

INVESTMENT POLICY OF COMMERCIAL BANKS

(With reference to NABIL Bank Ltd and Sanima Bank Ltd)

A THESIS

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RECOMMENDATION

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(With reference to NABIL Bank Ltd. and Sanima Bank Ltd.)

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DECLARATION

I hereby declare that the data and work presented in this study entitled "**INVESTMENT POLICY OF COMMERCIAL BANKS (With reference to NABIL Bank Ltd and Sanima Bank Ltd)**" submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of the requirement of the Degree of Master of Business Studies (M.B.S) under the guidance and supervision of Dr. Sushil Bhakta Mathema, of Nepal Commerce Campus.

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ABBREVIATIONS

BOK	Bank of Kathmandu
C.B	Commercial Bank
C.V	Coefficient of variation
CAR	Capital adequacy ratio
CRR	Cash Reserve Ratio
F/Y	Fiscal Year
Int.	Interest
Inv.	Investment
L&A.	Loan and Advances
LBL	Lumbini Bank Ltd.
Ltd.	Limited
M	Million
NCC	Nepal Commerce Campus
NIBL	Nepal Investment Bank Ltd.
NRB	Nepal Rastra Bank
R	Correlation
ROA	Return on Assets
ROE	Return on Equity
S.D	Standard deviation
Sanima	Sanima Bank Ltd.
SCBNL	Standard Chartered Bank Nepal Limited

CHAPTER –I

INTRODUCTION

1.1 Background of the study

Most of the people earn and spend money. Rarely, their current money income exactly balances with their consumption. These imbalances will lead to borrow or to save. When current income exceeds current consumption desires, people tend to save the excess. They can do any of several things with these saving. One possibility is to put the money under a mattress or bury it in the ground until some future time when consumption desires exceeds current income. Money does not multiply itself. The buried money even fails to preserve its value against the ongoing inflation. Investment in financial sense is placing of money for the use in future and 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 is the current commitment of the savings that compensates for the time involved, the expected rate of inflation and uncertainty involved.

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

charge and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

According to F. Amling, “Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period.”

According to Sharpe, Alexander & Bailey, “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 is certain. The reward comes later, if at all, and the magnitude is generally uncertain.”

According to D. E. Fischer and R. J Jordan, “An investment is a commitment of funds made in the expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes.”

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.

1.1.1. 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 forms the inflation and other possible harms. Banks are disbursing their money as investment in trade business and industry. Therefore, Banks should follow the principle of investment for profit. An investment policy should ensure maximum

profit and minimum Risk. Investment policy determines the investors' 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 canalizing the available resources in the needed sectors. Financial system contacts two components i.e. depositary financial institutions and non-depositary financial institutions. Commercial banks are depositary financial institutions whereas Employee Provident 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 borrow. Bank pools the scattered funds and mobilizes them in productive sector .Bank came into existence mainly with the objective of collecting the Idle Fund, mobiles them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest and deposited amount of depositors. 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

NRB Directives about Productive Sector & Deprived Sector Financing

1. Productive/Priority sector:-

NRB has directed Commercial Bank to lend 10% of their total outstanding to Agricultural & Energy sector with in Ashad End, 2071. They are also further required

to increase their lending on Productive Sector viz., Agricultural, Energy, and Tourism & Small & Cottage industry to 20% of their total outstanding within three year's time period.

2. Deprived sector:

The "A" class licensed institutions are required to lend at least four percent (4%) of their total outstanding loan and advances (including bills purchased and discounted) on Ashad End, 2070.

1.1.2 Evolution of Money and Bank

As a public enterprise banking made its first beginning around the middle of 12th century in Italy .The Bank of Venice founded in 1157 was the first public banking institution.

Following the establishment of the Bank of Venice, Bank of Barcelona and Bank of Genoa in 1401 and 1407 were established 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 8th 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 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 regard as pioneer foundation of banking in Nepal. The main defect of this institution sougheed 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 trade 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. earthquake, where there was need of finance for reconstruction of Kathmandu. During the year 1934 AD, first commercial bank of Nepal, Nepal Bank Ltd was established into existence under Nepal Bank Act 1937 inaugurated by King Tribhuwan in November 1937 AD (1994 B.S.) Nepal Rastra Bank was established in Baisakh 14, 2013 B.S. (26 April1956 A.D.) under Nepal Rastra Bank Act, 2012 B.S. (1955 A.D.), the central bank of Nepal. It is totally owned by government. NRB is heavily assisting for the development of the whole economy. It is giving timely directives to all financial institutions operating and conducting in all over the country. After a long period, the second commercial bank namely Rastriya Banijya Bank (RBB) has been established in 2022 B.S. (1965A.D.) with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 B.S. (1964 A.D.). Both Nepal Bank Limited. (NBL) and Rastriya Banijya Bank (RBB) have made remarkable contribution by providing reliable banking services to the Nepalese people.

The government introduced Commercial Bank Act in Nepal in 2033 B.S. (1976A.D.) to cover the vast field of financial sector. This act has helped to emerge number of commercial bank with a view to maintain economic interest in comfort of the public in general facilitated to provide loan for agriculture, industry, trade and make a available banking services to the country and people

Among vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. (1982 A.D.) And decided to allow foreign banks to operate their activities in Nepal in “joint venture model”. Joint Venture Banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. Basically at that time, it was envisioned that joint venture banks (JVBs) would support the country in various ways.

In Nepalese context the main purpose of joint venture is to develop economic forces in order to achieve distinguished result, which the partners separately could not achieve. Nowadays, joint venture banks (JVBs) are playing dynamic and vital role in economic development of the country.

The Nabil Bank Ltd. is the first joint venture bank established in 2041 B.S. (1984 A.D.) and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (currently Nepal Investment Bank), the second joint venture bank established in 2042 B.S. (1985 A.D.) with an objective to encourage efficient banking services and facilities. Likewise, currently named Standard Chartered Bank is operated in 2044 B.S. (1987 A.D.)

With the satisfactory result of joint venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent percent domestic investment. At present, Nepal Industrial and Commercial Bank (NIC), Lumbini Bank Ltd., Machhapuchhre Bank Ltd., Bank of Kathmandu, Nepal Credit and Commerce Bank Ltd., Laxmi Bank Ltd., Siddhartha Bank Ltd., Kumari Bank Ltd.

came into operation with cent percent domestic investment by Nepalese promoters which are the plus point of development of banking sector of Nepal. Now, there is a strong competition between commercial bank for the existence so that the growing needs of the customers can easily achieve. Now there are 32 commercial banks.

Nabil Bank Limited

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

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

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

Table No: 1.1
Capital Structure Of Nabil Bank Ltd.

Subscription	Percent Holding
N.B. (International), Ltd., Ireland	50%
General Public	30%
NIDC	6.15%
Rastriya Beema Sansthan	9.67%

Nepal Trust	0.59%
Others promoters	3.59%
Total	100%

(Source: Nabil Annual Report, 2012)

Sanima Bank Ltd.

Sanima, promoted by prominent and dynamic Non-Resident Nepalese (NRNs) Businessman, commenced its operation in 2004 as a National Level Development Bank with the vision to mobilize resources for National Development.

Sanima received the operating License from Nepal Rastra Bank to function as a "A" Class Commercial Bank and has achieved the triumph to establish itself as a 32nd Commercial Bank of Nepal.

In the pursuit of sustainable growth, Sanima has 22 full-fledged branches within and outside the Kathmandu Valley and has further plans to expand its reach in the various part of the country.

Sanima provides one window financial solutions to the customers with the wide range of Products and Services. Sanima not only offers readymade products and services, but also offers customized services to better suit the needs of the individual customer.

Sanima is committed to exceed customer expectations in all areas of its Business through consistent processes, innovations and Improvements.

Mission

To provide banking and financial solutions in a simplified way with customer focus while adding value to stakeholders' interests.

Capital Structure Of Sanima Bank Ltd.

Authorised Capital : Rs. 2,10,00,00,000

Issued Capital : Rs. 2,01,60,00,000

Paid-up Capital : Rs. 2,01,60,00,000

Shareholding Pattern

Promoters: 70%

General Public: 30%

Source: www.sanimabank.com.np

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, Developments Banks and financial companies are operating with highly competition. The fast growth of such organizations has made pro-rata increment in collecting deposits and their investments. They collected the huge amount from public but couldn't allocate in new investment sectors. The increasing rate of liquidity has pulled in a downward trend in investment. It has ensured bad impact on interest to the depositors, lower market value of shares.

Though several commercial banks have been established in short period, but sufficient return has not been earned. Strong, stable and appropriate investment policy has not been followed. A huge collection and investment policy plays vital role for the economic development of the 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. This study basically deals with the following issues of two commercial banks.

- i. Are the available fund properly utilized or not?

- ii. What is the relationship between investment on loan and advance and deposit and net profit?
- iii. What is the investment portfolio behavior of the banks?
- iv. Investment pattern in T bill and Bond
- v. Are the commercial banks maintaining the investing policy according to Nepal Rastra Bank Directives?

1.3 Objectives of the study

The main objective of the study is to assess the investment policy and strategy followed by the bank during the tight liquidity situation and surplus liquidity time.

The main objectives of this study are as follows;

- i. To analyze the deposit utilization of Commercial Bank. Viz, Nabil Bank Ltd. and Sanima bank Ltd.
- ii. To find out relationship between total investment, deposit, loan & advance and net profit.
- iii. To evaluate the liquidity, efficiency, risk position and profitability of sample banks.
- iv. To analyze the financial position of NABIL and Sanima in terms of deposit collection and investment procedure
- v. To suggest and recommend 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 be useful to them who formulate the policy and regulation. All stakeholders can identify which bank is the best and to whom have to invest and also be beneficial for the learners.

1.5 Limitations of the Study

- i. This study is mainly concerned to only two Commercial Banks.
- ii. The whole study is based on secondary data from the respective banks and websites, article, newspapers, journals, etc.
- iii. The study will base only on the latest 5 years data.
- iv. Lack of sufficient time and resources.
- v. Two banks are not competitive but commercial banks.
- vi. In this study only selected tools and technique are used.
- vii. 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 1 : 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 2 : 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 3: 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 4: 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 5 :Summary, Conclusions and Recommendations

This chapter deals with summary of the study held, the conclusions made ultimately and the possible suggestions.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

A review of the literature is an essential part of academic research project. The review is a careful examination of a body of literature pointing toward the answer to the research question. Literature reviewed typically includes scholarly journals, scholarly books, authoritative databases and primary sources. Sometimes it includes newspapers, magazines, other books, films, and audio and video tapes, and other secondary sources. In other words, a literature review is a body of text that determines the aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Also, a literature review can be interpreted as a review of an abstract accomplishment.

Most often associated with academic-oriented literature, such as a thesis, a literature review usually precedes a research proposal and results section. Its main goals are to situate the current study within the body of literature and to provide context for the particular reader.

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

2.2 Conceptual Frame Work

2.2.1 Commercial Bank

A commercial bank (or business bank) is a type of financial institution and intermediary. It is a bank that lends money and provides transactional, savings, and money market accounts and that accepts time deposit.

Commercial bank act 1975 A.D. defined "A commercial bank is one which exchange money, 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 bus mess enterprises, regardless of the scope of its other service (banking USA 172).

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

The profit of the bank depends upon the lending procedure applied by the bank in different securities and other different investment areas. The greater the credit created by the bank, higher will be the profitability. Sound policies help commercial banks to maximize quality & quantity of investment and thereby: achieve the objective of profit maximization & social welfare.

2.2.2 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 but return in uncertain too. Uncertainty is measured by risk that why there is always involvement of risk in investment.

Investment usually involves putting money into abet, 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.

“Investment is made in assets. Mainly, assets are of two types: real assets (land, building, factories etc.) and financial assets (stock, bond, T-bill etc.). These two investments are not competitive but complementary. Highly developed institutions for financial greatly facilitate real investment.”

Investment is nothing but developing our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income (Delhi Stock exchange 2002). The term investment covers a possible where there are devour saving. If all the income & saving are consumed to solve the problems of hand to month and to other basis needs then there is non existence of in investment are interrelated.

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, their profit must invest in the 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 & procedure of its funds invested in different securities. The greater the credit created by the bank the higher will be the profitability. A sound investment policy is not only prerequisite for the bank's profitability but also crucially significant for the promotion of 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 secure and safe sectors. Investment in unsafe and insecure sectors with the hope of getting more return is to accept the security of low quality. The condition of unsafe arise when a bank invest in large loan against less securities by receiving commission, invests in new places without careful observation, lending 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 ahead for investment good bank 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 then while investing in difference securities and granting loan from excess fund.

D. Purpose of Loan

This is 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 be always careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average.

F. Tangibility

Assets that have a physical form. Tangible assets include both fixed assets, such as machinery, buildings and land, and current assets, such as inventory. The opposite of a tangible asset is an intangible asset. Nonphysical assets, such as patents, trademarks,

copyrights, goodwill and brand recognition, are all examples of intangible assets. Certain types of assets receive special treatment for accounting purposes. For tangible assets with an anticipated useful life of more than one year, a company uses a process called depreciation to allocate part of the asset's expense to each year of its useful life, instead of allocating the entire expense to the year in which the asset is purchased.

G. Legality

A commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. Illegal secretes will bring out any problems to investors.

2.3 Some Important Terms

The various sections in this study comprise 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 major sources of lending and interest is 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. 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 these 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 day, most of the commercial banks purchase shares and debentures of regional development bank, NIDS, Hydropower Company after listed in Nepal Stock Exchange.

2.3.1. As overview of NRB Rules & Regulation regarding investment policy of Commercial Banks

NRB established in 2013 BS as the central bank of Nepal. It's determining role in economic plans and implementation in the country is major. The main objective of NRB is to manage the economic and financial transaction over the country. Systematic allocation and management and implementation economic factor over the state is governed by NRB as a central bank. All economic plans, progress, policy, strategies, implementation, evaluation made by government are performed under the direction of NRB. So, NRB is the bank of government works for the welfare of nation. Similarly NRB direct the bank and other financial institution by plans, policies, direction, rules and regulations from NRB as a representative of government. To allocate and mobilized the deposits collected by commercial bank in different sectors' of different policies etc. In fact NRB controls the over the overall activities made by the commercial bank as well as establishment or operation or dissolution of banks. Nepal Rastra Bank, Central Office, Bank and Financial Institutions Regulation Department has issued following provisions relating to investment, Lending to Deprived Sector & Opening and Closing of Branch/ Offices.

The following Directives have been issued with regard to investment of financial resources of a licensed institution having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

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. 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.

3. Provisions for Investment in Shares and Debenture of Corporate Bodies

- a) 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.

- b) 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 pursuant to clause (ad) of sub-Section (2) of Section 47 of the Banks and Financial Institutions Act, 2006 by the class "B" licensed institutions and pursuant to clause (u) of sub-Section (3) of the same Section of the same Act, licensed institution shall not invest more than twenty-five percent of the core capital of immediately preceding month.
- c) While investing in housing construction and land development by a licensed institution, 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.
- d) 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. 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.
- e) Chairperson/member of a parent company shall not be allowed to be the chairperson or member of the subsidiary company. In case of Directors who are Directors in the subsidiary company prior to issuance of these Directives on May 10, 2011, he/she shall have to move from it before the upcoming first general meeting of the parent company or within one year of issuance of this directive, whichever is earlier.

4. Arrangement for Underwriting Of Share and Debentures

(1) For "A" Class licensed institutions, there is no limit prescribed for underwriting the shares and debentures.

5. 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.

6. 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. 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 Points 2 and 2.B.3 (Investment Policy) of Directives No. 4/067 and the details thereof shall be prepared in the format of Nepal Rastra Bank Directive form No. 8.2.

7. Provisions Relating to Purchase/Investment in Fixed Assets (House/Land) For Own Purpose

The banks of financial institutions incorporated and in operation under the A class licensed institution shall not 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:

8. Additional Arrangement Regarding Investment

- 1) 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.
- 2) The core capital maintained in the Directives relating to investment means, the core capital maintained at the immediately preceding trimester except specifically stated otherwise.

9. Actions for Non-Compliance of Directives on Investment

Action under Sections 99 or 100 of Nepal Rastra Bank Act, 2002 may be initiated for non-compliance of the Directives by the licensed institutions relating to investment.

10. Repeal and Saving:

- 1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to investment made in the Unified Directives, the Directives issued under Directive No. 8/068 and all circulars issued until mid-July, 2011 relating to the matters under this subject.
- 2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank, Central Office, Bank and Financial Institutions Regulation Department has issued following Provisions Relating to Lending to Deprived Sector on Directives No. 17/069

The following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, with regard to the deprived sector lending to be extended by the institutions of Class "A" licensed by this Bank:-

- 1) The "A" class licensed institutions are required to lend at least four percent of their total outstanding loan and advances (including bills purchased and discounted) in deprived sector lending.
- 2) For the purpose of these Directives, "deprived " means low income and especially socially backward women, tribal people, Dalit, blind, hearing impaired and physically incapacitated persons, marginalized and small farmers, craft-men, labour and landless squatters family. All micro-credits to be extended for the operation of self-employment oriented micro-enterprises for the upliftment of economic and social status of deprived sector up to the limit specified by this Bank is termed as "deprived sector lending".
- 3) The following loans and advances directly extended by the licensed class "A", "B" and "C" bank and development banks shall be included under the deprived sector lending:-
 - a) Micro credit extended up to Rs. 60,000 per group/individual against group/personal guarantee to the deprived or low income individual for operating micro business;
 - b) Extension of loan not exceeding Rs. 60,000 per family for the purpose of Micro Hydropower Project up to 50 kilowatts, Solar-Home-System, solar cooker, solar dryer, solar pump, bio-gas, improved water mills, improved cooking stoves and wind energy according to renewable energy technology;
 - c) Micro industrial credit up to Rs. 150,000 for each business extended to deprived or low income individual to operate the micro industries against acceptable collateral/to group members against the guarantee of the group gradually enhanced;
 - d) Loans up to 150,000 per person extended to the individuals who are going for foreign employment on the basis of the tripartite loan agreement between the bank, the person going for foreign employment and the concerned Manpower Company that can produce assurance letter from the employer companies of the employing nation confirming the employment and recovery of loan in installment;

- e) Loans extended up to Rs. 150,000/- per person with or without collateral to persons going for foreign employment;
 - f) Foreign employment loan extended by any "A" class licensed bank in coordination with a bank prescribed by Government of Nepal to workers going for foreign employment under the Youth Self-employment and Employment Training Program of the Government of Nepal;
 - g) The loan not exceeding Rs. 150,000/- extended by bank or financial institutions to per individual/family eligible to receive deprived sector lending for sheep farming to produce wool necessary for carpet or for maintaining handloom to weave carpet against acceptable collateral security shall be calculated as the deprived sector lending. Similarly, the loan not exceeding Rs. 150,000/- extended by banks or financial institutes to per family eligible to receive the deprived sector lending for purchasing fertilizer or installation of seeds and cold storage for seeds and collection, collective storage, products marketing, animal husbandry small irrigation, shallow tube wells.
- 4) The following loans extended indirectly by "A", "B" and "C" class licensed institutions shall be calculated as the deprived sector lending:-
- a) Wholesale loan extended against the institutional capability and institutional guarantee to the "D" class licensed institutions and bodies established for performing micro credit related works under the prevailing statutes relating to financial intermediation activities;
 - b) With a view to improve the level of income and to enhance employment for those living below poverty line, deprived or people with low income, wholesale loan may be extended to the Co-operative Societies licensed by Nepal Rastra Bank and to the Co-operative Societies established and in operation in rural area upon appropriate evaluation by "A", "B" and "C" class licensed institution for the purpose of extension of deprived sector loan as stated in above sub-point (a). The concerned banks shall monitor as to whether or not such loan has been utilized in the deprived sector and submit the report to this Bank in every six months.

- c) Extension of wholesale loan to "D" class micro finance development bank established for the purpose of providing wholesale credit to Small Farmer Cooperative Societies and institutions conducting micro credit activities.
- d) Loans not exceeding Rs. 150,000/- extended to the workers going for foreign employment by the licensed financial institutions by borrowing funds from "A", "B" and "C" class licensed institutions. Such loan shall be calculated only as deprived sector lending of the "A", "B" and "C" class licensed institutions. Moreover, bank and financial institutions are required to obtain progress report in every six months regarding the utilization of the extended credit towards deprived sector from the institutions which were provided with wholesale credit with the intention of including the same under the deprived sector lending. If such wholesale credit is, during the inspection of this Bank, found to be misused, the amount to the extent of misuse shall not be considered for as deprived sector lending.
- 5) The promoter share capital investment made by the licensed "A", "B" and "C" class banks and financial institutions in the class "D" financial institutions shall also be calculated as indirect the deprived sector lending.
- 6) Cent percent of the amount received by micro finance development banks from the licensed institutions under the deprived sector lending shall have to be compulsorily extended to the deprived sector. If no such investment is made, the wholesale loans to be extended to the licensed institutions to the micro finance development banks shall not be calculated as the deprived sector lending.
- 7) The loans extended to the deprived sector shall be calculated based on the total outstanding loans before six months (including bills purchases and discounted, except the portion of the deprived sector) in every quarter i.e. at the end of the months of Ashwin, Paush, Chaitra and Ashadh.
- 8) The loans to be directly extended to hospitals by the licensed commercial banks ("A" class), development banks ("B" class) and finance companies ("C" class) subject to the following terms and conditions shall be calculated as the deprived sector lending:-

- a) Such hospitals shall have to be incorporated in the concerned agency as a notprofit- making company.
 - b) The concerned bank/financial institution may extend up to 5 percent of their core capital for this purpose.
 - c) The concerned hospital shall have to fully comply with all the terms and conditions prescribed by the concerned agency at the time of granting operational approval.
 - d) The concerned hospital shall have to make provisions for providing at least 10 percent of its total bed capacity free of cost to the people belonging to deprived sector.
 - e) The concerned banks and financial institutions shall extend loan only after confirming that the terms and conditions referred to in clause (a) to (d) above have been fully complied with. 405
- 9) Regarding Inclusion of Low Cost Housing Loans in Deprived Sector Lending:
The loans extended fulfilling the following conditions for the purchase of land and house construction to the persons eligible for inclusion under the deprived sector shall be eligible for inclusion under the deprived sector lending:-
- a) The loan not exceeding four hundred thousand rupees provided against secured collateral on a group or individual basis.
 - b) The credit policy of the concerned bank and financial institution has to contain the specific policy as to the extension of loan to deprived sector for the purpose of purchase of land and house construction.
 - c) All necessary requirements according to the laws in force for the time being and the Directives of this Bank have to be observed.
 - d) Deprived sector shall mean people with low income, particularly socially backward women, tribal people and dalit, blind, having the hearing capacity impaired and physically disabled, marginalized and small farmers, craft-men, labour and landless squatters as defined in Point No. 1 above.
- 10) Regarding Micro-Credit. The "D" class micro-finance institutions may lend fully secured micro-finance of up to Rs. 60,000 (sixty thousand only) to the intending individuals who are not affiliated to any Group.

Relating to Young and Small Entrepreneurs Self-Employment Fund

- 1) One third of the amount to be extended to deprived sector by banks financial institutions i.e. 3 percent ("A" class), 1.5 percent ("B" class) and 1.0 percent ("C" class) shall deposited in the account opened in the name of Government of Nepal, Ministry of Finance, Youth and Small Entrepreneurs Self Employment Fund (herein after referred to as the "Fund") opened in its own. This clause shall not prohibit the interested banks and financial institutions to contribute more into this account. The amount disbursed to the Fund shall be deemed to be the loan extended to the Fund by the bank and financial institutions, and such fund shall be considered as the deprived sector lending. 406
- 2) For the purpose of categorization of loan and provisioning, the loan disbursed by the bank according to sub-clause (1) above, under any circumstances, shall qualify for categorization as pass loan. Similarly, for the purpose of capital adequacy under BASEL II, such loan may be included under the head "Claims on Government" and that "B" and "C" class financial institutions may provide zero risk weighted to such loans.
- 3) The bank and financial institution shall open the account in the name of "Youth and Small Entrepreneurs Self Employment Fund" after obtaining the documentation including the authority for opening and operation of the account and signing of the loan deed.
- 4) It shall be the responsibility of the fund to repay the loan disbursed to it by the bank and financial institution according to Clause (1).
- 5) The agreement between the banks and financial institutions and the Fund shall be executed according to the format referred to in Schedule-1. For this purpose, there shall be no requirement of any documentation other than the said agreement.
- 6) The amount of loan not exceeding two hundred thousand rupees extended to the Youth and Small Entrepreneurs against the collateral of the project itself according to the Youth and Small Entrepreneurs Self Employment Fund (Operations) Rules, 2009 shall qualify for inclusion under deprived sector

lending. However, such lending shall not be deducted from the amount required to disburse according to Clause (1) above. Following provisions shall apply in respect of disbursement of such loans:-

- a) Depending on the nature of the project, the tenure of the loan shall be up to five years. Bank and financial institutions shall prescribe the installments to be paid according to its rules. Grace period for payment of principal and interest shall be as prescribed by the Fund.
- b) The movable and immovable assets related to the self-employment oriented business of the concerned person shall remain as the collateral until the principal and interest are fully paid up.
- c) All rights to accept or reject the loan shall lie with the bank and financial institution. 407
- d) The concerned bank and financial institution shall bear the risk associated with the loan and responsibility as to its recovery.
- 7) For the purpose of lending according to Clause 6 above, the bank and financial institution may obtain refinance facility at 7 percent per annum interest from the Youth and Small Entrepreneurs Self Employment Fund.
- 8) Operations of the Fund shall be according to the Youth and Small Entrepreneurs Self Employment Fund (Operations) Rules 2009, the Directives issued by this Bank.
- 9) Notwithstanding anything contained in the foregoing, the licensed banks and financial institutions (other than the Class “D”) need not have to deposit, according to a circular issued on March 10, 2011, amount in the Youth and Small Entrepreneurs Self Employment Fund, which is to be calculated in the deprived sector lending, to be effective from the mid-April, 2011 until a new circular is issued. Provided that though there is no immediate need to deposit amount to the Youth and Small Entrepreneurs Self Employment Fund, the banks and financial institutions shall continue to invest the amount as referred to in Point No. 1 of these Directives to the deprived sector.
- 10) The quarterly statement relating to deprived sector lending shall be prepared in the format referred to in NRB Form No. 9.5 and be sent to the concerned

supervision Department of this Bank within 15 days of the completion of the quarter.

- 11) The concerned licensed institution shall have to state clearly in its Credit Policy the policy and procedural provisions relating to the loans to be extended to the deprived sector.
- 12) Notwithstanding anything contained in other Directives, no loan loss provision of 20 percent shall be required for the loans to be extended to the deprived sector directly or indirectly against the group/personal/institutional guarantee.
- 13) In case the licensed institution of classes “A”, “B” and “C” do not extend the deprived sector lending to be extended according to the Directives relating thereto or extend lesser amount of loans, the amount not extended or less extended shall be fined to the concerned licensed institution at the rate of highest percentage of interest it charges on loans during that calculation time pursuant to Section 81 of the Nepal Rastra Bank Act, 2002.
- 14) Repeal and Saving:
 - a) The following Directives issued by this Bank heretofore have been repealed: - Provisions relating to deprived sector lending made in Unified Directives, the Directives issued under Directive No. 17/068 and all circulars issued until mid- July, 2012 relating to the matters under this subject.
 - b) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank, Central Office, Banks and Financial Institutions Regulation Department issued Provisions Relating to Opening and Closing of Branch/Offices on Directives No. 14/069

The following Directives have been issued with regard to operation and management of branch/office of licensed institution having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Provisions Relating to Opening of Branch/Offices

- (a) "A" and "B" class licensed institutions having fulfilled the following terms and conditions may open new branch offices:-
- i. Having prepared a feasibility study report showing that it is financially viable to open a branch in the proposed location;
 - ii. Having fulfilled the minimum paid up capital requirement as prescribed in policy guidelines and Directives of this Bank or having submitted to this Bank information as to the activities carried out according to the capital plan where time period has been given to fulfill the same;
 - iii. Having complied with the term and conditions stipulated at the time of issuing license and having fulfilled the requirement of capital fund in the immediately preceding quarterly financial statement prior to opening the branch;
 - iv. Having made arrangement for immediate connectivity for flow of information to and from the head office systems by establishing networking or by electrical means;
 - v. Not having the portion of the non-performing loan more than five percent in the last quarter;
 - vi. The decision to open and operate branch office has to be made by the Board of Directors. Such decision shall be notified to this Bank within the 15 days from the date of the decision. The branch shall have to be operated within 6 months from the date of notification to this Bank.
 - vii. A branch may be opened in Kathmandu Valley only after a new branch outside Kathmandu Valley has been opened and become operational and fulfilled all required terms and procedures stipulated in sub-clause (i) to (v) of clause (a) above. For this purpose, the mid-July of 2008 shall be taken as the base and the branches opened after the said date with information to this Bank shall qualify for the purpose of considering branches opened in Kathmandu valley and outside.

- viii. The "B" class licensed institution having the scope of activities limited within the stipulated districts may open branch office within their area on fulfillment of the terms and conditions stated in clauses (i) to (v) above.
- (b) The "C" class licensed institution having fulfilled the following conditions may open new branch office subject to the approved working area:-
- i. Having prepared a feasibility study report showing that it is financially viable to open a branch in the proposed location;
 - ii. Having fulfilled the minimum paid up capital requirement as prescribed in policy guidelines and Directives of this Bank or having submitted to this Bank information as to the activities carried out according to the capital plan where time period has been given to fulfill the same;
 - iii. Having complied with the term and conditions stipulated at the time of issuing license and having fulfilled the requirement of capital fund in the immediately preceding quarterly financial statement prior to opening the branch;
 - iv. Having made arrangement for immediate connectivity for flow of information to and from the head office systems by establishing networking or by electrical means;
 - v. Not having the portion of the non-performing loan more than five percent in the last quarter;
 - vi. The decision to open and operate branch office has to be made by the Board of Directors. Such decision shall be notified to this Bank within the 15 days from the date of the decision. The branch shall have to be operated within six months from the date of notification to this Bank.
 - vii. In addition to the fulfillment of minimum paid up capital according to subclause (ii) above, where a sum of five million rupees per branch in addition to the paid up capital has been fulfilled, one branch outside Kathmandu Valley and where a sum of 20 million rupees per branch in addition to the paid up capital has been fulfilled, one branch in the Kathmandu Valley may be opened. For this purpose, the fulfillment of the minimum paid up capital of 20 million rupees or fulfillment of additional capital required according to the capital plan for annual proportionate increment based on the paid up capital maintained at

the mid-July, 2008 as well as arrangement of additional capital as above shall qualify for the purpose of calculating branches.

- viii. A branch may be opened in Kathmandu Valley only after a new branch outside Kathmandu Valley has been opened and become operational and fulfilled all required terms and procedures stipulated in sub-clause (i) to (v) of clause (a) above. For this purpose, the mid-July of 2008 shall be taken as the base and the branches opened after the said date with information to this Bank shall qualify for the purpose of considering branches opened in Kathmandu valley and outside.
- (c) The "D" class licensed institutions may open a branch office within the approved working area on fulfillment of the following conditions:-
- i. "D" Class licensed institutions having adequate capital as prescribed by this Bank shall not require any approval of this Bank to open, close, shift or merge any Branch Office within the approved working area. The information as to shifting, closing and opening of branches shall be provided to this Bank within 15 days of such activity.
 - ii. The financial institution engaged in micro finance activities may expand branches by extending their operation to additional districts adjoining to the existing geographical area and other additional districts proportionately by adding Rs. 2.5 million for each additional district in the paid up capital outstanding as of the mid-July of 2008. The institutions willing to expand their operation to additional district shall submit statement of increment in the paid up capital duly certified by the auditor to the Regulation Department and the concerned Supervision Department of this Bank.
- (d) Financial institutions established and carrying out financial transactions in Municipality or Village Development Committee under special provision shall not be eligible to establish any branch office or additional offices.
- (e) In special situations, institutions having not fulfilled the above mentioned terms and conditions at the time of making the decision to open branch/office or at

the time of operation and the institutions under the process of management restructuring may establish branch office/other office subject to the conditions stipulated by this Bank.

- (f) Bank and financial institutions having already received an approval from this Bank for opening of the branch but the financial transactions of the branches have not yet commenced, may open the branch and commence operation only on fulfillment of terms and conditions stated in (a) and (b) above.

2. Provisions relating to Closing and Shifting of Branch Offices

- (a) The "A", "B" and "C" class licensed institutions shall not close or shift or merge any branch or any of its offices without the prior approval of this Bank.
- (b) Where the "A", "B" and "C" class licensed institutions require to shift the branch within the same Ward of the Municipal Corporation, Sub-Municipal Corporation and Municipality and in case of the Village Development Committee area within the same VDC, the same has to be communicated to this Bank within seven days of such shifting as decided by the Board of Directors.
- (c) Where licensed institutions desires to change address of central/corporate office or to shift it, it may be done by amending/ providing in the Memorandum of Association and Article of Association according to existing laws with the approval of this Bank.

3. Maintaining Branches/sub-branches status quo:

No approval of this Bank shall be required to reopen the branches/sub-branches which were closed/merged in the past owing to security reasons just informing to this Bank and with or without approval of this Bank. Once such branches/sub-branches come into operation as earlier, information thereof shall be given to this Bank within seven days.

4. Provision Relating to Office Hours:

The licensed institutions shall compulsorily operate their offices on the days and time when this Bank is open. Provided that in case of need of operation of business transaction on other holidays and extended time, in addition to opening during the office hours of this Bank, business transaction may be carried out having submitted a prior information in writing to the Bank and Financial Institutions Regulation Department and the concerned Supervision Department of this Bank.

5. Provision Relating to Extension Counter and Liaison Offices

The licensed institutions maintaining the capital adequacy stipulated by this Bank shall comply with the followings for already opened or proposed extension counters: -

- (a) No extension counters shall be allowed to open within the Kathmandu Valley, Municipal Corporation and Sub-Municipal Corporation area. Provided that extension counters may be opened with prior information to this Bank for a short-period i.e. not exceeding 35 days for deposit collection, cheque payment and foreign currency exchange transactions especially at places of trade festival, fair, places of operation of pension and market, etc.
- (b) Extension counter of any licensed institution of "A", "B" and "C" class may be opened in places other than those referred to in clause (a) above with prior approval of this Bank. Collection of deposit and payment of deposits may be made from such extension counter. Provided that approval from Foreign Exchange Department of this Bank shall be necessary for carrying out foreign exchange buying/selling transactions.
- (c) Counters opened by "A" and "B" class licensed institutions with the approval of this Bank within the premises of this Bank, courts hospitals, offices of foreign diplomatic missions as well as for distribution of pension to the Nepalese people working abroad and for the purposes of revenue collection/government transaction shall not carry out any transactions other than collection of deposit and payment in the Nepalese Rupee. Similarly, approval to open extension counter may be given only for the purpose of collection of tariffs of telephone, electricity, water and insurance premium by

establishing a counter within the compound of such utility providers. Moreover, for the purpose of providing approval to open such extension counters, the provisions of clause (a) shall not be applicable. Provided that such provision shall have to be complied with in order to open a branch.

- (d) Licensed institution complying with the stipulated conditions with respect to extension of branch may, having obtained an approval of this Bank, open, remittance payment counters for purpose of payment of foreign remittances.
- (e) Only the licensed institutions established with foreign equity participation shall be allowed to open liaison/representative office according to the conditions stipulated by this Bank.

6. Provisions Relating to Branchless Banking

Permission to operate services relating to branchless banking may be granted only in the areas within the Kathmandu valley, other than Municipality/sub-Municipal Corporation/Municipal Corporation areas, subject to the following terms and conditions, only to class 'A' commercial banks and national level class B development banks willing to be engaged in functions relating to branchless banking services in the remote/rural areas having used smart card through the point of transaction machine and with the help of business correspondent:-

1. The banks and financial institution willing to operate services relating to branchless banking has to bring it into operation having technically evaluated the capacity of the work performance of the machine performing works relating to branchless banking and having entered into a Memorandum of Understanding with the company supplying the machine.
2. The banks and financial institution willing to operate services relating to branchless banking shall commence the transaction having provided information to this Bank with regard to the required infrastructures (hardware, software, data communication/transmission mechanism and so on) and the necessary efficient human resources.
3. While carrying out transaction with the help of single machine through the means of existing communication (PSTN, Cellular communication), the most

important aspect is that of strengthening the security and controlling the risks.

Accordingly, the following standards have to be met:-

- The concerned bank has to abide by/maintain the industry standard security features while carrying out acts relating to branchless banking;
 - Provisions have to be made for maintaining the network and database of the bank fully secured;
 - In case of purchase of a software, it must be brought into operation having entered into an agreement with the authorized vendor who has acquired software license certificate;
 - The technology to be used for branchless banking has to be secured and it must ensure confidentiality, integrity and authenticity;
 - The cash and other assets to be used in such services must be ensured;
 - In case there arises any problem in technical management whereby payment transactions is affected and the database is damaged, the concerned banks and financial institution shall have to be fully accountable for the damage;
 - Having regard to the security situation of the business correspondent and particular location, the class 'A' commercial banks and class 'B' national level institutions may determine the limit of amount for transaction;
 - The place of transaction of the business correspondence shall have to be secured and convenient to all.
4. Only the services of deposit and payment in the Nepalese currency shall be provided through the branchless banking and cross-border transaction and the use of foreign currency in payment shall not be allowed.
 5. Only accepting deposit, making payment and carrying out credit transaction shall be allowed through the branchless banking.
 6. The concerned banks and financial institution shall be liable for identification and management of entire risks associated with branchless banking.

7. The concerned bank has to prescribe the nearest branch or parent branch in order to have direct control over the transactions of the business correspondent making available such services.
8. Upon completion of the daily transaction, the data must compulsorily be transformed to the nearest branch or parent branch or the central office and appropriate provision of back up shall have to be made.
9. The decision as to operation of the branchless banking shall have to be taken from the Board of Directors of the concerned banks and financial institution.
10. Functions relating to payment services and deposit acceptance may be carried out having fulfilled the aforesaid terms and conditions, other prevailing laws and subject to the Directives of this Bank with the prior approval of this Bank.

7. Provisions Relating to Mobile Banking Service

The licensed commercial banks and class 'A' and 'B' development banks of national level may, subject to the following terms and conditions and policy provisions, operate mobile banking service in the places where there is no access of banking services:-

1. The mobile banking service shall have to be operated/implemented having fixed any nearest branch of one's own as liaison/control office at any place in the country except the areas of Municipal Corporation, sub-Municipal Corporation and Municipality within the Kathmandu valley.
2. The cash, cash-in-transit, transport vehicles, employees and other assets to be involved in the mobile banking service shall have to be insured.
3. The concerned banks and financial institution shall have to identify and manage on its own the risks including security system risks associated with operation of this service.
4. No service charge, other than the service charge applicable at present, may be charged on the customers for making available the mobile banking service. Provisions have to be made for immediately reflecting the details for the transaction and its impact on the account of the customer.

5. Approval of the concerned authority or official of Government of Nepal shall be obtained as may be necessary with regard to the place and other things of making the mobile banking service available. Arrangement of means of making modern communication has to be made so that immediate contact may be made with local police, administration as may be necessary.
6. The institution willing to operate mobile banking service may, having regard to the security situation and particular location where the service has to be made available, prescribe the limit of transaction on its own.
7. The deposit and payment services have to be made available in the Nepalese currency only through the mobile banking service.
8. Provision of security guards along with weapon shall have to be made at the spot where the mobile banking service is being made available.
9. The Internal Audit Department of the bank shall have to cover the mobile banking service in the internal audit having made certain criteria in order to make the service secured.
10. The institution operating the mobile banking service shall not make available services other than the deposited-related transaction of customers and the remittance services.
11. The concerned banks and financial institution shall have to install infrastructure and information system in order to make available the necessary services in the transport vehicles to be used while operating these services.
12. The staff to be deputed to the mobile banking service shall have to prepare the log-book of the vehicles and other documents evidencing that the vehicle moved only in the approved geographical area.
13. The data base and network of the bank shall have to be fully secured.
14. Arrangement has to be made to instantly transmit and exchange the information in the software data to the central information system of the institution.
15. Decisions as to operation of the mobile banking service shall have to be made by the Board of Directors of the concerned banks and financial institution.

16. The mobile banking service may be made available only after obtaining a prior approval of this Bank subject to the aforesaid terms and conditions, other prevailing laws and Directives of this Bank.

8. Opening Branch offices in abroad by class 'A' commercial bank

The following policy and procedural measures have been made with regard to establishing in foreign countries a branch office by the licensed class 'A' commercial banks subject to the following terms and conditions and norms:

Terms, Conditions and Norms

1. The feasibility study report showing that the proposed place is financially potential for extension of branch, plan of the proposed business, comparative cost-benefit analysis, commercial strategy and types of the transaction to be operated, internal control, risk management and detail as to the bilateral relationship of Nepal with the host country have to be submitted to this Bank.
2. While submitting application to open branch in a foreign country, minimum paid up, capital of the class 'A' commercial bank making such application shall have to be two billion rupees.
3. The capital assigned by the regulating body of the host country in which the branch office is going to be established, have to be met and the details of the sources for management of the capital shall be submitted along with the application.
4. In order to bring into Nepal the dividend in the form of profit in foreign currency from the country in which the branch office is to be established and in order to bring back the assigned capital in the foreign currency in which it was taken to there or in a convertible foreign currency in the rare event of need to close the branch office, therefore, the documents evidencing that the law and policy provisions of the host country do not restrict these activities shall have to be produced.
5. In addition to meet the terms and conditions prescribed while granting license from this Bank, the capital fund prescribed by this Bank has to be maintained in the quarterly statement before opening a branch in abroad.

6. In order for exchange of information in the branch in abroad, arrangement of networking or electronic medium shall have to be made for immediate link with the information system of the central office.
7. The non-performing assets shall have to be less than five percent in the immediately preceding trimester.
8. The Board of Directors of the concerned bank shall have to make decisions relating to establishment/operation of branch office in abroad. Within 15 days from the date of decision by the Board of Directors, information thereof shall be furnished to this Bank. Approval shall be granted within 120 days from the date of information furnished to this Bank. Within six months from the date of obtaining approval of establishing branch office in abroad, the branch office shall have to be established and transaction shall have to be commenced. In the event of failure to open the branch office within the prescribed period, the approval shall ipso facto be revoked and in order for getting approval to establish a branch again, application shall have to be submitted afresh.
9. The statements to be furnished to the Banks and Financial Institutions Regulation Department and Banking Supervision Department of this Bank according to the prevailing provisions, financial statement (consolidated and separate) of the branch office being operated in abroad shall also have to be submitted.
10. The licensed institution of class 'A' establishing branch office in abroad shall not be allowed to close or shift or amalgamate the branch office without a prior approval of this Bank.
11. In case the licensed institution of class 'A' establishing branch office in abroad desires to change or shift the address of the branch office, a prior approval of this Bank shall have to be obtained.
12. Once the bank desiring to establish branch office in abroad acquires the no objection letter according to the criteria set by the concerned host country, this Bank shall grant the no-objection letter upon fulfillment of the terms and conditions and policy provisions prescribed by this Bank.

13. The bank desiring to open branch office in abroad shall have to fulfill all the Directives given by the regulating body of the host country and shall always have to maintain the description of capital and capital adequacy as prescribed by this Bank.
14. Except the capital assigned for the purpose of branch office in abroad no type of amount or convertible foreign currency shall be allowed to be taken.
15. Written undertaking made by the Board of Directors of the parent company located in Nepal shall have to be submitted to this Bank stating that the amount required for meeting all the liabilities of the commercial functioning of the branch in abroad and any other liability shall be made available on demand by the Nepal Rastra Bank.
16. Power to regulate and supervise entire transactions of the branch in abroad shall be vested in the Nepal Rastra Bank and the regulating and supervisory authority in the host country. According to the prevailing laws, periodic offsite and on-site supervision of such branches shall be carried out regularly. For the supervisory functions, the bank shall have to co-operate the supervisor in an institutional manner.
17. Unless otherwise stated, the Directives, circulars and guidelines issued by the Nepal Rastra Bank for licensed Banks and financial institution shall apply also to the Branch in abroad. In case any special provisions have to be under or any decision has to be made with regard to such branches, the Nepal Rastra Bank may do as may be necessary. In case of non-observance of policy Directives and laws, actions shall be taken and punishment be imposed according to the prevailing national and international practices.
18. The licensed institution of class 'A' establishing branch office in abroad shall, while submitting application for this purpose, fill in the form in the prescribed format and submit it along with a voucher evidencing the deposit of two hundred thousand rupees as registration fee in the Na. No. A accounts of the Nepal Rastra Bank.
19. The instruments including the banking procedures, the loan Directives to be followed while operating branch office in abroad shall have to be submitted to

this Bank in due time. The information relating to actions with regard to punishment, fine imposed by the regulating and supervisory authority and good governance practices of the host country have to be submitted to the Regulation Department and Supervision Department of this Bank within 15 days.

20. The Assets (Money) Laundering Prohibition Act shall have to be fully complied with while operating branch office in abroad.

9. Actions to be taken for non-compliance of Directives relating to Branch/Office:

In case a licensed institution opens and operates a branch office without complying with these Directives relating to Branch/Offices, the following actions shall be taken according to the Nepal Rastra Bank Act, 2002:

1. The branches opened without complying with the process and terms and conditions shall immediately be closed and no additional branch office may be opened for a period of upcoming two years.
2. The Directors involved in decisions to operate branch office without complying with the process and terms and conditions shall be taken actions and punished pursuant to Section 100(2) of the Nepal Rastra Bank Act, 2002.
3. Any action may be taken according to the Banks and Financial Institutions Act, 2006 and other laws in force for the time being.

10. Form to be filled in Before Transaction:

Prior to decide and operate transaction by licensed institution under these Directives, the form referred to in schedule 14.2 (enclosed herewith) shall be filled in and be submitted to this Bank. In case this Bank makes any remarks relating thereto, the branch office shall have to be operated only after complying with the remark so made.

11. Repealed and Saving:

1. The following Directives issued by this Bank heretofore have been repealed: - Provisions relating to opening up of branch/office contained in the Unified

Directives, the Directives issued under Directive No. 14/068 and all circulars issued until mid-July, 2012 relating to the matters under this subject.

2. Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

2.3 Review of Books

Sharp, Alexander and Clark, (1983), said in the book “Investment analysis and management” that “investment in its broadest sense, means that sacrifices of current dollars for future dollars. Two different attributes are generally involved: Time & Risk. The sacrifice takes place in the present & is certain. The reward comes later of at all and the magnitude is generally uncertain”.

Real Investment: Generally, it involves some kind of tangible assets such as: land, machinery & factories.

Financially Investment: Involves contract has written on piece of paper such as: common stocks & bonds.

Chome, Zinbang & Zeiked, (1982), defined the word “Investment as “Investment has many Factors. It may involve money into bonds, T-bills or notes or common stocks or real state or mortgage or oil venture or cattle 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. For the able or lackey the uninformed result can be disastrous.”

Cross & Hempal, (1980), “Commercial banks bring into being the most important ingredient of the money supply demand deposits through the creation of credit in the form of loans & investment. Banks are the custodians of the community's money as well as the suppliers of its liquidity, since the study is concerned with the investment

activities of commercial in Nepal, we take in to consideration exclusively the sector that are required for & related to the same.”

Chancy, Moses & Edulard, (1983), focuses on the individual investment. They 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 perhaves most importantly the investor should recognize that acheving & investment objective involves the creation of a portfolio of assets and not a collection of individual assets. They 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.

Rainy in his book, (1986), “Investment analysis management & portfolio management” has defined the term investment, “Investment is the current commitment of funds for a period of time to obtain a future flow of funds that will compensate the investment unit for the time the funds are committed for the expected rate of inflation & also for the uncertainly involved in the future flow of fund” (Investment, Japan: the Oryden Press, CBS Publisher Ltd.)

Shrestha, Dr. Sunity, (1995) explains in her book, “Portfolio behavior of commercial banks sector of the economy including agriculture, industry, commercial & social service sectors. The lending policy of commercial is based on the profit maximizing of the institution as well as the economic enhancement of the country.”

From the 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 currently 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.

2.4 Review of Article

Shrestha (1999), in his article, “A study on deposit & credit of commercial bank in Nepal” 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.

Sharma & Bhatt, (2010), in their article “Priority receiver sector” has present “The commercial banks should take care of board national interest & they showed 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 bank. 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 of the 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 materials their objectives despite their some theoretically philosophy & food objectives.”

Pradhan (2011), in his research paper “Role of saving, Investment & capital formation in economic development 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 2000/01 to 2010/10. 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, GOP 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.

2.5 Review of Master's Degree Thesis

On the topic “Investment Policy” have published by many researchers in their research article. The mentioned theses were reviewed as they are relevant to the present research.

Shrestha, (2012), 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 SBI Bank Ltd., Everest Bank Ltd. & Bank of Kathmandu Ltd. The main objectives of her studies are as follows:

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

The Conclusions 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 & debentures.
- All banks should be in rural areas & have to take effective marketing strategy for their promotion.
- New technology have to be introduced so to develop new banking system.

Shrestha, (2012), conducted a study on “Nepal Rastra Bank Guidelines on Investment policy of commercial banks in Nepal (A case study of Nepal Investment Bank)”. The main findings of the study are:

- Bank is in good position to meet the daily cash requirement as bank has maintained the average cash & bank balance in respect to total deposit.
- The performance of Nepal Investment Bank regarding deposit collection granting loan & advance & investment is quite satisfactory but doesn't seem to follow definite policy.
- Nepal Investment Bank has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital.
- Interest earned to total operating income of Nepal Investment Bank is high. However bank failed to maintain net profit on the study.
- From the analysis of coefficient of correlation. There is positive & significant relation between total deposit & loan and advances and current assets and current liabilities and loan and advances but there is negative and no significant relationship between outside assets & her profit.

Joshi, (2009), conducted a study on “Investment policy of commercial banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank Limited & Bank of Kathmandu” has presented research finding of the study are:

- The liquidity position of the EBL is comparatively better than NABIL & BOK. EBL has the highest cash & bank balance to total deposit, cash & bank balance to current assets ratio. Nabil has lowest liquidity position than that of other two banks. EBL has good deposit collection & has made enough investment on

government securities but it is maintained moderate investment policy on loan & advances.

- From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to Nabil & BOK. The total investment of EBL is in between in compared to other two banks.
- In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios. EBL is average profitability ratios. EBL is average profitable in comparison to other compared banks i.e. Nabil & BOK. From the view point of risk ratio, EBL has Higher capital risk but average of credit risk ratio in compared to Nabil & BOK.

Amatya, (2008), in her research study entitled, “A comparative study on investment policy of commercial bank & finance companies of Nepal” has pointed out the following objectives:

- To find out the relationship between profitability & assets structure of the banks & finance i.e., Standard Chartered Bank Ltd. & BOK Ltd. & finance companies i.e. international leasing & finance company, standard finance company & universal finance company.
- To project the deposit utilization & investment of the banks in companion to finance companies.
- To commend the polices to be adopted by sample banks & finance based by sample banks & finance based on financial analysis for its future development.

The study is based on secondary data & time period is limited of 9 years from 2002/03 to 2012/12. This study has mentioned only three banks & three finance companies.

The conclusions of the study are as follows:

- Finance company has successfully invested their deposit collection as loan & advance in comparison to commercial bank as they have higher loan & advance to total deposit ratio.

- Profitability position of the commercial banks except BOK Ltd. is better than that of fiancé companies.
- Trend value of net profit is increasing trend & commercial banks have comparatively higher value than finance companies.

He has made the following recommendation:

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

2.4 Research Gap

he 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 & Sanima Bank Ltd. banking comprehensive manner considering the major items. Different financial & statistical tools have been used in this study. Among them, ratio analysis, regression analysis is 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 & Sanima Bank. This study tires to indicate the effectiveness of investment policy of concerned banks.

CHAPTER -III

RESEARCH METHODOLOGY

3.1 Introduction

Having stated about introduction & reviewing of literature in chapter I & II, now the task has come to make decisive choice of research methods to support the in realistic term with sound empirical analysis. The study with try to come at conclusions regarding with what position Nabil & Sanima has got in the Commercial banking sectors in Nepal. Then these chapters will deals the research methodology used in the study for analysis of the two sampled Commercial Bank.

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. (C.R. Kothari, 1989), 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, to up 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 & 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. Secondary data are the main sources of this study.

On the other hand 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 is 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 plan documents, 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 the context of Nepal, 32 commercial Banks are in operation. These thirty two banks are regarded as population. But, it is not possible to study all data related with these thirty two banks. Hence two banks have been taken as sample from the whole population i.e. thirty two banks. The sample banks are as follows:-

- Nabil Bank Ltd.
- Sanima Bank Ltd.

3.6 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, etc. 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.

3.7 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:

3.7.1 Descriptive Analysis

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

3.7.1.1 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:

$$\text{NRB balance to total deposit ratio} = \text{NRB deposit} / \text{total deposit}$$

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,

$$\text{Total liquid fluid to total deposit} = \text{total liquid fund} / \text{total deposit}$$

3.7.1.2 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. 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, Credit to total deposit = loan and advances / 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, Total investment to total deposit = total investment / total deposit

c. Investment on deprived sector to total deposit ratio:

NRB has directed all the commercial banks to extend minimum 3.5% of total loan and advances (including bills purchased and discounted) to the deprived sector in order to contribute to the national economy.

We have,

Investment in deprived sector to total deposit ratio=Investment in deprived sector/
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,

Investment on financial institution to total deposit ratio = Inv. on financial institution / 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 = Inv. on shares, debentures & bonds / total deposit

3.7.1.3 Risk Ratio

Risk ratio measures the risk associated with the banking variables. A bank raise capital accepts deposit and finally grant loan. These entire things come along with the risk. A bank must consider the risk associated with it. Higher the risk 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,

Credit risk ratio = total loan and advances / 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 = interest sensitive asset / interest sensitive liabilities

3.7.1.4 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 = Net profit / 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:

Return on total working funds ratio = Net profit / total working fund

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.

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 No 4.1

Nabil, NRB balance to total deposit ratio

Year	NRB deposit	Total deposit	Ratio
2008	1,113,415,436.00	23,342,285,327.00	5%
2009	1,829,470,769.00	31,915,047,467.00	6%
2010	2,648,596,348.00	37,348,255,840.00	7%
2011	549,454,618.00	46,340,700,628.00	1%
2012	1,473,986,407.00	49,608,376,346.00	3.0%

(Source: Annual reports)

Table No. 4.2
Sanima, NRB balance to total deposit ratio

Year(mid-July)	NRB deposit	Total deposit	Ratio
2008	51,731,360	1,822,705,055	3%
2009	147,940,793	2,880,871,377	5%
2010	528,845,691	4,417,504,608	12%
2011	84,681,085	5,760,495,363	1%
2012	326,975,202	6,356,737,379	5%

In the above table the NRB deposit to total deposit of two commercial banks are presented. 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.

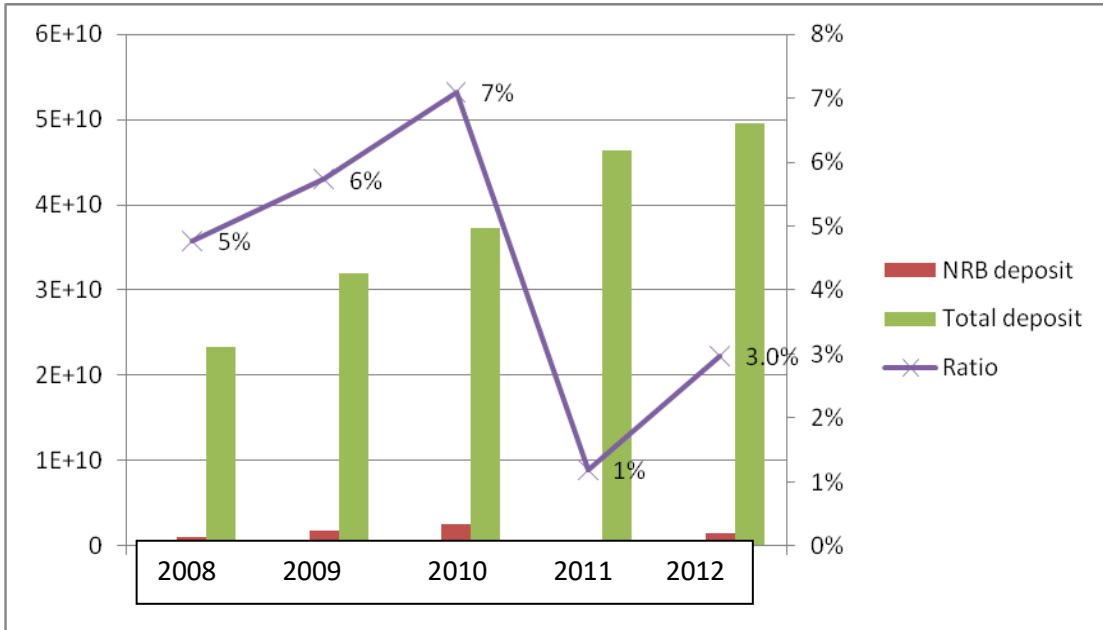
From the above table it has found that Nabil Bank has maintained average 4.995% as NRB balance out of its total deposit. It has fluctuating trend of liquidity position. It has maintained highest ratio of 7% In the year 2010 and lowest ratio of 1% in the year 2011.

Sanima bank has maintained an average ratio of 5.19% as NRB balance. It also has fluctuating trend of liquidity position. It has maintained highest ratio of 12% in the year 2010 and lowest ratio of 1% in the year 2011.

It is clear from the above table that the selected banks have followed the NRB requirement. Both the Banks have maintained 1% of NRB Deposits to total deposits in the year 2011 due to tight liquidity crunch situation.

Figure No: 4.1

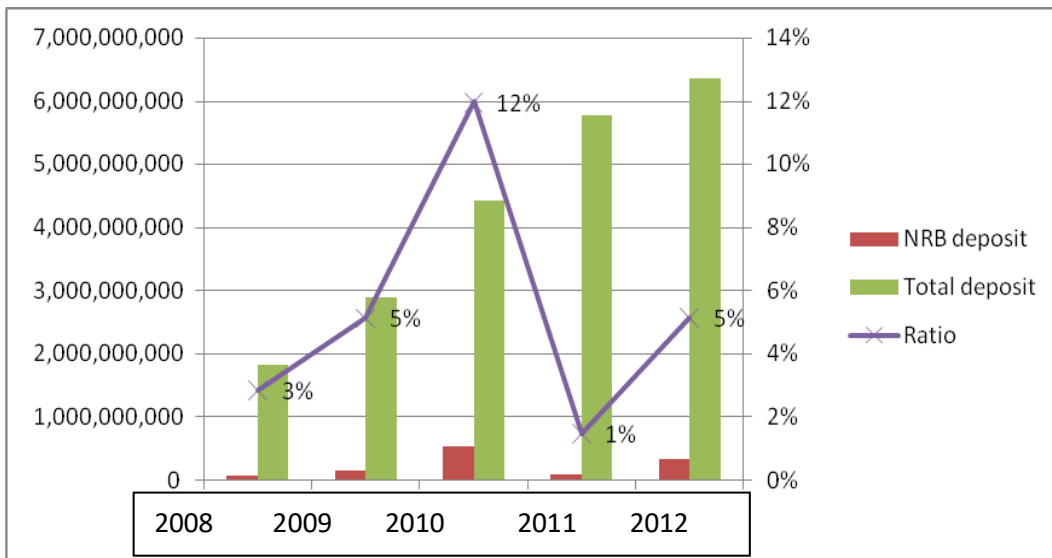
Nabil, NRB deposit to Total Deposit



(Source: Annual reports)

Figure No. 4.2

Sanima, NRB deposit to Total Deposit



(Source: Annual reports)

In the above figure the NRB deposit to total deposit of two commercial banks are presented. Through this figure 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 to maintain the liquidity position of the selected banks.

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It is clear from the above figure that the selected banks have followed the NRB requirement. Both the Banks have maintained 1% of NRB Deposits to total deposits in the year 2011 due to tight liquidity crunch situation.

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 4.3**Nabil, Total Liquid Fund / Total Deposit**

Year(mid-July)	Liquid fund	Total deposit	Ratio
2008	1,963,358,483	23,342,285,327.00	8%
2009	4,623,501,755	31,915,047,467.00	14%
2010	3,925,400,768	37,348,255,840.00	11%
2011	4,518,241,804	46,340,700,628.00	10%
2012	2,483,075,368	49,608,376,346.00	5%

(Source: Annual reports)

Table 4.4**Sanima, Total Liquid Fund / Total Deposit**

Total liquid fund to total deposit ratio			
Yeai (mid-July)	Liquid fund	Total deposit	Ratio
2008	513,090,294	1,822,705,055	28%
2009	596,159,962	2,880,871,377	21%
2010	1,003,632,152	4,417,504,608	23%
2011	1,245,620,682	5,760,495,363	22%
2012	1,903,218,253	6,356,737,379	30%

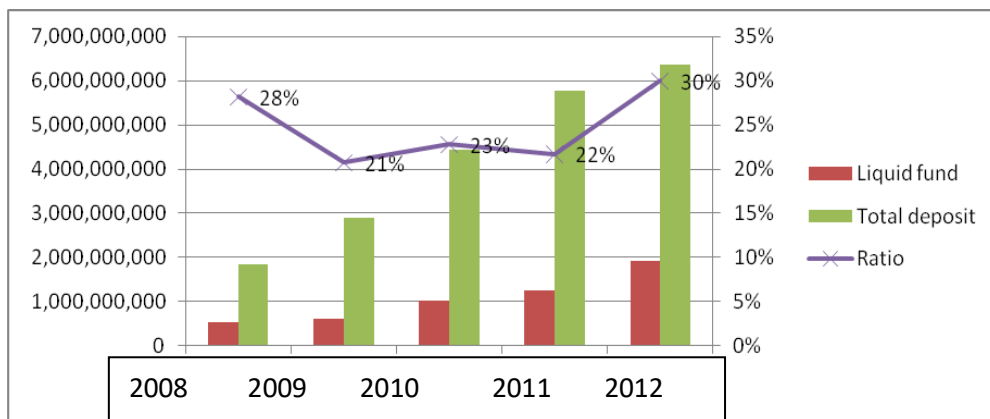
Liquid fund is the amount kept by bank which is equivalent to the cash. Liquid funds are required to meet the short Term obligation and to gain the image and satisfaction of the customers. NRB has directed all the commercial banks to maintain minimum 5% CRR which is changing from time to time. NRB has decreased its minimum requirement from 7% 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 has found that Nabil Bank has maintained average 7.668% as liquid fund of its total deposit. It has fluctuating trend of liquidity position. It has maintained highest ratio of 14.049% in the year 2009 and lowest ratio of 5% in the year 2012.

Sanima bank has maintained an average ratio of 22.5% as liquid fund. It also has fluctuating trend of liquidity position. It has maintained highest ratio of 30% in the year 2012 and lowest ratio of 21% in the year 2009.

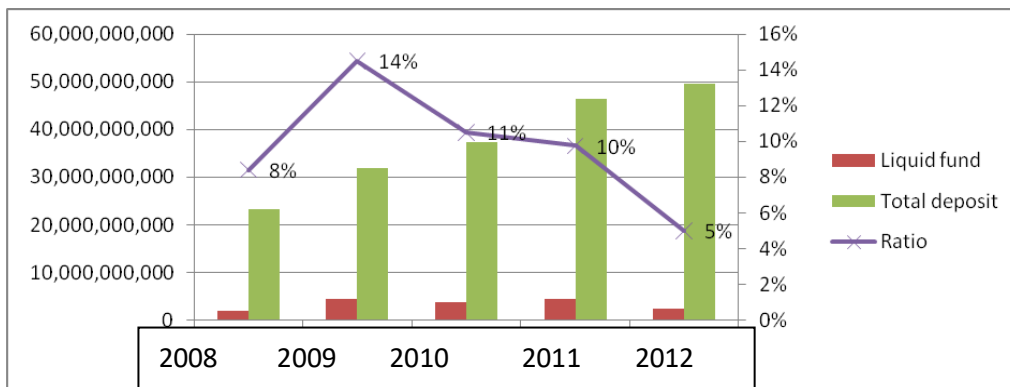
It is clear from the above table that the selected banks have maintained the minimum requirement set by the NRB. The average liquid fund of Sanima is higher than the Nabil due to lower investment avenues for Sanima.

Figure No. 4.3
Nabil, NRB deposit to Total Deposit



(Source: Annual reports)

Figure No. 4.4
Sanima, NRB deposit to Total Deposit



(Source: Annual reports)

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 which is changing from time to time.

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It is clear from the above table that the selected banks have maintained the minimum requirement set by the NRB. The average liquid fund of Sanima is higher than the Nabil due to lower investment avenues for Sanima.

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 Nabil Bank and Sanima 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;
Loan & advances to total deposit =loan advances/ total deposit

Table No. 4.5
Nabil Loan and Advances to Total Deposit Ratio

Year(mid-July)	Loan & advances	Total deposit	Ratio
2008	15,545,778,730.00	23,342,285,327.00	67%
2009	21,365,053,318.00	31,915,047,467.00	67%
2010	27,589,933,041.00	37,348,255,840.00	74%
2011	32,268,873,283.00	46,340,700,628.00	70%
2012	38,034,097,554.00	49,608,376,346.00	77%

(Source: Annual reports)

The table shows that Nabil Bank has an average mean ratio of 72.228%. During 5 years of period the highest investment of Nabil Bank in loan and advances is 77% in FY 2012 and lowest ratio is 68% in the year 2008.

Sanima Bank has an average mean ratio of 84.788%. It has highest ratio of Loan and advances is 100% in the year 2012 and lowest ratio of 82.% in the year 2008.

It is clear from the table that Sanima has invested more deposits in loan and advances than that of Nabil Bank. From this we can conclude that Sanima has accepted Higher risk to survive in the market.

Figure No. 4.5

Nabil Loan and Advances to Total Deposit Ratio

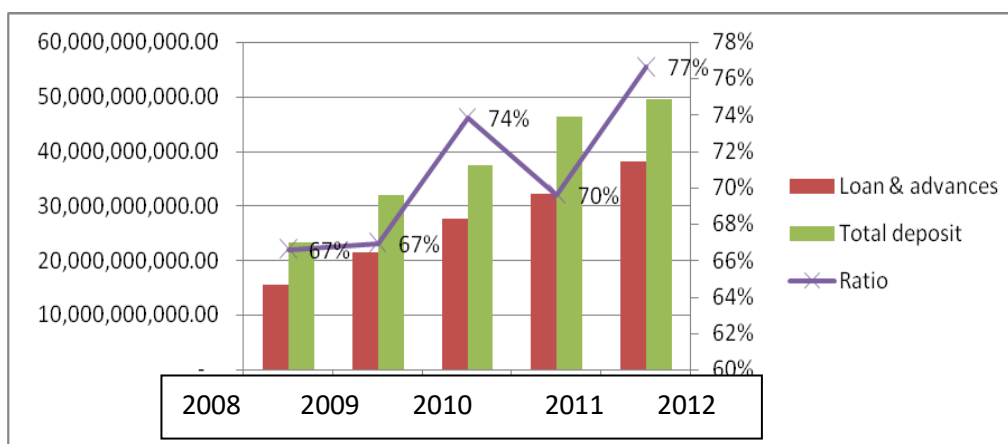


Table No. 4.6

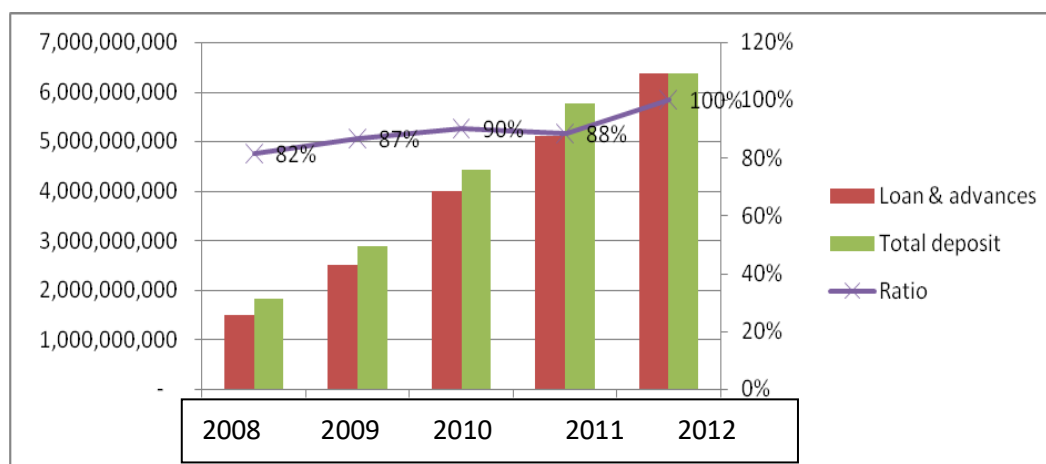
Sanima Loan and advances to total deposit ratio

Year(mid-July)	Loan & advances	Total deposit	Ratio
2008	1,486,897,359	1,822,705,055	82%
2009	2,497,775,181	2,880,871,377	87%
2010	3,992,090,809	4,417,504,608	90%
2011	5,092,099,003	5,760,495,363	88%
2012	6,371,323,985	6,356,737,379	100%

(Source: Annual reports)

Figure No. 4.6

Sanima Loan and Advances to Total Deposit Ratio



The table shows that Nabil Bank has an average mean ratio of 72.228%. During 5 years of period the highest investment of Nabil Bank in loan and advances is 77% in FY 2012 and lowest ratio is 68% in the year 2008.

Sanima Bank has an average mean ratio of 84.788%. It has highest ratio of Loan and advances is 100% in the year 2012 and lowest ratio of 82.% in the year 2008.

It is clear from the table that Sanima has invested more deposits in loan and advances than that of Nabil Bank. From this we can conclude that Sanima has accepted Higher risk to survive in the market.

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;

$$\text{Total investment to total deposit} = \text{total investment} / \text{total deposit}$$

Table No. 4.7

Nabil Investment to total deposit ratio

Year(mid-July)	Investment	Total deposit	Ratio
2008	8,945,310,567	23,342,285,327.00	38%
2009	9,939,771,428	31,915,047,467.00	31%
2010	10,826,379,001	37,348,255,840.00	29%
2011	13,600,916,613	46,340,700,628.00	29%
2012	13,003,205,527	49,608,376,346.00	26%

(Source: Annual reports)

The above table shows that the ratio of Nabil Bank and Sanima Bank is in decreasing trend. But Compare to Nabil Sanima has the lowest investment portion. Sanima is more focused in loan and advances rather than other investment alternatives.

Figure No. 4.7

Nabil Investment to total deposit ratio

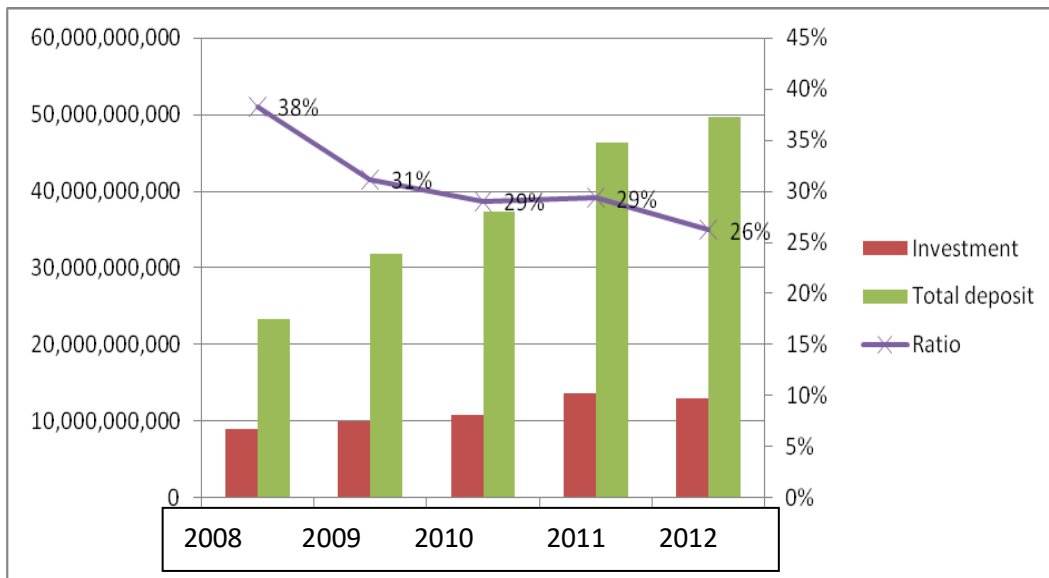


Table No. 4.8

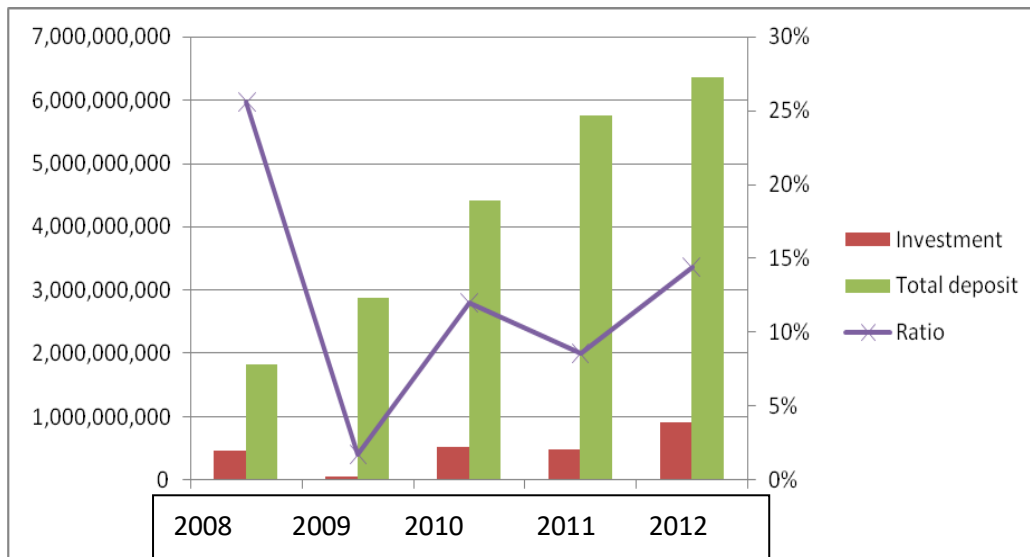
Sanima Investment to total deposit ratio

Year(mid-July)	Investment	Total deposit	Ratio
2008	466,271,200	1,822,705,055	26%
2009	50,143,416	2,880,871,377	2%
2010	530,725,000	4,417,504,608	12%
2011	495,609,740	5,760,495,363	9%
2012	916,653,093	6,356,737,379	14%

(Source: Annual reports)

Figure No. 4.8

Sanima Investment to total deposit ratio



The above table shows that the ratio of Nabil Bank and Sanima Bank is in decreasing trend. But Compare to Nabil Sanima has the lowest investment portion. Sanima is more focused in loan and advances rather than other investment alternatives.

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 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,

Investment in deprived sector to total deposit ratio= Investment in deprived sector/total deposit

Table 4.9

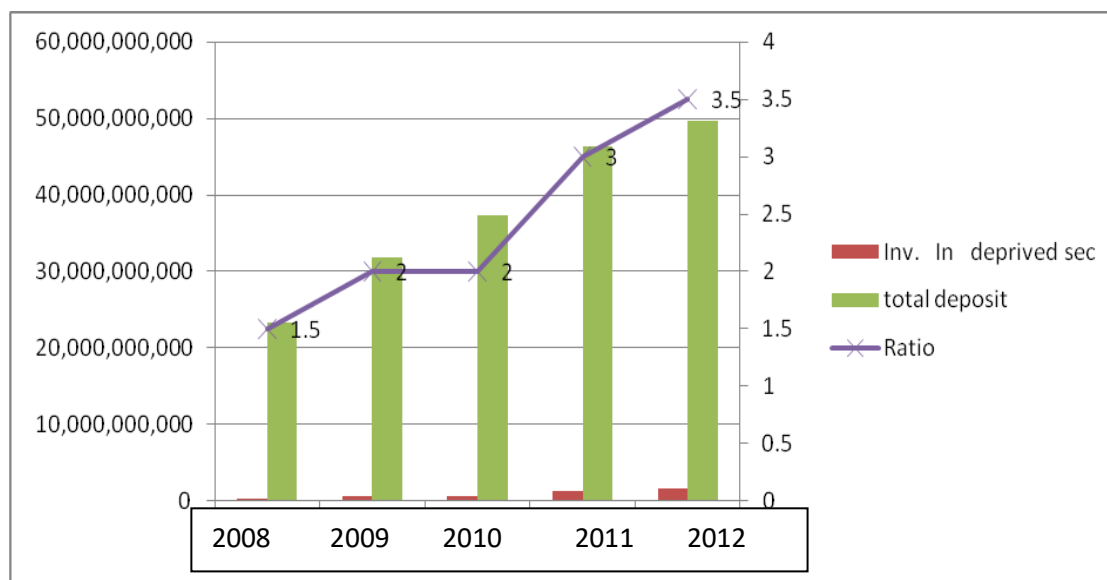
Nabil, Investment on deprived sector to total deposit ratio

Year (mid- July)	Inv. In deprived sec	total deposit	Ratio
2008	350,134,280	23,342,285,327.00	1.5
2009	638,300,949	31,915,047,467.00	2
2010	746,965,117	37,348,255,840.00	2
2011	1,390,221,019	46,340,700,628.00	3
2012	1,736,293,172	49,608,376,346.00	3.5

(Source: Annual reports)

Figure No. 4.9

Nabil, Investment on deprived sector to total deposit ratio



(Source: Annual reports)

Table 4.10

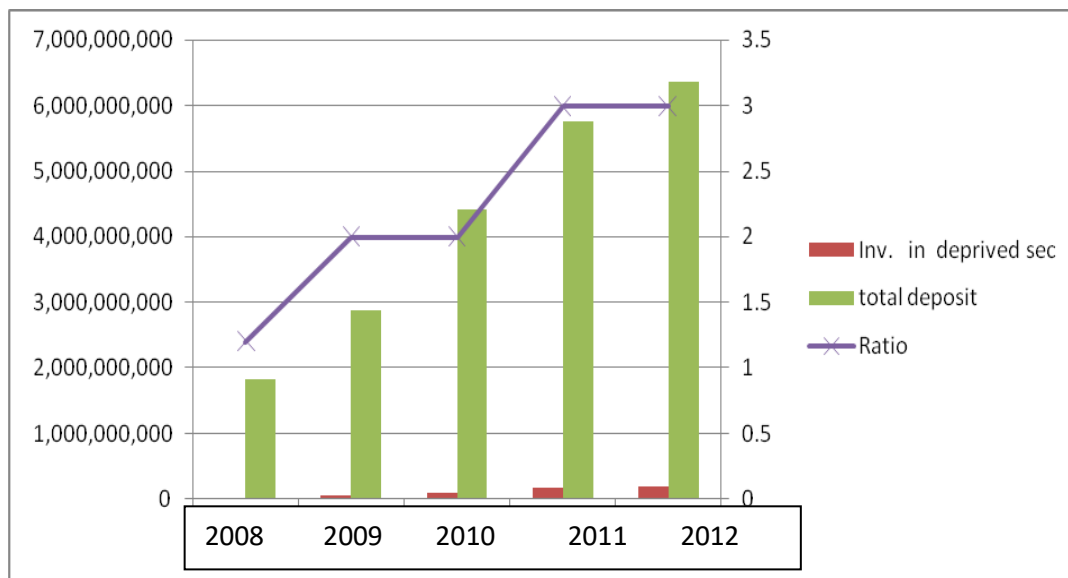
Sanima Investment in deprived sector to total deposit ratio

Year(mid-July)	Inv. in deprived sec	total deposit	Ratio
2008	21,872,461	1,822,705,055	1.2
2009	57,617,428	2,880,871,377	2
2010	88,350,092	4,417,504,608	2
2011	172,814,861	5,760,495,363	3
2012	190,702,121	6,356,737,379	3

(Source: Annual reports)

Figure No. 4.10

Sanima, Investment on deprived sector to total deposit ratio



(Source: Annual reports)

With regards to direct lending to the deprived sector NRB has been changing the directives from time to time by issuing various circulars. As per the NRB directives, commercial banks were required to direct 7 percent of total loan portfolio in the deprived sector for the year 2003/04, 6% for the year 2004/05, 4% for the year 2005/06, 3% for the year 2006/07, 3% for the year 2008/08. from the year 2009/09 onwards commercial banks are required to extend minimum 3% and at least four percent (4%) of their total outstanding loan and advances (including bills purchased and discounted) on Ashad End, 2070.

Due to the changes in NRB directives, the above comparative table reveals that the selected banks have fluctuating trend of investment in deprived sector.

4.2.4 Investment on institutional Shares 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= Inv on financial institution/total deposit.

Table 4.11

Nabil Investment on institutional Shares to total deposit ratio

Year(mid-July)	Inv. In firm. Ins	total deposit	Ratio
2008	233,422,853	23,342,285,327.00	1.0%
2009	354,930,664	31,915,047,467.00	1.1%
2010	346,856,085	37,348,255,840.00	0.9%
2011	946,092,575	46,340,700,628.00	2.0%
2012	936385779	49,608,376,346.00	1.9%

(Source: Annual reports)

Figure No. 4.11

Nabil Investment on institutional Shares to total deposit ratio



(Source: Annual reports)

Table 4.12

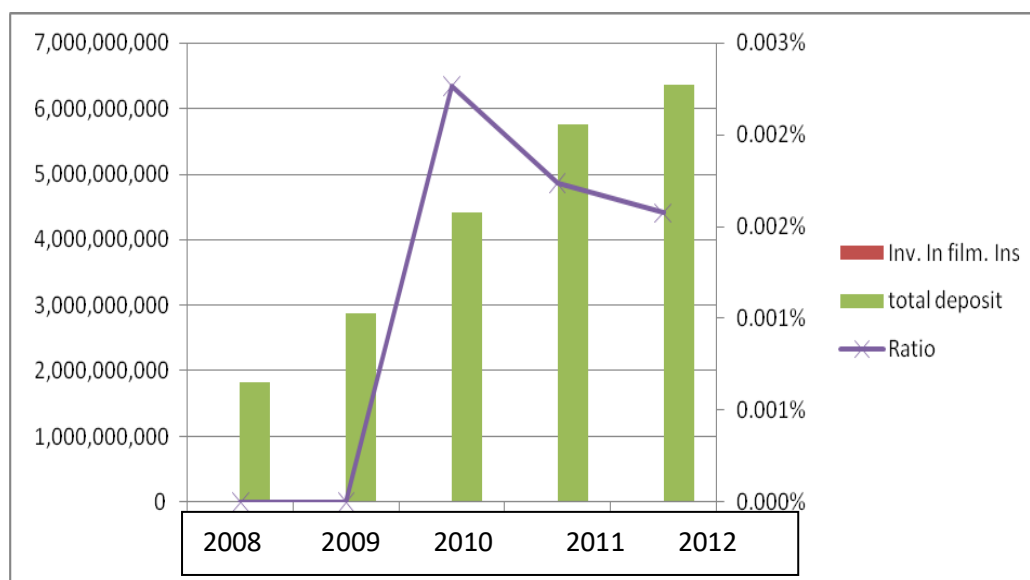
Sanima Investment on institutional Shares to total deposit ratio

Year(mid-July)	Inv. In film. Ins	total deposit	Ratio
2008	0	1,822,705,055	0.000%
2009	0	2,880,871,377	0.000%
2010	100000	4,417,504,608	0.002%
2011	100,000	5,760,495,363	0.002%
2012	100,000	6,356,737,379	0.002%

(Source: Annual reports)

Figure No. 4.12

Sanima Investment on institutional Shares to total deposit ratio



(Source: Annual reports)

The central bank has not made any strict rules to the CBs to make investment in financial institutions.

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=
Inv. on shares, debentures & bonds/ total deposit.

Table 4.13

Nabil Investment on shares, debentures and bonds to total deposit ratio

Year(mid-July)	Inv. in bonds	total deposit	Ratio
2008	4,668,457,065	23,342,285,327.00	20%
2009	7,659,611,392	31,915,047,467.00	24%
2010	10,874,805,536	37,348,255,840.00	29%
2011	13,714,512,881	46,340,700,628.00	30%
2012	13,085,768,336	49,608,376,346.00	26%

(Source: Annual reports)

Figure No. 4.13

Nabil Investment on shares, debentures and bonds to total deposit ratio

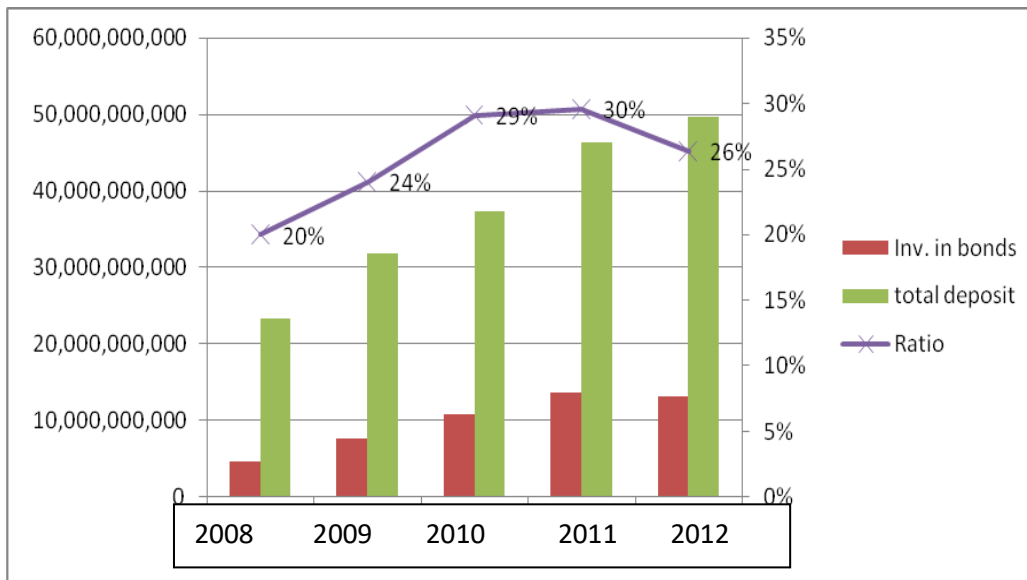


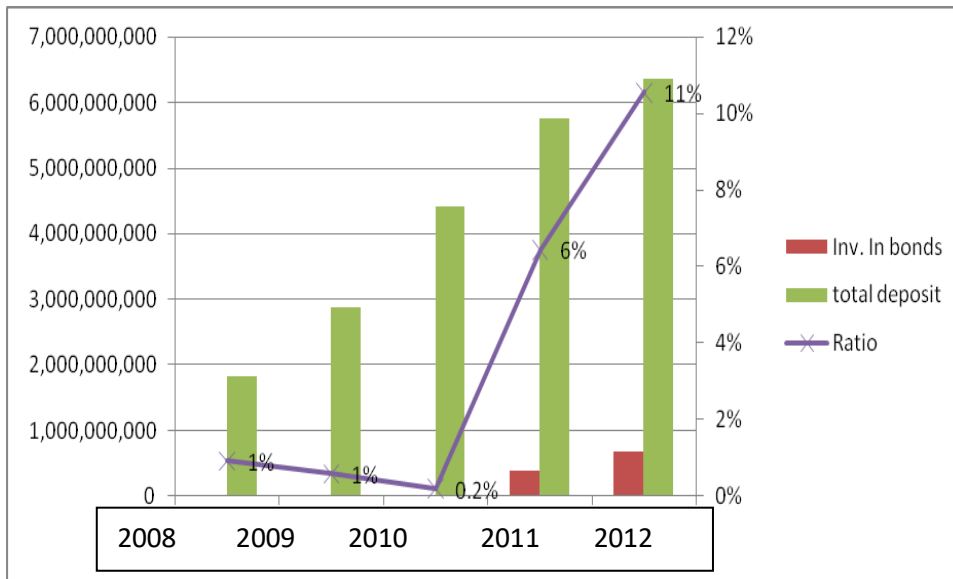
Table 4.14

Sanima Investment on shares, debentures and bonds to total deposit ratio

Year(mid-July)	Inv. In bonds	total deposit	Ratio
2008	16,653,816	1,822,705,055	1%
2009	16,653,816	2,880,871,377	1%
2010	8,025,000	4,417,504,608	0.2%
2011	370,659,740	5,760,495,363	6%
2012	670,953,093	6,356,737,379	11%

(Source: Annual reports)

Figure No. 4.14
Sanima Investment on shares, debentures and bonds to
total deposit ratio



(Source: Annual reports)

The selected banks have made more investment only on government securities during the 5 years of study period. 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.

4.4 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 fluid 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;

$$\text{Return on total working mud} = \text{net profit} / \text{working fund}$$

Table 4.15
Calculation of mean, S.D and C.V of Return on total working fluid

Year(mid July)	2004	2005	2006	2008	2009	mean	S.D	C.V%
Nabil Bank	2.889	9.959	10.345	3.254	2.782	5.846	3.937	67.35
Investment bank	1.473	1.284	1.590	1.852	2.084	1.657	0.315	19.03

(Source: Annual reports)

The above table shows that Nabil Bank has higher profit earning capacity than that of Sanima. The mean ratio of Nabil Bank is 5.846% and the same of Sanima is only 1.657%. It indicates that Nabil Bank has good reputation in the market than that of Sanima. The trend of ratio of both banks is in fluctuating trend. Nabil Bank has the highest ratio of 10.345% in the year 2006 and that of Sanima is only 2.084% in the year 2012. It is clear that Nabil Bank has strong earning capacity than Sanima.

4.4.2 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; $\text{Return on equity ratio} = \text{net profit} / \text{total equity capital}$

Table No. 4.16

Calculation of mean, S.D and C.V of Return on equity ratio

Year(mid July)	2004	2005	2006	2008	2009	mean	S.D	C.V%
Nabil Bank	84.660	290.662	307.26 5	129.20 9	137.08 0	189.77 5	101.829	53.66
Sanima Bank	39.560	51.702	39.498	59.354	63.692	50.761	11.116	21.90

(Source: Annual reports)

The above table shows that Nabil Bank has an average mean ratio of 189.775% and the same of Sanima is only 50.761%. It indicates that Nabil Bank is more successful in mobilizing its capital than that of Sanima. It is clear that Nabil Bank has more earning power than that of Sanima.

Nabil Bank has maximum return on earning which is pleasing to the shareholders and in the case of Sanima it is just acceptable.

4.5 Comparison of financial performance of Nabil bank and Sanima bank

1. Liquidity ratio	Nabil Bank	Sanima
	Nabil bank has given more priority in Investment than to maintain higher liquidity.	Sanima has maintained Higher liquidity than Nabil Bank. It has given priority to both liquidity maintenance and investment procedure.
2. Activity ratio	It is seen that Nabil Bank has lower average mean ratio of loan and advances to total deposit and Higher mean ratio of Investment to total deposit, from This we can conclude that Nabil Bank has given more emphasis on Investment than to grant loan and advances.	Sanima seems more successful in granting loan and advances. It has not grabbed more investment opportunities as it has lower average mean ratio of investment to total deposit.

3.Risk ratio	Nabil has lower credit risk ratio.	Loan and advances of Sanima is Higher hence it has Higher credit risk ratio.
4. Profitability ratio	Return on loan and advances of Nabil Bank is Higher although it has lower ratio of L&A. It is clear" that Nabil Bank has adpoted soundvinvestment policy.	Despite of Higher ratio of L&A Sanima has lower ratio of return on L &A.

In overall Nabil seems strong in financial performance than Sanima Bank. Profit earning capacity of Nabil Bank is higher. It shows that investment policy of Nabil Bank is more efficient than that of Sanima.

4.6 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 Sanima. Similarly, investment to total deposit ratio and the amount of total Investment made by Nabil Bank for the same period is also higher. Beside total deposit collected and total investment made, total loan and advances of Nabil Bank is also Higher. It is clear that Investment policy adopted by Nabil Bank is sound from profit point of view.
- Nabil Bank has given more priority on investment and loan and advances. Hence it has maintained lower liquidity than Sanima. Nabil Bank has accepted higher level of interest rate risk rather than credit risk. Overall profitability ratio of Nabil Bank shows that it has earned higher profit than Sanima. It is clear that Nabil Bank has given more emphasis on profit rather than Sanima.
- NRB has directed all the commercial banks to keep minimum 5% of total deposit in the NRB balance so as to maintain the liquidity position. Nabil Bank has maintained an average ratio of 3.995% and the same of Sanima is 5.919%.

- The overall analysis of liquidity ratio has found that Investment bank is more consistent to maintain liquidity position than that of Nabil Bank. Nabil Bank and Sanima both have given more priority to increase investment than to maintain liquidity.
- Loan & advances to total deposit ratio of Sanima is higher than that of Nabil Bank. An average ratio of Sanima is 70.788% and that of Nabil Bank is 65.228%. It shows that Sanima is more successful in advancing loans.
- Investment to total deposit ratio of both banks is in increasing trend. An average mean ratio of Nabil Bank is Higher than that of Sanima.
- Investment on deprived sector to total deposit ratio of the selected bank is in fluctuating trend. The average ratio of Sanima Bank is bit Higher than Nabil and Sanima Bank seem more consistent to make investment in deprived sector than that of Sanima.
- Investment on financial institution to total deposit ratio of the selected bank is fluctuating drastically. An average ratio of Nabil is higher than that of Sanima Bank.
- The overall study of this ratio reveals that Sanima is in better position to grant loan and advances but in terms of investment purposed Nabil Bank is more capable to make investment out of total deposit. It shows that Sanima is ready to bear more risk than that of Nabil Bank.
- Return on total working fund of Sanima is less than Nabil Bank although it has accepted higher level of risk. C.V of Nabil Bank is higher than that of Sanima. It is clear that Nabil Bank is in better position to earn higher profit out of its working fund.
- Return on equity of Nabil Bank is more than that of Sanima. Hence, Nabil bank is earning more profit from the equity capital.
- In overall, we can conclude that Nabil Bank has Higher earning capacity than that of Sanima. Hence, Nabil Bank is performing well to achieve the higher percentage of profit.

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 (Commercial Bank).

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 noncompliance of directives may lead to fine or penalty to the bank. Hence, 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 clauses 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 day, there is strong competition among the CB. To attract more customers depends upon the facilities and services provided by the banks.

In this research Nabil seems performing well enough to attract its customer.

It has collected Rs. 49608 M as total deposit and extended Rs.38034.M as loan and advances. It has invested Rs. 13,003M and earn total profit of Rs. 1344M during the year 2012. In the case of Sanima Bank, it has collected total deposit Rs. 6356 M, extended loan and advances Rs. 6371M, out of total deposit it has invested Rs. 916.3M and made total profit of Rs. 157 M in the year 2012. It is clear that Nabil bank has higher amount of deposit collection and loan and advances than that of Sanima Bank. Nabil Bank is more capable to grab the investment opportunities and it has invested Higher amount that that of Sanima. 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 Sanima.
- It can be said that central banks are required to direct the commercial banks. C.B. 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 thereafter. Banks should not invest their' fund haphazardly.

- It should be careful while advancing loan because loan is the blood of the C.B. for survival. If C.B. 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 C.B.
- C.B. 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.
- It can be concluded that the role of NRB in investment policy of commercial bank has both positive and negative impacts.

5.3. Recommendations

- Diversification of investment is highly suggested to the Sanima bank as it have given priority to invest in government securities 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, Sanima Bank is recommended to diversify their investment in NRB bond, govt. non-financial institution, other non-financial institution etc.
- 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 Sanima Bank is lower than Nabil. 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, Sanima Bank is recommended to follow the liberal lending policy to increase its total loan and advances in order to earn more profit.

- 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.
- There is slight growth in priority and deprived sector investment of both banks during the study period of 5 years. Although NRB has lessened the criteria to 20% for productive sector and deprived sector (4%) credit, both bank should continue to extend priority and deprived sector lending to access banking service to the poor and backward communities.
- The Highest portion of Sanima 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 65% of total deposit on loan and advances in five years of period while Sanima has used almost 70% of total deposit for lending.. Hence, Sanima 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. So, Sanima 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, Sanima has held more liquidity. So, its profitability ratios are lower than Nabil Bank. So, Sanima is highly recommended to maintain reasonable liquidity so as to increase profitability of the bank.

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Appendix-1

B/FI	Sanima Bank	Nabil Bank
S.N.	Ashad end 069	Ashad end 069
Cost to Income Ratio	48%	23%
Net Interest Income to Total Income	88%	75%
Ratio of Real Estate Loan	11%	11%
Staff Expenses / Total Expenses	35%	54%
Non interest Income to Operating Cost	25%	109%
Interest Expenses to Interest Income	64%	51%
Average Yield on Loans & Investment for 4 th Quarter	11%	11%
Interest cost on Deposit & Borrowings for 4th Quarter	7%	6%
Interest Spread (as per our internal calculation)	3.7%	5.0%
Increase/(Decrease) in Spread in one quarter	0.02%	0.27%
Increase/(Decrease) of NPA ratio in one quarter	-0.39%	-0.70%
NII to Interest Income %	36%	48.56%
NII Growth %	20%	31%
ROA	0.88%	2.78%
ROE	5.4%	31.67%
NPL%	0.48%	2.26%
Additional Lending Capacity	12,123,019	13,399,741
Increase in Deposit in One Quarter	2,047,452	384,106
Increase in Lending in One Quarter	1,205,923	1,278,427
Increase in Deposit in One Year	4,821,997	5,327,582
Increase in Lending in One Year	3,158,914	3,962,279

Source: Annual reports of Nabil and Sanima published on websites.

Appendix-II
Major Financial Indicators of Nabil Bank Ltd.

MAJOR FINANCIAL INDICATORS		<i>Rs. in thousand</i>					
S.No.	Particulars	FY.2006/07	FY.2007/08	FY.2008/09	FY.2009/10	FY.2010/11	Increase %
1	Paid Up Capital	320,000	384,000	805,166	806,400	2,016,000	150
2	Reserve & Surplus	27,767	47,056	64,395	74,795	92,611	24
3	Deposits	1,822,705	2,880,871	4,417,505	5,760,495	6,356,737	10
4	Investment	466,271	508,143	530,725	495,610	916,653	85
5	Loans & Advances	1,501,917	2,533,377	4,036,986	5,145,849	6,436,185	25
6	Net Operating Income	63,903	98,020	160,954	256,602	395,369	54
7	Net Operating Expenses	26,853	43,834	62,308	109,842	140,161	28
8	Operating Profit	29,342	33,604	78,701	135,408	241,935	79
9	Net Profit	18,748	21,486	57,760	85,738	155,220	81

Source: Annual reports of Nabil published on websites.

Appendix-III

Profit and Loss Account of Nabil Bank Ltd.

PROFIT AND LOSS ACCOUNT			
<i>For the period from July 17, 2010 to July 16, 2011 (Shrawan 01, 2067 to Ashad 32, 2068)</i>			
Particulars	Schedules	This Year Rs.	Previous Year Rs.
1 Interest Income	4.18	1,038,456,715	615,644,495
2 Interest Expenses	4.19	683,000,393	399,298,078
Net Interest Income		355,456,322	216,346,417
3 Commission And Discount	4.20	4,949,150	3,908,315
4 Other Operating Income	4.21	34,805,648	30,740,447
5 Exchange Fluctuation Income	4.22	157,502	5,606,611
Total Operating Income		395,368,622	256,601,789
6 Employees Expenses	4.23	55,835,896	42,845,039
7 Other Overhead Expenses	4.24	84,325,436	66,997,104
8 Exchange Fluctuation Loss	4.22	-	-
Operating Profit Before Provision For Possible Loss		255,207,289	146,759,647
9 Provision For Possible Losses	4.25	13,272,070	11,351,934
Operating Profit		241,935,219	135,407,713
10 Non-Operating Income/Expenses	4.26	347,659	34,124
11 Provision Written-Back	4.27	2,161,002	2,497,377
Profit From Regular Operations		244,443,880	137,939,214
12 Profit/Loss From Extra-Ordinary Activities	4.28	-	-
Net Profit After Considering All Activities		244,443,880	137,939,214
13 Provision For Staff Bonus		22,222,171	12,539,929
14 Provision For Income Tax		67,001,354	39,661,294
This Year's		67,105,214	37,134,576
Previous Year's		496,779	2,495,654
Deferred Tax Expense/(Income)		(600,639)	31,064
Net Profit/(Loss)		155,220,355	85,737,992

Source: Annual reports of Nabil published on websites.

Appendix-IV

Profit and Loss Account of Nabil Bank Ltd.

3. Financial Highlights

For the Year

Total operating income

NRS.3,046 M – ▲ 10%

2010 – NRS.2,766 M

2009 – NRS.2,221 M

Operating profit before loan loss provisions

NRS.2,191 M – ▲ 6%

2010 – NRS.2,065 M

2009 – NRS.1,616 M

Profit before staff bonus and taxation

NRS.2,098 M – ▲ 17%

2010 – NRS.1,790 M

2009 – NRS.1,627 M

Net profit after tax

NRS.1,338 M – ▲ 17%

2010 – NRS.1,141 M

2009 – NRS.1,031

Profit attributable to shareholder of the parent Company

NRS.1,344 M – ▲ 18%

2010 – NRS.1,141 M

Source: Annual reports of Nabil published on websites.

Appendix-V

Profitability Ratios of Nabil Bank Ltd. as of ashad end, 2068.

As of Year end

Total risk weighted assets

NRS.48,885 M – ▲ 17%
2010 – NRS.41,823 M
2009 – NRS.34,817 M

Gross loan and advances

NRS.38,905 M – ▲ 18%
2010 – NRS.33,031 M
2009 – NRS.27,999 M

Customer deposits

NRS.49,696 M – ▲ 7%
2010 – NRS.46,411 M
2009 – NRS.37,348 M

Total equity (excluding cash dividend)

NRS.4,567 M – ▲ 19%
2010 – NRS.3,837 M
2009 – NRS.3,130 M

Total assets

NRS.58,141 M – ▲ 11%
2010 – NRS.52,152 M
2009 – NRS.43,867 M

Profitability Ratios

Return on average assets

2.43%
2010 – 2.38%
2009 – 2.55%

Return on equity

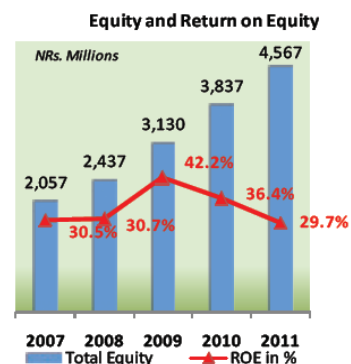
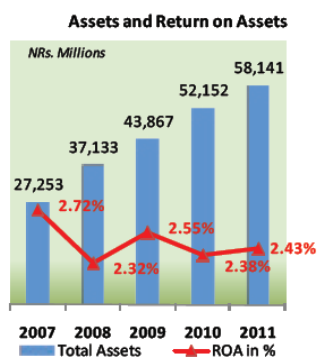
29.72%
2010 – 36.39%
2009 – 42.22%

Net profit margin

22.29%
2010 – 24.14%
2009 – 30.56%

Average assets turnover ratio

10.88%
2010 – 9.84%
2009 – 8.33%



Source: Annual reports of Nabil published on websites.

Appendix-VI

Five year Statement of Financial position of Nabil Bank Ltd.

1.1 Five-year statement of financial position

	NRs.(000)				
Capital & Liabilities	2011	2010	2009	2008	2007
Share Capital	2,029,769	2,028,774	965,747	689,216	491,654
Reserves & Surplus	2,536,748	1,807,933	2,164,494	1,747,983	1,565,395
Debentures & Bonds	300,000	300,000	300,000	240,000	-
Borrowings	1,650,599	74,900	1,681,305	1,360,000	882,573
Deposits	49,696,113	46,410,701	37,348,256	31,915,047	23,342,285
Bills Payable	415,768	425,444	463,139	238,422	83,515
Proposed Dividend	608,931	434,737	361,325	437,373	509,418
Income Tax Liabilities	44,104	24,904	80,232	38,777	-
Other Liabilities	859,406	644,291	502,900	465,941	378,553
Total	58,141,437	52,151,684	43,867,398	37,132,759	27,253,393
Assets	2011	2010	2009	2008	2007
Cash Balance	744,592	635,987	674,395	511,427	270,407
Balance with Nepal Rastra Bank	1,473,986	549,455	2,648,596	1,829,471	1,113,415
Balance with Banks/Financial Institutions	217,971	214,657	49,521	330,244	16,003
Money at Call and Short Notice	2,452,512	3,118,144	552,888	1,952,361	563,533
Investment	13,081,206	13,703,024	10,826,379	9,939,771	8,945,311
Loans, Advances and Bills Purchased	38,034,098	32,268,873	27,589,933	21,365,053	15,545,779
Fixed Assets	935,089	779,540	660,989	598,039	286,895
Non Banking Assets	-	-	-	-	-
Other Assets	1,201,984	882,005	864,696	606,394	512,050
Total	58,141,437	52,151,684	43,867,398	37,132,759	27,253,393

Source: Annual reports of Nabil published on websites.

Appendix-VII
Balance Sheet as on Ashad 32,2068 of Nabil Bank Ltd.

BALANCE SHEET			
<i>as on Ashad 32, 2068 (July 16, 2011)</i>			
Capital & Liabilities	Schedule	This Year Rs.	Previous Year Rs.
1 Share Capital	4.1	2,016,000,000	806,400,000
2 Reserves And Funds	4.2	92,610,956	74,794,758
3 Debentures And Bonds	4.3	-	-
4 Borrowings	4.4	658,000,000	444,800,000
5 Deposit Liabilities	4.5	6,356,737,379	5,760,495,363
6 Bills Payables	4.6	-	-
7 Proposed And Payable Dividend		141,120,000	80,640,000
8 Income Tax Liabilities			
9 Other Liabilities	4.7	98,912,538	71,428,643
Total Capital Liabilities		9,363,380,873	7,238,558,764
Assets	Schedule	This Year Rs.	Previous Year Rs.
1 Cash Balance	4.8	147,095,662	79,135,339
2 Balance With NRB	4.9	326,975,202	84,681,085
3 Balance With Banks/Financial Institutions	4.10	52,235,738	64,621,144
4 Money At Call And Short Notice	4.11	1,049,936,449	1,017,183,114
5 Investments	4.12	916,653,093	495,609,740
6 Loans Advances And Bills Purchase	4.13	6,371,323,985	5,092,099,003
7 Fixed Assets	4.14	361,072,445	325,503,055
8 Non-Banking Assets	4.15	-	-
9 Other Assets	4.16	138,088,300	79,726,284
Total Assets		9,363,380,873	7,238,558,764

Source: Annual reports of Nabil published on websites.