selected banks have invested in the deprived sector. The Higher ratio shows the higher social concern of the selected banks.

The ratio is calculated as,

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

**Table 4.5**  
**Investment on Deprived Sector to Total Deposit Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	2.88%	2.76%	2.51%	2.50%	2.67%	2.66%	0.002	0.06
NSBI	4.79%	2.20%	1.58%	1.88%	1.58%	2.41%	0.01	0.57

*(Source: Annexure A-V)*

With regards to direct lending to the deprived sector NRB has been changing the directives from time to time by issuing various circulars. From the year 20013/14 onwards commercial banks are required to extend minimum 4.5% of total loan and advances (including bills purchased and discounted) to the deprived sector.

Due to the changes in NRB directives, the above comparative table reveals that the selected banks have fluctuating trend of investment in deprived sector. Nabil Bank has the Highest ratio of 2.88 in 2008 and the lowest ratio of 2.50 in F/Y 2011. Similarly, the ratio is not found consistent in any year of study period. NSBI has highest ratio of 4.79 in F/Y 2008 and the lowest ratio of 1.58 in F/Y 2010 and 2012.

Comparing the mean ratio of investment on deprived sector of total deposit Nabil Bank has mobilized higher ratio of deposits in deprived sector than that of NSBI. Nabil Bank has mean ratio of 2.66% and that of NSBI has 2.41%. C.V of Nabil Bank is 0.06% which is less than that of NSBI i.e. 0.57%. The lower percentage of C.V of Nabil Bank shows consistency and uniformity in investment purposes than that of NSBI.

Higher mean ratio of Nabil Bank shows that it has accepted the risk and ignored the profit and also given priority to social welfare.

#### 4.2.4 Investment on Financial Institution to Total Deposit Ratio

The ratio reveals that the banks are successful in mobilizing their total deposits on different types of financial institutions to maximize the income. High ratio indicates the better mobilization of fund as investment on financial institution. The ratio is calculated as,

Inv. on Financial Institution to Total Deposit Ratio

$$= \frac{\text{Inv on Financial Institution}}{\text{Total Deposit}}$$

**Table 4.6**

#### **Investment on Financial Institution to Total Deposit Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	1.03%	1.48%	0.46%	0.44%	-0.83%	0.52%	0.009	1.68
NSBI	4.60%	0.29%	2.24%	3.63%	1.97%	2.55%	0.02	0.65

*(Source: Annexure A-VI)*

The central bank has not made any strict rules to the commercial banks to make investment in financial institutions. The selected banks are free to make decision whether to make investment in financial institutions or not. That is why the investment pattern of the selected banks seem fluctuating.

The above comparative table reveals that Nabil Bank has fluctuating trend of investment in financial institution. It has not made investment in these sectors during F/Y 2012. The Highest portion it has invested in these sectors is 1.48% in F/Y 2009.

The average mean ratio of Nabil Bank is 0.52% and that of NSBI is 2.55%. It shows that in an average NSBI has made higher investments in financial institutions than that of Nabil Bank. C.V of Nabil Bank is 1.68% and that of NSBI is 0.65%. The lower C.V of NSBI indicates that NSBI is more consistent in investment policy than that of Nabil Bank.

#### 4.2.5 Investment on Shares, Debentures and Bonds to Total Deposit Ratio

Investment on shares, debentures and bonds to total deposit reflects the extent to which the selected banks are successful to mobilize their total deposit on purchase of shares and debentures of other companies to generate income and to utilize the excess fund. Higher ratio indicates more portion of investment on shares and debentures out of total deposit.

The ratio is calculated as,

Investment on Shares, Debentures and Bonds to Total Deposit Ratio

$$= \frac{\text{Inv.on Shares, Debentures \& Bonds}}{\text{Total Deposit}}$$

**Table 4.7**

**Investment on Shares, Debentures and Bonds to Total Deposit**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V %</b>
Nabil Bank	1.01%	0.95%	0.75%	1.88%	1.52%	1.22%	0.005	0.38
NSBI	0.24%	0.12%	0.11%	0.09%	0.06%	0.12%	0.001	0.56

*(Source: Annexure A-VII)*

The above comparative table shows fluctuating trend of ratios of Nabil bank and diminishing trend of NSBI. Nabil Bank has highest ratio of 1.88% in F/Y 2011 and the lowest ratio of 0.75% in F/Y 2010. The average mean ratio of Nabil Bank is 1.22%. S.D of the same bank is 0.005 and C.V is 0.38%.

NSBI has the highest ratio of 0.24% in F/Y 2008 and the lowest ratio of 0.06% in F/Y 2012. The average mean ratio of the bank is 0.12%. S.D of NSBI is 0.001 and C.V is 0.56%.

The above comparative table shows that the mean ratio of Nabil Bank is higher than that of NSBI. It has lower ratio of C.V of 0.38% than that of NSBI. The lower C.V of Nabil shows more consistency of investment procedure of the bank than that of NSBI Bank.

The major portion of investment of selected banks includes the risk free assets like government securities, treasury bills and some investments in foreign banks, local banks and mutual funds. Investment on shares, debentures and bond of other companies is not satisfactory due to High risk factor and some regulations of NRB. Like NRB has prohibited banks from investing in shares and securities not listed in stock exchange. Further, banks are prohibited from investing in shares and securities of other banks and financial institutions licensed by NRB.

#### 4.2.6 Loan Loss Ratio

When the debtors are unable to pay the loan, the loss of loan occurs. It occurs not only because of debtors' failure but also because of failure of recovery of loan by bank. If higher loss is expected then greater loan loss provision is made. Higher ratio leads to low profit and indicates low efficiency of the bank.

The ratio is calculated as;

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

**Table 4.8**

**Calculation of Mean, S.D and C.V of Loan Loss Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	1.81%	1.46%	2.31%	2.24%	2.94%	2.15%	0.006	0.26
NSBI	4.96%	3.08%	2.69%	1.63%	1.22%	2.71%	0.015	0.54

*(Source: Annexure A-8)*

NRB has directed all the commercial banks to classify loan into four different categories on the basis of loan overdue period and as per the present norms of NRB, commercial banks need to maintain loan loss provision of 1% for pass loan, 25% for sub-standard, 50% for doubtful and 100% for loss on the basis classification of loan. The table shows that Nabil Bank has an average mean ratio of 2.15%. The ratios are in increasing trend through out the years, except on FY 2011. The Highest loan loss ratio of the bank is 2.94% in the year-2012. S.D of the bank is 0.006 and C.V is 0.26%.

NSBI has an average mean ratio of 2.71%. The ratios are in decreasing trend. It has highest loan loss ratio of 4.96% in the year 2008. S.D of the bank is 0.015 and C.V is 0.54%.

It is clear from the above comparative table that NSBI Bank has higher mean ratio than that of Nabil. However, NSBI has been able to control the same and limited the same in 1.22% in FY 2012. Nabil bank has failed to limit the same.

### 4.3 Risk Ratio

Risk ratio measures the level of risk. Risk always sticks with return. Higher the risk, Higher will be the return. Bank has to take High risk if it expects High return on its investment. Hence, bank has to accept and manage High risk so as to achieve High return.

#### 4.3.1 Interest Rate Risk Ratio

The possibility of loss due to change in interest rate is known as interest rate risk. There exists higher degree of risk related with interest rate. This ratio is calculated as;

$$\text{Interest Rate Risk Ratio} = \frac{\text{Interest Sensitive Assets}}{\text{Interest Sensitive Liabilities}}$$

Interest sensitive assets and liabilities are those which are vulnerable to interest rate changes.

**Table 4.9**

**Calculation of Mean, S.D and C.V of Interest Rate Risk Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	99.23%	99.08%	104.86%	103.72%	101.53%	101.68%	0.026	0.03
NSBI	99.77%	100.93%	96.27%	94.51%	94.15%	97.12%	0.031	0.03

*(Source: Annexure A-9)*

In the context of the beginning of institutional reform programme of the government owned commercial banks, the provision of interest rate spread was phased out in order to let the market forces determine it competitively. However, the spread rate has not come down as expected despite the competition among the commercial banks.

The above table shows that the mean ratio of Nabil Bank is 101.68% .It has fluctuating trend of interest risk ratio. S.D and C.V of the bank is 0.026 and 0.03% respectively.

The average mean ratio of NSBI is 97.12%. The trend of ratio of the banks is also fluctuating trend. NSBI has S.D of 0.031 and C.V of 0.03%.

The average ratio of Nabil Bank is higher than that of NSBI. Nabil has more than 100% interest rate risk in the FY 2010 through 2012, but NSBI has interest rate risk exceeding 100% only on FY 2009. This indicates that Nabil Bank has higher degree of interest rate risk

in case of adverse situation (downward change in interest rate) and NSBI has moderate level of interest rate risk. However, in upward interest rate change situation, Nabil bank can perform better than NSBI.

#### 4.3.2 Credit Risk Ratio

The risk behind making investment or granting loan is measured by credit risk ratio. Actually credit risk ratio shows the proportion of nonperforming assets in total loan and advances of a bank. Credit exposure of banks in relation to total assets also measures the credit risk, the ratio is calculated with the help of loan and advances and total assets. The ratio is calculated as;

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

**Table 4.10**

**Calculation of Mean, S.D and C.V of Credit Risk Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	58.60%	63.83%	63.34%	66.92%	67.83%	64.10%	0.036	0.06
NSBI	74.16%	51.75%	47.21%	47.12%	45.58%	53.17%	0.120	0.22

(Source: Annexure A-X)

The above table shows the mean ratio of Nabil is 64.10% and the same of NSBI is 53.17%. Comparatively, NABIL bank has higher risk ratio than that of NSBI in each year during 5 years of period and is in increasing trend. It indicates that Nabil bank has higher possibility of loss than that of NSBI.

Ratio of non-performing loan of each sample banks as per indicators disclosed in annual financial reports are as follows:

**Table 4.11**

**Calculation of Mean, S.D and C.V of Non-performing Loan Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	0.75%	0.80%	1.48%	1.77%	2.33%	1.43%	0.007	0.47
NSBI	3.83%	2.02%	1.48%	1.10%	0.54%	1.79%	0.013	0.70

(Source: Annual Report 2011/12)

The above table shows that NSBI has higher average non performing loan than that of Nabil bank. However, the former has been continuously decreasing the non performing loan ratio with the decrease in credit exposure ratio. Nabil bank has increasing trend of non-performing loan ratio which indicates deteriorating quality of loans with the high credit exposure.

#### **4.4 Profitability Ratio**

Profitability ratio measures the overall banking operation of the company in regards to the profit. Profitability ratio is determined by the financial institution to find out their profit earning capacity on various kinds of funds they employed. A bank can make the profit through the sound lending policy and the quality of service it provides. Higher is the profit ratio Higher will be the efficiency of the bank. Following are the some profitability ratio studied in this report.

##### **4.4.1 Return on Total Working Fund**

Return on total working fund measures the relationship between the working fund and the profit of the bank. Working fund includes the total deposit of the banks and other borrowings which are taken by banks to give loan to the customer. The ratio is calculated as;

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

**Table 4.12**

**Calculation of Mean, S.D and C.V of Return on Total Working Fund**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	2.24%	2.64%	2.45%	2.61%	3.07%	2.60%	0.003	0.12
NSBI	1.61%	1.13%	1.12%	1.10%	0.90%	1.17%	0.003	0.23

*(Source: Annexure-XI)*

The above table shows that Nabil Bank has higher profit earning capacity than that of NSBI. The mean ratio of Nabil Bank is 2.60% and the same of NSBI is only 1.17%. It indicates that Nabil Bank has strong reputation in the market than that of NSBI. The trend of ratio of Nabil bank is in increasing trend and that of NSBI is in decreasing. Nabil Bank has the highest ratio of 3.07% in the year 2012 and that of NSBI is only 1.61% in the year 2008. It is clear that Nabil Bank has strong earning capacity than NSBI.

**4.4.2 Return on Total Loan and Advances**

Net profit of commercial banks depends on loan and advances. So, calculation of return on total loan and advances is very important to find out the financial condition of the banks. The ratio is calculated as;

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

**Table 4.13**

**Calculation of Mean, S.D and C.V of Return on Total Loan and Advances**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	3.43%	3.68%	3.45%	3.44%	3.96%	3.59%	0.002	0.06
NSBI	1.94%	2.03%	2.18%	2.14%	1.81%	2.02%	0.001	0.07

*(Source: Annexure-XII)*

The above table shows that Nabil Bank is in good condition than that of NSBI as it has higher level of mean ratio. The mean ratio of Nabil Bank is 3.59% and that of NSBI is only 2.02%. Although, ratio of non-performing loan of Nabil is higher, return on total loan and advances of Nabil Bank is higher than that of NSBI.

#### 4.4.3 Return on Equity Ratio

The bank can earn more profit if they mobilize the equity capital properly. The return on equity capital measures the extent to which a bank is successful to mobilize its capital. The ratio is calculated as;

Return on equity ratio = net profit / total equity capital

**Table 4.14**

**Calculation of Mean, S.D and C.V of Return on Equity Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	30.63%	32.94%	29.70%	29.29%	31.12%	30.74%	0.014	0.05
NSBI	17.51%	18.47%	15.99%	16.13%	15.02%	16.62%	0.014	0.08

*(Source: Annexure-XIII)*

The above table shows that Nabil Bank has an average mean ratio of 30.74% and the same of NSBI is only 16.62%. It indicates that Nabil Bank is more successful in mobilizing its capital than that of NSBI. It is clear that Nabil Bank has more earning power than that of NSBI. Nabil Bank has maximum return on earning which is pleasing to the shareholders and in the case of NSBI it is just acceptable.

#### 4.4.4 Total Interest Earned to Total Outside Assets Ratio

Total interest earned to total outside assets ratio is calculated to know the extent to which the bank is successful to earn interest income on total outside assets. Higher ratio is favorable as higher ratio indicates higher earning power of total outside assets of the banks. The ratio is calculated as;

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

Outside assets include the assets other than those contributed by equity.

**Table 4.15**  
**Calculation of Mean, S.D and C.V of Total Interest Earned to**  
**Total Outside Assets Ratio**

<b>Fiscal Year (mid July)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Mean</b>	<b>S.D</b>	<b>C.V%</b>
Nabil Bank	5.70%	6.87%	8.38%	9.81%	10.62%	8.28%	0.020	0.25
NSBI	6.15%	5.13%	6.38%	7.17%	6.87%	6.34%	0.008	0.12

(Source: Annexure-XIV)

The above table shows that the mean ratio of Nabil Bank is 8.28% and of NSBI is 6.34%. In an average NSBI has Higher earning power than that of Nabil Bank. NSBI bank has fluctuating trend of ratios but Nabil has increasing trend. The Highest ratio of Nabil Bank is 10.62% in the 2012 and that of NSBI is 7.17% in the year 2011.

#### **4.5 Comparison of Financial Performance of Nabil bank and NSBI**

<b>Ratio</b>	<b>Nabil Bank</b>	<b>NSBI</b>
<b>1. Liquidity ratio</b>	Nabil bank has given less priority investment than to maintain higher liquidity. It has higher average mean ratio of liquidity. However, during latest years, it is emphasizing in maintaining lower liquidity.	NSBI has maintained lower liquidity than Nabil Bank. It has given priority to both liquidity maintenance and Investment procedure. In recent years, it is increasing liquidity.
<b>2. Activity ratio</b>	It is seen that Nabil Bank has higher average mean ratio of loan and advances to total deposit and lower mean ratio of Investment to total deposit. From this we can conclude that Nabil Bank has given more emphasis on loan and advances than to investments.	NSBI seems reducing loan and advances exposure. It has not grabbed more credit exposure opportunities as it has lower average mean ratio of loans and advances to deposit ratio. It has given priority to investments during recent years.
<b>3. Risk ratio</b>	Interest rate risk of Nabil bank is higher in adverse interest rate situation. Credit risk is also on higher side, but it has lower non-performing loan ratio in average, though the same is in increasing trend.	Loan and advances of NSBI is lower hence it has lower credit risk ratio. But it has lower Interest risk ratio than that of Nabil bank. Though the average non-performing loan ratio is higher than that of Nabil, it has decreased the same year

		after year due to reduction in credit exposure.
<b>4. Profitability ratio</b>	Return on loan and advances of Nabil Bank is higher with the higher loans and advances ratio. It is clear" that Nabil Bank has adopted aggressive investment policy.	NSBI has lower profitability ratios than that of Nabil bank. It has adopted safe investment policy. It is more concerned to risk than profitability.

In overall Nabil bank seems strong in financial performance than NSBI bank. Profit earning capacity of Nabil Bank is higher with higher risk ratio. It shows that investment policy of Nabil bank is riskier with higher return than that of NSBI.

On the base of above analysis of selected bank's investment policy we can summaries the above analysis as a below:

#### **4.6 Comparison of Investment Policy of the Selected Bank**

**Table 4.16**

##### **Comparison of Investment Policy of the Selected Bank**

(Rs. in million)

<b>Bank</b>	<b>Nabil</b>					<b>NSBI</b>				
<b>Sector/Fiscal Year</b>	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Deprived	919	1,033	1,162	1,242	1,468	657	615	551	795	843
Financial institution	330	553	215	218	(457)	631	80	783	1,539	1,052
Shares, debentures and bonds	323	355	347	936	835	33	33	37	40	31
Profit	746	1,031	1,139	1,338	1,696	248	316	392	465	480

*Source : Annual Report*

#### **Deprived Sector**

From the above table, it is seen that there is increasing trend of investment of the Nabil bank. Investment policy of Nabil Bank has given more priority to invest in deprived sector as it has invested higher amount in this sector than NSBI during 5 years of the study period. Investment of NSBI bank towards deprived sector is decreasing up to FY 2010 and started increasing. Increase in deprived sector lending is due to NRB's policy of increasing investment in deprived sector.

### **Financial Institution**

Investment in financial institution of the Nabil bank is in decreasing trend and that of NSBI bank is in increasing. It shows that investment policy of the Nabil bank has not given emphasis to make investment in this sector, but NSBI has given priority to this type of investment.

### **Shares, Debentures & Bonds**

Nabil Bank has given more emphasis on investing in this sector than NSBI.

### **Profit Impact**

Investment in each sector, except financial institution of Nabil bank during 5 years of the study period is higher than NSBI. Hence, Profit of the Nabil bank is comparatively higher in each year during 5 years of the study period than that of NSBI. From this we can conclude that investment policy adopted by Nabil Bank is more efficient and favorable from profit point of view.

## **4.7 Statistical Analysis**

Under This topic following statistical tools are calculated

1. Correlation coefficient between different ratios
2. Trend analysis of deposit, loan & advances, investments and net profit

### **4.7.1 Correlation Coefficient**

Karl Pearson's coefficient of correlation is used to find out the relationship between deposit and loan & advances, deposit and total investment, outside assets and net profit. The coefficient of correlation is directly calculated in the "Microsoft Excel" and Probable Error (P.Er) is calculated using Standard Error (S.E). The probable error is used to measure the reliability and test of significance of correlation coefficient. It is calculated as under;

$$S.E. = r^2$$

$$P.Er = 0.6745 \times (1-S.E.) / \text{No. of Years}$$

$$6P.Er = 6 \times P. Er$$

#### 4.7.1.1 Coefficient of Correlation between Deposit and Loan & Advances

Deposits and loan and advances are the life blood of any commercial banks. The existence of die commercial banks depends upon the total deposit collected and the total amount granted as loan and advances. The relationship between deposit and loan and advances should be optimum to gain profit. Correlation coefficient measures the degree of relationship between to variables i.e. deposit and loan and advances. In this analysis deposit is independent variable (X) and loan and advances is dependent variable (Y). The main reason of finding out of correlation ( r ) between these two variables is to justify whether deposits are significantly used as loan and advances or not. The table below shows the value of 'r', 'r<sup>2</sup>', Probable Error (P.Er) and 6 P.Er between deposit and loan and advances of Nabil Bank and NSBI.

**Table 4.17**

**Coefficient of Correlation between Deposit and Loan & Advances**

Bank	r	r <sup>2</sup>	P.Er	6 P.Er
Nabil Bank	0.98836	0.97686	0.0070	0.0419
NSBI	0.98184	0.96401	0.0109	0.0651

The above table shows that the correlation coefficient of Nabil is 0.988 and it shows positive relationship between deposit and loan and advances. There is significant relationship between these two variables. The coefficient of determination (r<sup>2</sup>) is 0.97686 which depicts that the dependent variable (loan and advances) is explained by the independent variable (deposits) about 97.68%. Similarly, the probable error (P.Er) of is 0.007. Since, the obtained value of r > P.Er the value of 'r' is significant and the value of r > 6 P.Er shows that it is definitely significant.

In the case of NSBI Bank, the correlation coefficient is 0.9818 and it shows positive relationship between deposit and loan and advances. There is significant relationship between these two variables. The coefficient of determination (r<sup>2</sup>) is 0.9640 which depicts that the dependent variable (loan and advances) is explained by the independent variable (deposits) about 96.40%. Similarly, the probable error (P.Er) of Nabil Bank is 0.0109. Since, the obtained value of r > P.Er, the value of 'r' is significant and the value of r > 6 P.Er shows it is definitely significant.

In conclusion, we can say that there is positive relationship between deposit and loan and advances of two banks. This means if deposit increases then loan & advances definitely increases.

#### 4.7.1.2 Coefficient of Correlation between Deposit and Investments

Coefficient of correlation between deposit and investment measures the degree of relationship between these two variables. In this analysis deposit is independent variable (X) and investment is dependent variable (Y). The main reason of finding out of correlation (r) between these two variables is to justify whether deposits are significantly invested or not. The table below shows the value of 'r', 'r<sup>2</sup>', Probable Error (P.Er) and 6 P.Er between deposit and investments of Nabil Bank and NSBI.

**Table 4.18**

**Coefficient of Correlation between Deposit and Investments**

Bank	r	r <sup>2</sup>	P.Er	6 P.Er
Nabil Bank	0.9619	0.92526	0.0225	0.1353
NSBI	0.98971	0.97952	0.0062	0.0371

The above table shows that the correlation coefficient of Nabil is 0.9619 and it shows positive relationship between deposit and investment. There is significant relationship between these two variables. The coefficient of determination (r<sup>2</sup>) is 0.9252 which depicts that the dependent variable (investment) is explained by the independent variable (deposits) about 92.52%. Similarly, the probable error (P.Er) of Nabil is 0.0225. Since, the obtained value of r > P.Er the value of 'r' is significant and the value of r > 6 P.Er shows that it is definitely significant.

In the case of NSBI Bank, the correlation coefficient is 0.9897 and it shows positive relationship between deposit and investment. There is significant relationship between these two variables. The coefficient of determination (r<sup>2</sup>) is 0.9795 which depicts that the dependent variable (investment) is explained by the independent variable (deposits) about 97.95%. Similarly, the probable error (P.Er) of NSBI Bank is 0.0062. Since, the obtained value of r > P.Er the value of 'r' is significant and the value of r > 6 P.Er shows it is definitely significant.

In conclusion, we can say that there is positive relationship between deposit and investment of two banks. This means if deposit increases then investment of the bank also increases. It is clear from the table that correlation of coefficient and coefficient of determinant of NSBI is higher than that of Nabil Bank. This shows that NSBI has made greater investment out of deposit than that of Nabil Bank.

#### 4.7.1.3 Coefficient of Correlation between Outside Assets and Net Profit

Coefficient of correlation between outside assets and net profit measures the degree of relationship between these two variables. In this analysis outside assets is independent variable (X) and net profit is dependent variable (Y). The main reason of finding out of correlation ( r ) between these two variables is to justify whether net profit is significantly correlated with respect to outside assets or not. The table below shows the value of 'r', 'r<sup>2</sup>', Probable Error (P.Er) and 6 P.Er between other side assets and net profit of Nabil Bank and NSBI.

**Table 4.19**

**Coefficient of Correlation between Outside Assets and Net Profit**

Bank	r	r <sup>2</sup>	P.Er	6 P.Er
Nabil Bank	0.96337	0.92809	0.0217	0.1301
NSBI	0.96986	0.94064	0.0179	0.1074

The above table shows that the correlation coefficient of Nabil is 0.9633 and it shows positive relationship between outside assets and net profit. There is significant relationship between these two variables. The coefficient of determination (r<sup>2</sup>) is 0.9281 which depicts that the dependent variable (net profit) is explained by the independent variable (outside assets) about 92.81%. Similarly, the probable error (P.Er) is 0.0217. Since, the obtained value of r > P.Er the value of 'r' is significant and the value of r > 6 P.Er shows that it is definitely significant.

In the case of NSBI Bank, the correlation coefficient is 0.9698 and it shows positive relationship between outside assets and net profit. There is high degree of relationship between these two variables. The coefficient of determination (r<sup>2</sup>) is 0.9406 which depicts that the dependent variable (net profit) is explained by the independent variable (other side assets) about 94.06%. Similarly, the probable error (P.Er) of NSBI Bank is 0.0179. Since, the obtained value of r > P.Er and r > 6 P.Er the value of 'r' is significant but it is negatively correlated.

In conclusion, we can say that Nabil and NSBI has positive relationship between outside assets and net profit.

## 4.7.2 Trend Analysis

### 4.7.2.1 Trend Analysis of Total Deposit

The trend value of total deposit of Nabil Bank and NSBI is calculated under This section. An effort has been made to forecast for next five years from mid-July 2013 to mid-July 2017 on the basis past data of total deposit of Nabil Bank and NSBI from mid-July 2008 to mid-July 2012. Here, trend has been calculated using regression formula as follows directly on excel:

Trend -  $Y=a+bx$

**Table 4.20**  
**Estimation of the Deposit for the year 2013 to 2017**

Year	Deposit in Rs.	
	Nabil Bank	NSBI
2008	31,915,047,467	13,715,394,960
2009	37,348,255,840	27,957,220,794
2010	46,340,700,628	34,896,424,201
2011	49,696,112,934	42,415,443,294
2012	55,023,695,253	53,337,264,193
2013	61,634,308,224	62,574,937,778
2014	67,490,823,491	71,945,133,875
2015	73,347,338,757	81,315,329,971
2016	79,203,854,024	90,685,526,068
2017	85,060,369,291	100,055,722,165

#### Nabil Bank

$$a = 44064762424$$

$$b = 5856515266$$

#### NSBI

$$a = 34464349488$$

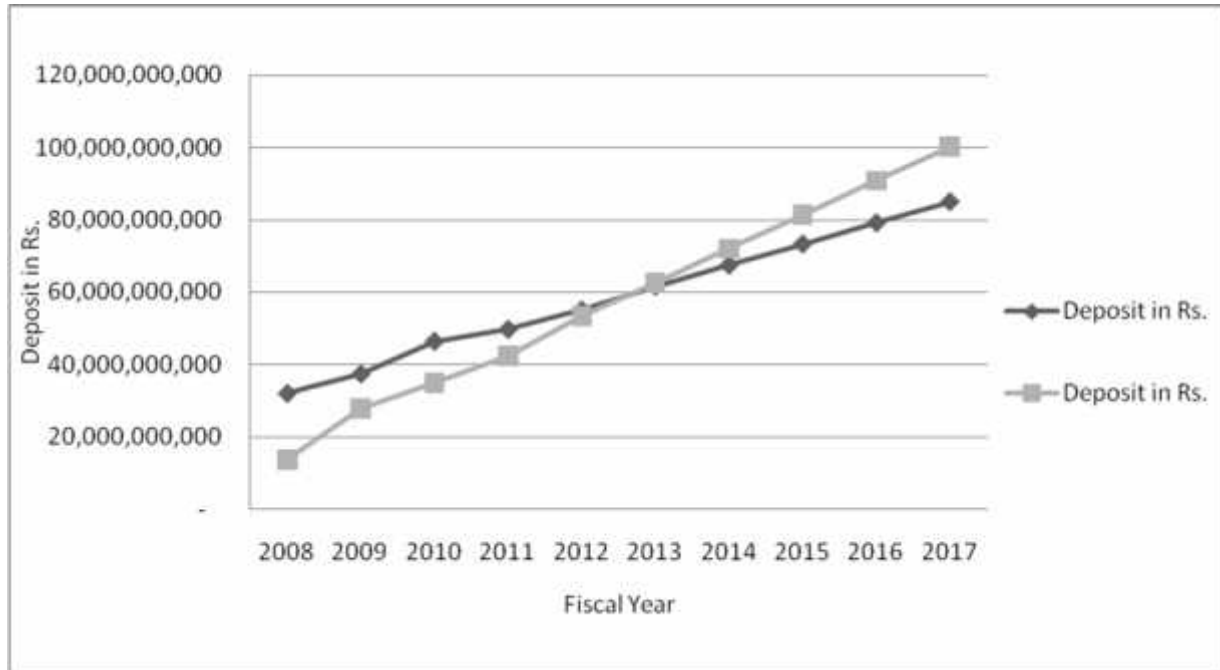
$$b = 9370196096$$

The above table shows the total deposit of the banks is in increasing trend. If other things remain constant the total deposit of Nabil Bank will be RS. 85,060 million in the FY 2017 and that of NSBI will be Rs100,055 million.

It is forecasted that NSBI will be more successful to collect more deposit from the market.

The above trend can be presented in graph as follows:

**Figure 4.1**  
**Deposit Trend**



#### 4.7.2.2 Trend Analysis of Loan and Advances

An effort has been made to forecast the amount of loan & advances of Nabil Bank and NSBI for the next 5 years from mid-July 2013 to mid-July 2017.

**Table 4.21**

**Estimation of the loan and advances for the year 2013 to 2017**

Year	Total Loans & Advances in Rs.	
	Nabil Bank	NSBI
2008	21,365,053,318	12,113,698,428
2009	27,589,933,041	15,131,747,944
2010	32,268,873,283	17,480,548,194
2011	38,034,097,554	21,365,771,129
2012	41,605,682,634	26,142,094,172
2013	47,450,354,910	28,734,016,375
2014	52,542,897,224	32,163,097,843
2015	57,635,439,539	35,592,179,310

2016	62,727,981,853	39,021,260,777
2017	67,820,524,168	42,450,342,245

Nabil Bank

a = 32172727966

b = 5092542314

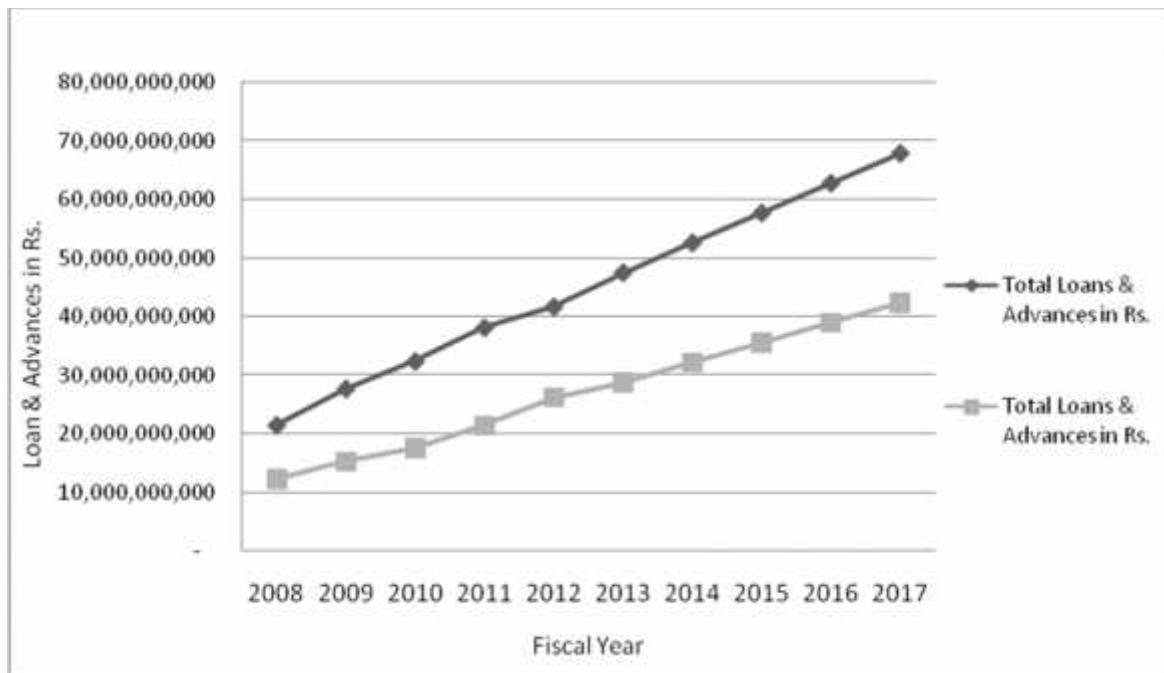
NSBI

a = 18446771973

b = 3429081467

It is forecasted that both of banks will have increasing trend of loan and advances. If the same trend as underlying during past years follows, Nabil bank will be successful in extending more loans and advances than NSBI. In 2017, the loans and advances of Nabil bank and NSBI bank will be Rs. 67,820 million and Rs. 42,450 million respectively. The same can be presented in graph as follows:

**Figure 4.2**  
**Loans & Advances Trend**



**4.7.2.3 Trend Analysis of Total Investment**

Under This topic, the trend values of total investment for 5 years from mid—July 2008 to mid-July 2012 is calculated and forecasted for next five years from mid-July 2013 to mid-July 2017.

Nabil Bank

a = 12300824525

b = 1048698378

NSBI

a = 15211034974

b = 4837396994

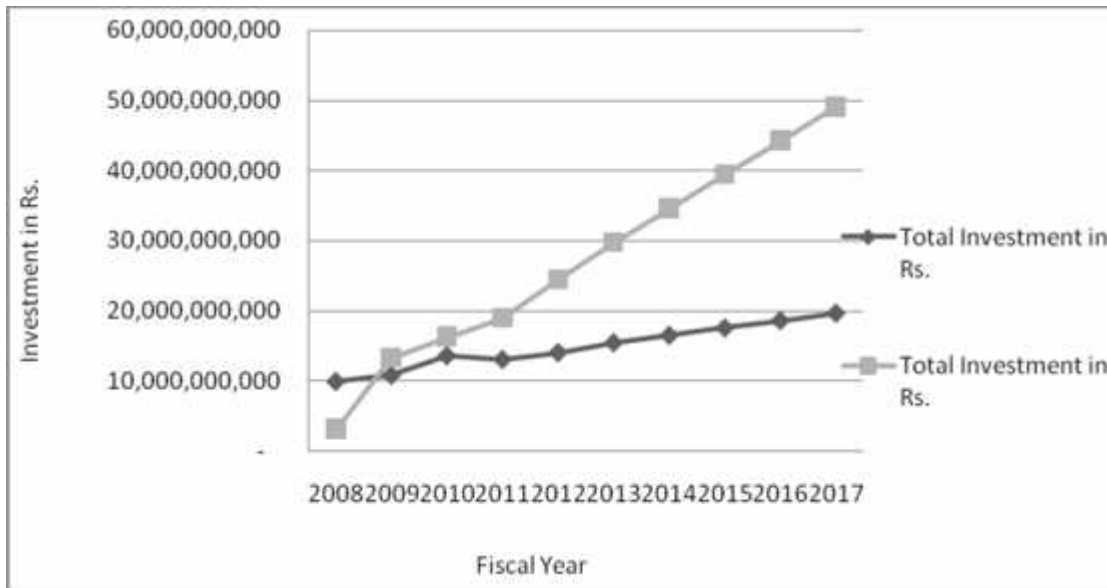
**Table 4.22**  
**Estimation of investment for the year 2013 to 2017**

Year	Total Investment in Rs.	
	Nabil Bank	NSBI
2008	9,939,771,428	3,088,886,918
2009	10,826,379,001	13,286,181,660
2010	13,600,916,613	16,305,632,815
2011	13,081,205,527	18,911,021,520
2012	14,055,850,055	24,463,451,958
2013	15,446,919,659	29,723,225,956
2014	16,495,618,037	34,560,622,950
2015	17,544,316,415	39,398,019,944
2016	18,593,014,793	44,235,416,938
2017	19,641,713,171	49,072,813,932

The above table depicts that NSBI has increasing trend of investments at the rate faster than that of Nabil bank. It is also clear from the table that NSBI bank will have huge investment amount than that of Nabil bank. In 2017, Nabil bank will have only Rs. 19,641 million while NSBI will have Rs. 49,072 million in investment.

The above table can be presented in graph as follows:

**Figure 4.3**  
**Investment Trend**



**4.7.2.4 Trend analysis of net profit**

Under this topic, the trend values of net profit for 5 years from mid-July 2008 to mid-July 2012 is calculated and forecasted for next five years from mid- July 2013 to mid - July 2017.

Nabil Bank

a = 1190128497

b = 220630781

NSBI

a = 380111373

b = 61286097

**Table 4.23**  
**Estimation of net profit for the year 2013 to 2017**

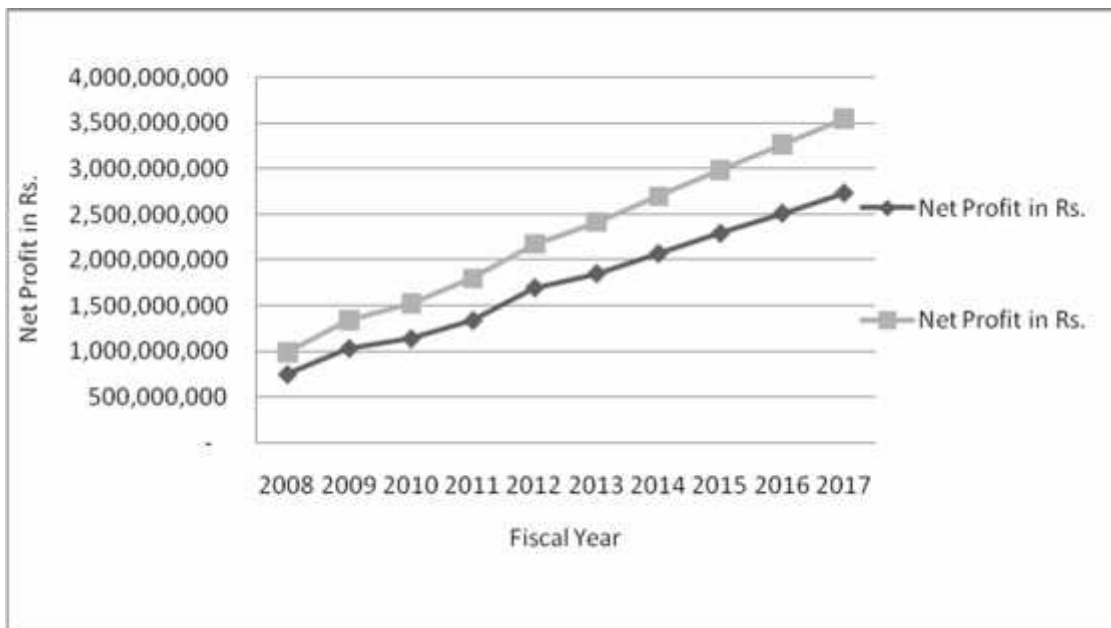
Year	Net Profit in Rs.	
	Nabil Bank	NSBI
2008	746,468,394	247,770,758
2009	1,031,053,098	316,373,495
2010	1,139,099,399	391,742,119
2011	1,337,745,485	464,564,999
2012	1,696,276,110	480,105,493
2013	1,852,020,843	563,969,665
2014	2,072,651,625	625,255,762
2015	2,293,282,407	686,541,860
2016	2,513,913,189	747,827,957

2017	2,734,543,971	809,114,055
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The above table shows that Nabil bank has higher profitability than NSBI. The net profit of Nabil will reach to Rs. 2,734 million in 2017, but that of NSBI will reach only to Rs. 809 milion.

The above table can be presented as follows:

**Figure 4.4**  
**Net Profit Trend**



#### 4.8 Major Findings of the Study

- ) It is found from the study that the amount of total deposit collected by Nabil Bank in each year during 5 years of the study period is higher than that of NSBI. However, the increase rate of total deposit of NSBI is higher than that of Nabil and former will beat the latter in future if same trend is followed. Investment to total deposit ratio and the amount of total investment made by NSBI for the same period is higher than that of Nabil bank. In case of extension of loan and advances, Nabil banks is more aggressive, NSBI seems passive. It is clear that investment policy adopted by Nabil Bank is sound from profit point of view.
- ) Nabil Bank has given more priority on loan and advances, while NSBI has given on investment. Hence it has maintained lower liquidity than NSBI in recent years. Nabil Bank has accepted higher level of interest rate risk and credit risk. Overall profitability ratio of Nabil Bank shows that it has earned higher profit than NSBI. It is clear that Nabil Bank has given more emphasis on profit but NSBI has given priority both on liquidity, safety and profit as well.
- ) The study has found that total deposit and loan and advances and investment of the selected bank will be in increasing trend if other things remain constant. It is also

found that Net profit of the Nabil Bank will be in increasing trend at higher rate than that of NSBI.

- ) There is positive relationship between deposit and loan & advances and deposit and investment of the selected bank. The study also found that increase in net profit of the selected banks is caused by the increase in outside assets as it has positive relationship between outside assets and net profit.

### **Liquidity ratio**

The overall analysis of liquidity ratio shows that Nabil bank is more consistent in maintaining liquidity position than that of NSBI Bank. NSBI has given more priority on maintaining liquidity in recent years.

### **Activity ratio**

- ) Loan & advances to total deposit ratio of Nabil is higher than that of NSBI Bank. An average mean ratio of NSBI is 58.38% and that of Nabil Bank is 72.52%. It shows that Nabil is more successful in advancing loans and is more aggressive.
- ) Investment to total deposit ratio of both banks is in increasing trend. An average mean ratio of Nabil Bank is higher than that of NSBI.
- ) Investment on deprived sector to total deposit ratio of the selected bank is in fluctuating trend. The average mean ratio of Nabil Bank is link bit higher than NSBI and Nabil Bank seem more consistent to make investment in deprived sector than that of NSBI.
- ) Investment on financial institution to total deposit ratio of the selected bank is fluctuating drastically, which may be due to residual investment. An average mean ratio of NSBI is higher than that of Nabil Bank.
- ) The loan loss ratio shows that NSBI has managed loan & advances soundly as it has lower ratio than that of Nabil Bank.
- ) The overall study of this ratio reveals that Nabil bank is in better position to grant loan and advances but in terms of investment, NSBI Bank is more capable to make investment out of total deposit. It shows that Nabil is ready to bear more risk than that of NSBI Bank.

### **Risk Ratio**

- J Nabil Bank has higher interest rate risk than that of NSBI. It results into higher profit if interest rate is favourable and vice versa.
- J Credit risk ratio measures the risk in extending credits. Nabil bank seems risk seeker since its credit risk ratio is higher than that of Nabil Bank.

### **Profitability Ratio**

- J Return on total working fund of NSBI is less than Nabil Bank. C.V of Nabil Bank is lower than that of NSBI. It is clear that Nabil Bank is in better position to earn higher profit out of its working fund.
- J Return on Loan & advance of Nabil Bank is higher than that of NSBI. That means Nabil Bank has achieved the net profit from loan & advances more times than that of NSBI.
- J Return on equity of Nabil Bank is also more than mat of NSBI. Hence, Nabil bank is earning more profit from the equity capital.
- J In overall, we can conclude that Nabil Bank has higher earning capacity than that of NSBI. Hence, Nabil Bank is performing well to achieve the higher percentage of profit.

### **Correlation Coefficient**

- Correlation of coefficient between deposit and loan & advances found that there is positive relationship between deposit and the loan & advances of the bank. It indicates that the increase in deposit tends to increase in loan and advances. The study also suggests that the dependent variable i.e. loan & advances of both bank is highly dependent upon the total deposit.
- Correlation of coefficient of deposit and investment of both banks is positive. It is found from the study that the dependent variable (i.e. investment) of NSBI and Nabil bank is highly dependent upon independent variable (i.e. deposit).
- Correlation coefficient between outside assets and net profit of the sample banks is positive. It indicates that increase in net profit of the banks is caused by the increase in outside assets of the bank.



## **CHAPTER-V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary**

Investment simply means an assets or item that is purchased with the hope that it will generate income or appreciate in the future. In general sense, investment means to pay out money to get more. It involves the commitment of resources that have been saved or put away from current consumption to the future. Investment policy comprises the set of guidelines and procedures that direct the long-term management of the investor's assets. This research study has been conducted to find out the impact of NRB directives in investment policy of CB. NRB being central bank of Nepal directs, supervise, controls and guides CB to move. Although the investments policies are formulated by the concerned banks how far the rules and regulations of investment policy of CB are affected by NRB directives is the main focus of this research work. All the CBs need to comply with the NRB directives and the violation or non compliance of directives may lead to fine or penalty to the bank. NRB guidelines are obligatory to all the banking and financial institutions operating in the country.

A CB need to keep optimum relation between deposit collection procedure and loan policy. The idle money collected by the commercial banks as deposits should be properly utilized either by granting loan to the needy parties or by making investment in the productive sector to earn more profit. CB should have sound investment policy for mobilization of the available fund. A deposit is that liabilities of CB which is returnable in demand at any time. So, sound investment policy has appeared to be very necessary to CB. A CB mainly focuses on its two functions i.e. collection of deposit through various scheme and granting those amount as loan to the customers by providing various facilities.

Different new clause and acts are added in directives and some old regulations are also amended in different phase of time to uplift banking system in Nepal and to cope with the international standard. To reduce the cost of fund and enhance investment and credit exposure, NRB has decreased the CRR to 5%. In order to safeguard the bank from being

bankruptcy, NRB has directed CBs to make provision of single borrower credit limit of 25% on fund based and 50% on non-fund based.

Now a days, there is strong competition among the CB. To attract more customers depends upon the facilities and services provided by the banks. In this research NSBI seems performing well enough to attract its customer. It has collected Rs. 53,337 million as total deposit and extended Rs.26,142 million as loan and advances by FY 2012. It has invested Rs. 24,463 million and earn total profit of Rs. 480 million during the year 2012. In the case of Nabil Bank, it has collected total deposit Rs. 55,023 million, extended loan and advances Rs. 41,605 million, out of total deposit it has invested Rs. 14,055 million and made total profit of Rs. 1,696 million in the year 2012. It is clear- that Nabil bank has higher amount of deposit collection and loan and advances than that of NSBI Bank. But NSBI Bank is more capable to grab the investment opportunities and it has invested higher amount than that of NSBI. The profitability of Nabil bank is more attractive than that of NSBI. Hence, investment policy of the concerned bank plays vital role to survive in the market with dignity and image.

## **5.2 Conclusions**

Under this research study, different financial and statistical tools are used to measure the investment policy of the selected banks. It is found that both selected banks have strong financial performance but comparatively Nabil Bank is in better position. Despite of social contribution Nabil Bank has higher profit earnings. It is concluded that Nabil Bank has adopted better investment policy than that of NSBI from profit point of view.

In conclusion, it can be said that central banks are required to direct the commercial banks. CB should move as per the direction given by the central bank. Banks should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial bank to live in the industry. Higher the deposit Higher will be the chance of mobilization of working fund and profit thereto. Banks should not invest their' fund haphazardly. It should be careful while advancing loan because loan is the blood of the CB for survival. If CB does not apply sound investment policy it will be in great trouble in future to collect it in time, hence the possibility of bankruptcy thereto. Banks should invest their fund in various

portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations there is a high chance of default risk. Diversification is needed to all the business houses but it has seen immense importance to CB. Hence, the CB should implement the investment policy considering the directives issued by NRB. CBs should not cross the boundary level set by central bank to make investment policy. In overall, it can be concluded that the role of NRB in investment policy of commercial bank has both positive and negative impacts.

### **5.3 Recommendations**

- J            Diversification of investment is highly suggested to the selected bank as they have given priority to invest in government securities and loans only. Both of the banks seem risk avoider as they have invested highest amount in risk free securities. Higher the risk higher will be the profit. Hence, Nabil Bank and NSBI are recommended to diversify their investment in NRB bond, govt. non financial institution, other non-financial institution etc.
- J            To be a successful banker, a bank must utilize depositors' money as loan and advances. Loan and advances is the largest item of the bank in the asset side of balance sheet which is risky and more profitable too. Loan and advances of NSBI Bank is lower than that of Nabil bank. It has given more priority on the private sector lending. Loan and advances to the government sector and other financial institutions is too low. Hence, Nabil Bank and NSBI are recommended to follow the liberal lending policy to increase their total loan and advances in order to earn more profit.
- J            Total investment made by the selected bank is in fluctuating trend. So both bank must seek new places or sectors for investment, with potentiality of high return and low risk and should make rational investment.
- J            There is slight growth in priority and deprived sector investment of both banks during the study period of 5 years. Both bank should continue to extend priority and deprived sector lending to access banking service to the poor and backward communities as per NRB directives.
- J            The highest portion of bank's earning is contributed by interest income gained from loan and advances. So, for better income, the bank must properly utilize depositor's money in the form of loan and advances. From the study it has been found

that Nabil Bank has utilized an average of 72.52% of total deposit on loan and advances in five years of period while NSBI has used 58.38% of total deposit for lending. But an average mean ratio of return on loan and advances of Nabil Bank is higher than that of NSBI. Hence, NSBI bank is highly recommended to follow the liberal lending policy so as to enjoy the more interest income.

) Profit is the life blood of any organization. Profit maximization is the main objectives of any banking industries. The growth ratio of net profit of NSBI Bank is too low in comparison to Nabil bank. So, NSBI bank is recommended to diversify its investment on more profitable sector and adopt sound investment policy.

) Liquidity and profitability are like two wheels of the same cart and both are very inter-related and have converse relation; one can be achieved only at the cost of the others. Highly liquid bank may have less profitability as it has to hold more assets in the form of cash. However, the bank has to maintain sufficient fund in the form of cash and liquid assets to meet various commitments like depositors claim, personnel expenses, interest payments, to exploit unforeseen opportunities etc. Since, NSBI has held more liquidity its profitability ratios are lower than Nabil Bank. So, NSBI is highly recommended to maintain reasonable liquidity so as to increase profitability of the bank.