

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The development of any country largely depends upon its economic health and conditions. The mobilization of the domestic resources is one of the key factors in the economic development of the country. Nowadays, the financial institutions are viewed as catalyst in the process of the economic growth. Commercial banks and other financial institutions collect immobilized money in the form of deposits from every corner and parts of the country. This will be provided capital for industrial development, trade and business promotion and other resources utilization sectors. Commercial banks formulate sensible investment policies to make it more effective, which eventually contribute to the economic development of the country. Formulation of sound investment policies and coordinated and planned efforts push forward the forces of economic growth.

To overcome this economic situation, government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system necessary for the rapid industrial development. “Financial infrastructure of an economy consists of financial intermediation, financial institution and financial market” (Shrestha, 1990:2). Financial institution, in this economy plays a role of catalyst in the process of economic growth of the country. In this context, a bank is a financial institution, which plays a significance role in the development of a country and facilitates the growth of trade & industry of national economy. Banking sector plays a vital role for the country’s economic development opportunities to people such that economy of the country secures proper growth. In this way, it is clear that a sound banking system is highly essential for the industrial development and it generates employment and investment opportunities to the people. A bank is a business organization that receives and holds deposits of fund from other, makes loans or extends credit and transfer funds by written order of depositors. Banks have always been the most important and the targets of the financial intermediaries almost everywhere. It plays significant role in the development of a country intermediating between the savings and investment; essentially the banks and financial systems are channel through which money is mobilized and distributed throughout the economy. Any bank must maintain adequate cash and bank balance to meet

its day-to-day management of cash resources for remote contingencies. To achieve this a sound investment policy is required for the economic growth and development of any banking institution.

The economic development of any country can be dynamic only through a balanced industrial growth, trade and commerce promotion and agricultural expansion. It has equally self-evident that the development of these fields may not be possible without the establishment of a sound banking system in the country. Many countries, aspiring for the rapid economic development, have developed several banking and non-banking specialized financial institutions with the objectives of meeting the financial goals of their economy.

Commercial banks are among the most important financial institutions in the country's economy and are a highly essential business in the several local towns and cities. Definitely, the banks must be recognized with their functions, services and roles they perform in the economy of the society. At the moment, the functions of banks and their principal competitors are changing. The competitors like financial institution including security dealers, brokerage firm and insurance companies are trying to be similar as soon as possible in the services they offer.

The under-developing countries including Nepal are suffering from the problem of improper mobilization of the financial, physical and human resources. One of the efforts applied to mobilize both internal and external financial resources is to set up banking organization and institutionalize them. The commercial banks should therefore come forward at this for developing the economic condition of country. Therefore, commercial banks play a vital role in the economic and financial life of the country. Economic developments done by the banking organizations should focus on development of the leading sectors of the economy like agriculture, industry, trade and commerce etc. The sustainable development of these sectors requires a regular delivery of sound banking system.

Financial sector consists of two major components. The commercial banks are the major components of financial sector, which are basically known as the banking sector component. The other component, non-banking sector, includes co-operatives, Gramin Bikas Banks, Development Banks, financial companies and Non-government Organizations.

Bank's role has been considered to be the predominant in under-developed economy in various ways as they enhance capital formation by developing banking habit of people and collecting saving. Thus, their role in the economic development is to eliminate the deficiency of capital by stimulating saving and investment activities.

1.2 Profile of Sample Companies

Nabil Bank Limited

Nabil bank limited, the first joint venture commercial banks, was incorporated in 1984. Dubai Bank Ltd. was the initial foreign joint-venture partner with 50% equity investment. The shares owned by Dubai Bank Ltd. were transferred to Emirates Bank international Ltd. Dubai sold its entire 50% equity holding to National Bank Ltd., Bangladesh. National Bank Ltd., Bangladesh is managing the bank in accordance with the technical services agreement signed between it and the bank on June 1995. Nabil Bank's initial name was Nepal Arab Bank Ltd. at starting. The bank has 18 branches in various parts of the country. Its head office is located in the Kantipath, Kathmandu Its present capital structure is as follows: Authorized Equity capital 50 million, Issued Equity capital 491.65 million, Paid Equity capita 1491.65 million.

Equity participation is National Bank Limited 50%, other licensed institution 10%, other institution 10% and general people 30%. Total after other expenses profit of the bank was Rs. 987.804m in 2006/07 against the net profit was Rs. 841.98 million 2005/06. Total investment of the bank was Rs. 617.53 million in 2006/07 against the total investment was Rs. 4275.53 million. The bank is providing more services and facilitates. There are consortium finance, working capital loan, term loan, demand loan, hire purchase loan, trade finance, letter of credit, bank guarantee, bills purchase, any time money, remittance services all over the world, bearer certificate of deposit and underwriting of shares.

Everest Bank Ltd.

Everest Bank Limited was established in 1992 under the company Act, 1964 with an objective of carrying out commercial banking activities under the commercial Bank Act, 1974. United Bank of India Ltd. under Technical services agreement signed between it Nepali promoters was managing the bank from the very beginning till November 1996. Later on, it handed over the management to the Punjab National Bank Ltd. India, which holds 20% equity on the bank's share capital. The bank has 18 branches in various parts of

the country. Its head office is located in Baneshower, Kathmandu. Its present capital structure is as follows: Authorized Equity Capital 600 million, Issued Equity capital 466.8 million, Paid up Equity capital 518 million.

Equity participation is Punjab National Bank, India is 20%, local promoters is 50% and General public is 30%. Total of the other expenses, net profit of the bank was Rs. 380.160 million in 2006/07 against the Net profit of Rs. 280.802 million in 2005/2006. Total investment of the bank was Rs. 4200.515 million in 2006/07 against the investment of Rs. 2128.93 in 2005/06. The bank facilitates to its customer providing more services. There are consortium finance, working capital loan, term loan, demand loan, hire purchase loan, trade finance, letter of credit, bank guarantee, bills purchase, any time money, remittance services all over the world, bearer certificate of deposit and underwriting of shares.

1.3. Statement of the Problem

The investment policy of the commercial banks would be highly beneficial for pointing out their strength and weakness. Although joint venture banks have managed to perform better than other local commercial banks within short span of time, they have been facing a neck-to-neck competition against one another. Fluctuating and low interest rates on deposits, poor deposit mobilization, trade, commerce etc. have affected on the return of funds, total assets, total deposits and shareholder's wealth position. Since the joint venture banks have been established gradually because of the liberal and market-oriented economic policy of NG, they have been facing thorough competition from other commercial banks and of course each other. Although various joint venture banks operating in Nepal after NG/N adopted the open liberal and market oriented economic policy, the financial sectors have not been enough to meet the growing resource need to the economy as expected before. Why is so and what is the problem? To answer this question an analysis of their present investment policy is necessary. So focus of the present study is on the investment policy of the joint venture banks in Nepal with special reference to Nabil bank and Everest bank Ltd.

Since the liberalization policy of the government, various banks and financial institutions has been established with a view to reinforce the economic growth of the country. They have played an indispensable role by accepting deposits and granting loans. Investment of the collected funds is the most important factor for both shareholders and the banks as they are the sources of earning. Credit extended by these banks is directly related to the national interest. Therefore, the banks should have a sound investment policy. Diana Mc Naughton

said, “Investment policy should incorporate several elements such as regulatory environment, availability of the funds, selection of risks, loan portfolio balance and term structure of liabilities.”

Similarly, financial companies have been emerging rapidly and the bank has to compete with them since finance companies are making investment in the sectors where commercial banks typically invest. Commercial banks are more interested in providing loans on short-term projects due to safety and security of their loans. Thus, they are following conservative loan policy based on strong security. However, these banks do not have a well-organized investment policy. They rely much on the instructions and guidelines of Nepal Rastrya Bank. Even if they have formulated some guidelines, they fail to implement it due to poor supervision and lack of professionalism.

Joint venture banks are of utmost importance as they have contributed significantly to the overall economic development of the country. Yet, after so long since their establishment and successful operations for almost two decades, they are not free from problems and hindrance in their avenue. When we are concerning with the Nabil Bank Ltd and Everest Bank Ltd., these banks have been operating pretty well from their inception. They have been awarded prestigious titles on account of their experience in the field of international banking, hi-tech computerized services, professional attitude, qualified and experienced work force, quality and reliable services that serve as the key factor for their rapid progress. They are able to control and capture a remarkable leadership of Nepalese banking sector in a relatively short period in terms of both market share and market price. Commercial banks follow the project appraisal method, which is not scientific and appropriate to achieve outputs regarded with the targeted goals and purposes. Granting loan against insufficient decision, overvaluation of goods pledged, land and building mortgaged, risk-averting decision regarding loan recovery and negligence in recovery of overdue loans are some of the drawbacks of unsound investment policy. Similarly, loan supervision and follow-up mechanism is lacking in many commercial banks. Due to this, the portion of non-performing assets on total loans and advances has been increasing rapidly.

Likewise, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of investable funds to reduce risks. Hence, the principle “Does not put all the eggs in one baskets” really does not apply in context of Nepalese commercial banks.

As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that has now come to the brink of extinction.

Thus, the study mainly focuses with the following issues.

- 1 How aggressively are the banks lending policies ?
- 2 What is the proportion of Non-performing assets on total loans and advances of the sample?
- 3 What is the relationship of total deposit of total investment and total investment on total net profit of the banks?
- 4 Is the bank maintaining sufficient liquidity position?
- 5 Does the investment decision affect the total earnings of the banks?

1.4 Objectives of the Study

The main objectives of this study are to analysis the investment policy of commercial Banks with references to NABIL Bank Limited and Everest Bank Limited. The specific objectives are as follows:

1. To analyze deposit utilization and its relationship with total investment as well as net profit and to determine the growth rate of bank in terms of deposits, loans and advances, investment and profitability of the bank.
2. To determine the proportion of loan loss provision to total loans, and advances and to evaluate the non-performing assets position of bank.
3. To evaluate the liquidity, assets management, profitability position, activity and risk and determine the proportion of investment in risky and risk free assets and so evaluate the off-balance sheet operation of the bank.
4. To suggest and recommend with the help of major findings.

1.5 Significance of the Study

Although joint venture banks have managed investment than other local commercial banks within short span of time, they have been facing a neck- to-neck competition against one another. Among this joint venture banks, this research is based on mainly joint venture banks, namely Everest Bank & Nabil Bank Ltd. Joint venture commercial bank play a tremendous role in a developed or developing nation, also helps to improve the economic sector of the country typically, commercial banks main motive is to make profit by providing quality service to the customers. In Nepal there exists 25 commercial banks realizing their services. An investment policy involves determining the investment objectives and the amount of one's invest able wealth. Investment is always related with risks and return. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make an objective should be stated in terms of both risks and returns. Setting a clear investment policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. The identification of assets depends upon many things, such as investment objectives, invest able wealth, tax considerations etc. The study focuses on evaluating the deposits utilization of the bank in terms of loan and advances and investments and its contribution in the profitability of the bank. It also focuses on the contribution of off-balance sheet activities in the earnings of the bank and non-performing assets position of the bank.

So this researcher has focused this resource mainly to highlight and examine the investment of the selected banks ignoring other aspects of banks transaction to highlight the investment of bank, the research is based on the certain statistical tools i.e. mean, standard deviation, coefficient of variance, coefficient of correlation, coefficient of determination and trend analysis with a view to find out the true picture of the bank. The main objective of this research is to analyze the investment policy through the use of appropriate financial tools.

Effective and efficient fund mobilization and investment policy is two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposits collection carries no meaning. Investment policy of collected fund is the most important theme from the point of both management and shareholders and good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the sprit of the economic advancement of the people.

As the financial services industry becomes more complex, the financial information is more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information, In the context of Nepal, there are less availability of research work, articles and journals in investment policy of commercial banks and other financial institutions. Thus, the study will certainly help management of the Nabil bank and Everest bank to improve their performance and would help them to take Corrective actions. Similarly, depositors can take decision to deposits on their money. Government also gets help while formulating policy. Furthermore, this study will be useful to more people and organization such as trade creditors, investors, stockbrokers, academicians, policy formulators and general public.

1.6. Limitations of the Study

The studies being the partial fulfillment of master degree in business studies has some limitations of its own kind. They are:

1. The study, lack of the sufficient time resources are the major limitations of therefore the study has been conducted as partial fulfillment of the requirement for the “Master of Business study: Faculty of management T.U.
2. The study mainly based on secondary data collected from different sources.
3. The study has been carried out based on the published financial documents such as balance sheets, Profit and loss accounts, related journals, magazines and brochures. These published documents have their own limitations.
4. The study mainly concentrates only on the investment policy of Everest Bank limited and Nabil Bank limited.
5. The study period will be covered by only five fiscal year i.e. from 2003/2004-2007/2008.
6. The study deals with only two commercial banks and data related to other commercial banks have not been accounted.

1.7 Organization of the Study

The whole study is divided into following five chapters:

Chapter 1: Introduction

Chapter 2: Review of literature

Chapter 3: Research methodology

Chapter 4: Data presentation and analysis

Chapter 5: Summary, conclusion and recommendation

The first chapter deals with introduction. This includes introduction, background of the study, Profile of the sample companies, statement of the problem, objective of the study, focuses and significance of the study, limitation of the study and organization of the study.

Second chapter deals with the review of available literature. It takes in review of related books, journals, articles and previous unpublished Master Degree Dissertation etc.

Third chapter explains the research methodology used in the study. It includes research design, population and sampling, source of data, method of data analysis and research variables etc.

The fourth chapter the important chapter of the study, will be the presentation & analysis of data as well as major findings of the study.

The fifth and last chapter covers the summary of the study, the main conclusion that flows from the study and offers some recommendations as well as suggestions for further improvement.

CHAPTER - II

REVIEW OF THE LITERATURE

Literatures are the main sources of information related with the study. The chapter deals with review of literature react to the investment policy of the commercial banks. This chapter has been divided into two main sections. The first section of the chapter implies with the conceptual framework of the study which second section implies the review of previous studies.

2.1 Conceptual Framework

There is an important role of banks in the economic growth and development of a country. To achieve an ideal economic growth and development, the banks should have strong and well-managed organization of banking system. When banking is appropriately organized, it aids and facilitates the growth of trade and industry and hence of national economy. In the modern economy, banks are considered not as dealer in money but as the leaders of development. Banks are not just the storehouse of the country's wealth but are the reservoirs of resources necessary for economic development.

Banking plays a significant role in the economic development of a country. Bank is a resource for the economic development, which maintains the self-confidence of various sectors of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing. The objective of commercial banks is to mobilize idle resources into the most profitable sectors after collecting them from scattered sources. Commercial bank contributes significantly in the formation and mobilization of internal capital and development effort.

2.1.1 History of Bank

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement that the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever the receipt was presented, the depositors

would get back their gold and valuables after paying a small amount as fee for safekeeping and serving.

Several concepts have been put forward about the origin of the word “Banking”. The term bank derives from the Latin Bancus, which refers to the bench on which the banker would keep its money and his records. Some persons trace its origin to the French word “Banque” and the Italian word “Banca” which means a bench for keeping; lending and exchanging go money in the market.

The first bank of the world called the “Bank of Venice” was established in Venice, Italy in year 1157. The bank of Barcelona and the bank of Genoa were established in 1401 and 1407, respectively. In England, the banking begins with English goldsmith only after 1640. The Bank of Amsterdam was the great bank in seventeenth century.

2.1.2 Banking In Nepal

There are limited records of traditional banking practiced in the history of Nepal. From the available information, it is very difficult to trace the correct chronological history of the traditional banking system due to the lack of historical reports of banking system. The historical records state that Guna Kama Dev, the king of Kathmandu, borrowed money to rebuild his kingdom in 728 AD.

Some efforts of banking were carried out during the Rana regime. The ‘Tejarath Adda’ was established during this period, which might be regarded as the father of modern banking institution in Nepal. During the Prime Minister ship of Juddha Shamsheer in 1937 AD the “Tejarath adda” was replaced by a commercial bank, ‘Nepal Bank Ltd.’, which could be considered as a milestone that marked the beginning of a new era in the history of modern banking in Nepal. The Nepal bank limited was established in 1994 being the first commercial bank of Nepal. Thereafter, the Nepal Rastra Bank was established in 2012 B.S. as the central bank of Nepal. About a decade later, another commercial bank, the Rastriya Banijya Bank was established in 2022 B.S. After two years, a bank was established with the main objective of developing agriculture sector and named as Agriculture Development Bank in 2024 B.S. In 2031 B.S. the Commercial Bank Act 2031 was regulated. After 2041 B.S., the government allowed joint venture banks to operate in the country. Then, the board of Joint Venture Public Limited was opened whereby commercial banks started establishing in the country. The first joint venture bank was Arab Bank Ltd (Now known is NABIL bank Limited), which was established in 2041 B.S. under the Commercial Bank

Act 2031, with the allocation of 50% share of Emirates Bank Limited, Dubai, 20% share of Nepalese financial institutions and 30% share of general public. Nepal Indosuez bank Limited (Now known as Nepal Investment Bank Limited) emerged in 1985 as the second joint venture commercial bank.

After these banks, there was a progressive increase in the number of joint venture commercial banks in Nepal. Nowadays, there are 22 commercial banks, 36 development banks, 5 Gramin Bikas Banks, 72 finance companies, 11 forth class (Gha Barga) finance limited, 19 co-operative limited, 47 Non-Government Organization and 117 Hulak Bachat Banks operating in Nepal. The open and liberal policy in the financial sector has helped in establishing many commercial banks and financial institutions in the country.

2.1.3 Commercial Banks

Resource mobilization is a key factor for uplifting financial and economic status of the banking industry. Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. “Bank assists both the follow of goods and services from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and it is important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy” (American Institute of Banking, 1972: 162).

“Commercial banks deal with other people’s money. They have to find ways of keeping their liquid assets so that they could meet demands of theirs customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand the bank is fully solvent. The depositor’s confidence could be secured only if the bank is able to meet demand for cash promptly and fully. The banker has to keep adequate cash fort his purpose. Cash is an idle asset and bankers cannot afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity” (Radheswamy and Vasudevan, 1979:199).

“A bank is one who in the ordinary course of this business receives money which he repays by honoring cheques of persons from which of one whose account it receives it” (Bardford, 453-454).

“Commercial bank is one of which Exchange money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for cooperative, agriculture, industries or such specific purpose” (Commercial Bank Act 2031 B.S.).

As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e., investment on different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested. This information includes as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank as well as lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies it is always taken in mind that “ the greater the credit created by the bank’ higher will be the profitability,” A sound lending and investment policy is not only pre- requisite for bank’s profitability but also crucially significant for the promotion of commercial saving of a development country like Nepal.

The sound policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks and financial institutions perform number of internal functions. Among them, providing credit considered as most important one. In other words, “ Commercial banks are bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment” (Crosse, 1963:232).

An investment operation of commercial bank is very risky one. For this, commercial banks have to play due consideration while formulating investment policy regarding loan investments. Investment policy is one facet of the overall spectrum of policies that guide

bank's investment operation. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy can attract both borrowers and lenders, which helps to increase the volume and quantity of deposits, loan and investments. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability and safety etc. These fundamental principles of commercial banks investment are fully considered while making investment policy. Emphasizing upon this, the investment policy should be carefully analyzed. "Commercial bank should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending" (Crosse, 1963: 233).

2.2 Functions of Commercial Banks

Banks should have specific and clear functions during their participation in economic development of any country. Being an under-developed country, Nepal has low per capita income and GDP, and faces many economic constraints such as inflation and deflation of monetary trade, trade deficit and budget deficit. Such constraints can be removed involving Commercial Banks by the formulation of capital deficit spending unit (trade and industry as well as general public). Banks also take participation in eliminating these problems by financing in small and cottage industries and agricultural sector under priority sector investment scheme to serve the marginal people.

Many institutions have defined the functions of commercial banks. The American Institute of Banking has specified the four major functions of the commercial banks such as receiving and handling deposits, handling payment for its clients, making loans and investment and creating money by extension of credit. Similarly, Nepal Commercial Bank Act 2031 B.S. has defined the functions of commercial bank as follows:

1. They accept custody of funds with or without interest and open fixed accounts and saving accounts in the name of depositions.
2. They supply loans (short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
3. They help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.

4. Conduct transactions in bonds, provisional notes or bills of exchange foreign exchange relating to commerce or corporation as are redeemable within the kingdom.
5. They grant overdraft.
6. They issue letter of credit, draft and traveler's cheque
7. They remit or transit fund to different place with in or outside the kingdom.
8. They purchase, sell or accept the securities of NG.

Besides this, the commercial bank carryout several additional functions as and when they realize necessary. For example, a bank may arrange the amount of foreign exchange required by various organizations and travelers. Moreover, bank facilitates the issuance of letter of credit for foreign trade transitions. Bank provides locker facilities to the customers to keep valuable ornaments and documents. Bank also provides references about the financial position of their customers as and when required. The bank works as an agent of its customers to receive and make payments, pay and collect rent, pay insurance premium, etc. In case of joint venture commercial banks, it issues internationally valid Credit cards, ATM cards, Tele-banking, e-banking etc. Thus, bank has many more functions and roles in the development of national economy.

2.3 Investments

Investment can be defined as the sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too. Uncertainty is measured by risk that's why there is always involvement of risk in investment. Investment in other words can be defined as the management of an investor's wealth, which are the sum of current income and the present value of all future income. Funds are invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other factors.

Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return. Cheney and Edward define "The word of investment brings forth visions of profits, risk, speculation, and wealth".

“Investment is nothing but deploying our saving in manner that ensures safety of our money and provides a sustained return to supplement our regular income (Delhi stock exchange, 2002). The term investment covers a wide range of activities. It is commonly known faced that an investment covers a possible where there are adequate saving. If all the incomes and saving are consumed to solve the problems of hand to mouth and to other basis needs then there is non existence of investment. Therefore, both saving and investment are interrelated.”

“ Investment is made in assets. Assets in all 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 investment greatly facilitate real investment” (Bhattarai, 2004;142).

“ They investment objectives is to increase systematically the individuals wealth defined as assets minus liabilities. The higher level of desired wealth the higher must be received. As investor seeking higher return must be willing to take higher level of risk” (Cheney and Moses).

2.4 Feature of Sound Lending and Investment Policy of Bank

Every commercial bank has its own goal, purpose and outputs. The commercial banks are mainly motivated with the goal of earning profit. There are many regions for gaining the goal of earning profit. A bank is a legal person. The shareholders are the owner of the bank. The board of directors is the agent of the bank. It operates the bank. To run the banks many employee are appointed. It needs a great amount of expenses to run the bank, whether it is direct or indirect, there is continuing expenses in the bank. In addition to it, the aim of any person or institution to invest the money to the bank is to earn more profit only. A bank established without the aim of gaining the profit is the central bank. Other banks are inspired with the object of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal (Bhandari, 2003; 126).

Investment is the prime factor of earning profit. So, after the establishment of bank, it collects much deposit and gets the deposit in the form of the current, saving and fixed deposit accounts. In this way, the bank apart from the amount deposited from such

accounts, collects the capital by selling its share. The bank can take loans. Thus, a great capital fund is formed in the bank from different source. It is not better to keep such capital fund inactive. The bank should be able to define its investment policy by making a deep study on the subjects that which sector would be the more trust-worthy and dependable to invest the amount collected in the bank. If the bank applies following investment policies or principles, it can be successful in its goal.

a. Liquidity

Liquidity is the most important policy of investment. A bank should not forget the principle of liquidity while it is following its investment policy. Liquidity means the whole stock in the economy. In Nepal, the money in use, the money in the accounts of current, saving, and fixed period and the money in margin account refer to liquidity. The liquid property means cash stock of the commercial banks, the amount of the short terms, current account, and short-term government and business security and Treasury bill.

The commercial banks are considered to be as financial mediators. The commercial banks have liability to the deposits and they immediately should give it in the time when the depositors asked. For thus purpose, the banks should keep adequate liquid funds. And also they should gain profit by utilizing the deposit as a loan and advances. If the bank can't return the deposits at the time of demand it may lose the customers and their trust. If adequate liquid fund is kept they can return the deposit at will of the depositors but such bank can loan for a long time. In same way, if they invest the whole deposit loan and advances, they can't give it at the time of demand by the depositors, so, the commercial bank tried to move the liquidity and profit together. It is the great challenge for the manager of the bank.

The commercial bank should attract deposits because a deposit is called raw material of banking, without which bank can't run. It is important thing in which sectors the amount of each deposit is to be invested. The interest is not given for the amount of current account. But as it has to give payment immediately, plenty of liquidity is necessary for it. From the viewpoint of property, loan and advances are more income generating sectors but they are less liquid able. The amount would not be recorded in the time of want. Similarly, keeping more money in the bank is very more liquid able, but does not generate income to the bank. The quantity of liquidity is less for investment so maintenance of co-ordination between the property and liquidity by keeping some parts of it own property, as a liquid property to provide loan and to invest it is the success of the commercial banks. The

central bank pays attention to this reality to give directions on liquidity to the commercial banks (Bhandari, 2003:127).

b. Profitability

The objective of the commercial bank is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The bank should not keep its means and materials inactive; it should keep on investing the means and materials in appropriate and safe area. The banks can gain much profit from the safe and long-term investment. But there is less liquidity in such investment. It may lose the investment in the sector where profit is not gained. Where much risk is there, is much profit. But sometimes, it may create a situation where the bank should face the great economic loss, by loss of the investment of the risky sector. So the profit and liquidity are two opposite principles. If the bank pays its attention only for profit, the liquidity becomes less, if it pays its attention on the liquidity, it can't be a long-term investment and the bank doesn't get profit. So it should maintain equality in it. The profit of the bank is the interest rate and the bank charge. So, the bank should always think to apply an appropriate investment policy in such sector from which can earn much (Bhandari, 2003:128).

c. Safety

A bank should pay a special emphasis on safety. If the invested area is unsafe, it isn't good omen for the bank. The bank should pay much emphasis on the principle of safety, to follow the investment policy. There will be no doubt of loss whether it is great or little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. To invest on an unsafe sector with the hope of gaining much is to accept the security of low quality. To invest large loan against less securities by receiving commission, to invest in new places without care, observation and to follow the long-term loan including these all reasons will make unsafe of the bank's investment. They should be avoided as much as can be. There will be no loss to the bank, if it invests in profitable sector. So the bank should seriously study whether there is a possibility of investment or not. It should invest in a safe sector. If the property taken as the securities are ruined, securities is low in standard or low valued and if there is no possibility of sale of the security, the bank suffers from loss. The bank should follow the principle of safety, and the short-term loan and should invest in profitable sector. In such conditions, there will be no possibility of loss. The secured sectors mean the securities of the inland and foreign, company's shares, debentures and government bond etc (Bhandari, 2003:128).

d. Diversification

The principle of diversification means the banking policy of investing the money in the various sectors. The bank should not follow the policy of investment only in one or two sectors. If it follows such policy, certainly its investment policy will not be successful. The bank by studying and analyzing the different sectors where it is possible to earn more from little investment should extend its investment. If it invests in many sectors, it becomes successful to keep it in balance. There will be less profit from investment of some sector and there will be maximum profit from some other sectors. There may be loss too in some sectors. On the whole, a bank should be able to be a competent itself. If it happens so, the banking transaction does not go up and down. It can run the bank comfortably and smoothly. In the case of earning profit, the bank should follow the policy of investing various fields. So, there is a statement “a bank should not lay all its eggs in the same basket”. By following this principle, on the basis of gold, silver, diamond, development bond, shares of company, debentures, goods, imports and export bills and other appropriate securities, the banks have moved a head of their investment policy. The bank always gets success in their working capacity from such investment. And the bank becomes successful in its goal (Bhandari, 2003:129).

e. Marketability

A bank should adopt the principle of marketability in investment policy. In certain way, the bank moves its investment or flows loan against security. To invest the money, the bank should follow the policy of taking the security of high quality as far as possible. The market of Nepal is small. In such a small market in order to livingness to its banking transaction, a bank should flow its loan by taking the first class securities. The bank should keep in mind the main principle of marketability while it makes investment. Are the goods taken as securities saleable in the market or not? Can the loan be recovered by selling it in the market or not? The bank should adopt the investment policy by paying the attention to the different aspects, it should study the market evaluate of the goods which are taken as security. The bank should do such things, which would help earn the profit and make the investment policy successful. The bank should not invest money by taking the securities of goods, which are not saleable in the market and though they are sold but not fetch the reasonable price, and there is no value of such things. The bank should take as far as possible such goods which keeps may be safely and freshly in the market and the loan will be recovered like gold, silver, diamond, company's shares certificates, debentures,

development bond and other similar types of securities of immovable property like house, land etc. can't be sold in time. So, if the provides loan by taking reasonable goods as security it can be sold in the market easily and the bank can be saved from becoming insecure (Bhandari, 2003:129).

f. Tangibility

A commercial bank should prefer tangible security to an intangible one. It may be considered that tangible property doesn't yield an income apart from intangible securities, which have lost their value due to price level inflation.

g. Legality

Illegal issued securities may cause problems to the investors. Therefore, all commercial banks should follow the directives of NRB, Ministry of Finance and other relevant organization at the time of mobilizing funds.

2.5 Principle of a Good Investment Policy

a. Principle of Safety

The safety sought in investment is not absolute or completes the word means, rather protection against loss under reasonable likely. It calls for careful review of economic and industrial trends before choosing any type of investment or the time to invest. Thus, this principle recognizes that errors are unavoidable and requires extensive diversification (American Institute of Banking, 1972: 149).

b. Adequate Liquidity and Collateral Value

An investment is a liquid asset if it can be converted into cash without delay at full market value in any quantity. For an investment to be liquid, it must be I) reversible or II) marketable. The difference between reversible and marketability is the process whereby the transaction is reversed or terminated while marketability involves the sale of the investment in the market for cash. To meet emergencies, every investor must have a sound portfolio to be sure for the additional funds, which may be needed for the business opportunities. Whether money is rising is to be done by sale or by borrowing it will be easier if the portfolio pursues a planned proportion of higher grade and readily saleable investment.

c. Stability of Income

Stability of income must be looked at different ways just as was security of principle. An investor must consider stability of monetary income and stability of the purchasing power of income. However, emphasis on income stability may not always be consistent with other investment principles. If the income stability is stressed, capital growth and diversification will be limited.

d. Capital Growth

Capital appreciation has today become an important principle. Recognizing the connection between corporation and industry growth and very large capital appreciation, investors and their advisors constantly are seeking “growth stock”. It is exceedingly difficult to make successful choice. The ideal “growth stock” is the right issue in the right industry, bought at the right time.

e. Tax Status

To plan an investment program without regarding to one’s tax status may be costly to the investor. There are really two problems involved here that, one concerned with the burden of income taxes upon that income. When investors’ incomes are small, they are anxious to have maximum cash returns on their hand, investors who are not possess for cash income often find that income taxes deplete certain types of investment incomes less than others.

f. Purchasing Power Stability

Since an investment nearly always involves the commitment of current funds with the objective of the investor should consider receiving greater amounts of future funds, the purchasing power of the future funds. For maintaining purchasing power stability, investors should carefully study I) the degree of price level inflation they accept, II) the possibility of gain and loss in the investment available to them and III) the limitations imposed by personal and family considerations.

g. Conceivability

To be safe from social disorders, government confiscation or unacceptable levels of taxation, property must be conceivable and level no record of income received from its use of sale. Gold and precious stones have long been estimated for purposes because they combine high value with bulk and are readily transferable (American Institute of Banking, 1972:149).

2.6 Some Important Terms

Several terms related with banking are to be explained by commercial banks. The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which frequently used in this study, are given hereunder:

a. Deposits

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

- a) Current deposits
- b) Saving deposits
- c) Fixed deposits

b. Loans and Advances

Loans and advances are also the most important terms to be clearly defined. The Loans and advances are the main source of income for a bank. Bank deposits can cross beyond a desired level but the level of loans and advances can never cross the desired level. The facilities of granting loan, advances and overdrafts are the main service in which customers of the bank can enjoy.

Fund borrowed from banks are much cheaper than those borrowed from unorganized moneylenders. The demand from loan has excessively increased due to cheaper interest rate. Furthermore, an increase in and economic and business activities always increase the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general cutomers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect of low interest rate. Some portion of loan and advances include that amount of which is given to the staff of the bank for house loan, vehicle loan, personal loan and others, in mobilization of commercial banks fund, loan advances and overdraft have occupied a large portion.

c. 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 banking business. A commercial bank may extend credit by purchasing government securities bond and shares for several reasons. Some of them are given as:

- i) It may want to space its maturates so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- ii) It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- iii) It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand funds in great volume without previous notice to banks. The investment must be of a type that can e marketed quickly with little or shrinkage in value.

d. Investment on Other Company's Shares and Debentures

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 many other financial and non-financial companies. Nowadays, most of the commercial banks have purchased regional development bank's NIDC and other development bank's shares.

2.7 Sources of Funds of the Investment

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

a. Capital

Capital is the live blood of the trade and commerce. Therefore, capital is needed for the operation of the bank as in other business. The capital terms consists of the two elements like.

- i. Issuing shares

ii. General reserves

- i. **Issuing shares:** - Banks issues its share for the collection of capital. So this is one of the sources of fund to invest. By increasing in the issue of shares the bank can increase its capital.
- ii. **General reserves:-** Reserves are kept by the bank separated from the profit. This reserve is also invested at the time of contingency and to cover the loss in future.

b. Accumulated Profit

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

c. Deposits

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

d. External and Internal Borrowings

The funds can be collected by borrowing money through different banks or different institution. In a developing country like Nepal, those types of borrowing are very important. The commercial banks may not have sufficient funds to invest in different sector. In that case it has to borrow from other bank or other financial institutions. Generally the commercial bank borrows from two sources i.e. external and internal. Generally external borrowing means the borrowing from foreign banks, and foreign government. Internals the commercial banks borrow mainly from inter banks and Nepal Rastra Banks. So the commercial bank cannot provide loan or investment without the funds from the funds collected from above different sources the commercial bank grants loan.

e. Other use of funds

A commercial bank must maintain the minimum bank balance with NRB i.e. 8% for fixed deposit and 6% for current and saving deposit account in local currency. Similarly, 3% cash balance of all local currency accounts must be maintained by it according to the rules

of NRB to have a good liquidity position. Again, a part of funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

f. Off Balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation. These are not recognized as assets or liabilities on balance sheet. Some good examples of these items are letter of credit, letter of guarantee, bills for collection etc. Nowadays, such activities are stressfully highlighted by some economists and finance specialists to expand the modern transactions of a bank.

2.8 Review of Legislative Provisions

This section includes some reviews of legislative framework under which the commercial banks operate. Legislative provision influences on a bank's establishment, mobilization and utilization of resources. A commercial bank should specify the legislative provisions indicated by other financial institutions and rules and regulations formulated by NRB.

Investment Management Regulation

A commercial bank decides to invest in shares and securities but such investment is restricted to 10% of paid up capital. However, such investments in all companies in which the bank has financial interest shall be limited to 20% of paid up capital of the bank. But, the total amount of investment in shares and securities of organized institution is restricted to 30% of the paid up capital of the bank (NRB Directives). Commercial banks are not allowed to invest in any shares, securities and hybrid capital instruments issued by any financial institutions licensed by NRB. A commercial bank is related to the fund collected as paid up capital, fund needed to expand the branches, and flexibility of NRB rules and regulations. The main provisions of NRB are discussed hereunder:

i) Provisions for investment in the deprived sector

Investment in shares of the rural development bank by CBs, which used to be counted for the priority sector lending, is only now the deprived sector lending. According recent provisions effective from 1997/98, NBL, RBBNABIL, NGBL, NIBL are required to 3% invest, HBL, NSBL, NBBL, EBL, are required to invest 2%, BOK is required to invest 1.75%, NBCL is required to invest 0.75% and new commercial banks are required to invest 0.25% of their total loans and advances to the deprived sector.

ii) Provisions for credit tot the priority sector

Commercial banks are required to extend loans and advances at 12 p.c. of their total outstanding credit to the priority sector (agriculture, cottage and small industries and service, which are counted commercial bank's loan to the cooperatives licensed by the NRB is also to be counted as the priority sector credit from 1995/96 onwards.

iii) Provision for the investment in productive sector

NRB directs the commercial banks they should extend at least 40 p.c of their total credit to the productive sectors. Productive sector investment includes loans to priority sector, agriculture sector, industrial sector etc.

iv) Provision for the single borrower limit

NRB directs commercial banks to set an upper limit of loan financed to an individual, firm, company or group of companies. The single borrower limit should not exceed 25% in the case of fund-based credit and 50% in the case of non-fund based credit such as the letter of credit, guarantee, acceptance letter, and commitment in a fixed proportion of capital funds of the bank. Similarly, NRB has graded NABIL, NGBL, NIBL, HBL, SBI, and NBBL as class 'A' banks, which have been kept outside the provision of the single borrower credit limit. Likewise, commercial banks are permitted to extend an additional 10% credit above the limit fixed by NRB as before in the case of consortium financing.

v) Provision for minimizing liquidity risk

A gap found between maturing assets and maturing liabilities is the liquidity risk. They are monitoring their assets and liabilities on the basis of maturity period. Maturity periods such as 0-90 days, 91-180 days, 181-270 days, 271-365 days and above 1 year are classified for the purpose of matching the assets liability maturity.

vi) Cash reserve requirements (CRR)

Commercial banks are required to have maximum CRR to ensure adequate liquidity, to meet the depositor's demand for cash at any time and to inject the confidence in depositors regarding the safety of their deposited funds. NRB directs them to deposit at Nostro accounts maintained with NRB minimum 5% of total deposit of two weeks. Cash kept at bank's vault is not considered as a part of CRR.

vii) Loan classification and loan provision

NRB directs commercial banks to classify their outstanding loan and advances, investment and other assets into four categories viz Pas loan) performing loan), substandard loan, doubtful and bad loan when making loan loss provision (LLP) of 1%, 25%, 50% and 100%, respectively.

viii) Directives regarding Interest Rate Spread

The difference between interest charged on loan and advances and the interest paid to the depositors is Interest Rate Spread. Previously, NRB directed the commercial banks to have Interest Rate Spread at maximum of 5% but now there is no regulation though NRB official including governor used to give pressure on banks for reducing the Interest Spread Rate on different forums and meetings.

2.9 Review of Previous Research

2.9.1 Review of Books

“Financial investment is a form of this general or extended sense of the term. It means an exchange of financial claims, stock and bonds (collectively termed securities), real state mortgages etc. The term financial investment is often used by investor to differentiate between the pseudo-investment concept of the consumer and the real investment of the businessman. Semantics aside, there is still a difference between an investment in a ticket on a horse and the construction of the new plant: between the pawning of a field of corn. Some investments are simple transactions among people, other involve nature. The later are “real” investment. The former is “financial” investment. We now turn to a closer examination of finance and investment decisions themselves (Bhalla, 1983;2).

The term investing can cover a wide range of activities. It often refers to investing money in certificates of deposits, bonds, common stock or mutual funds. More knowledgeable investors will include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative position and aggressive speculation (Jones, 1988;5).

“An Investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk; if requires a present certain sacrifice for a future uncertain benefit” (Francis, 1991;1).

Investment is the sacrifice of current dollars and time and risk is involved in investment. Sacrifice takes place in the present and certain. The reward comes later, it at all and the magnitude are generally uncertain. In some case the element of time predominates. In other cases risk is the dominant attribute (Sharpe, 1994;1).

“Investment in its broadest sense, means the sacrifice of certain present value (possible uncertain) future value” (Sharpe and Gordon, 1998;2)

“Investment is any vehicle into which fund can be planed with the expectation that will preserve or increase in value and generate positive returns” (Gitman and Joehann, 1990;4).

“A banker seeks optimum combination of earning, liquidity and safety, while formulating investment policy” (Chandler, 1973;5).

“The investment (credit) policies of banks are conditional, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his bank’s credit policy also in mind”(Singh and Singh, 1983;13).

“An investment may be defined as the current commitment of funds for a period of time to derive a future flows of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds” (Reilly, edition; 4).

Investment policy fixes responsibilities for the investment deposition of the bank assets in terms of allocation funds for investment and loan establishing responsibility for day-to-day management of those assets (Baxley, 1987;6).

2.9.2 Review of Articles and Journals

Morris (1990) In his discussion paper on “*Latin American Banking System in the 1980’s*” has concluded that most of the bank concentrated on compliance with central bank rules on reserve requirement credit allocation (investment decision) and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. He further add that miss management in financial institutions has involved inadequate and over optimists loan appraisal high risk diversification of loan portfolio and investment high risk concentration related parties lending etc are major cause of investment and loan that has gone bad.

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

Pradhan (2003) in his research paper *"Role of saving, investment and Capital Formation in Economic Development. A case off Nepal"* has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/1975 to 2000/2001. The role and 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 terms with the entire study period divided into different sub period.

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

Shrestha, S. (1990:2), Nepal Rastra Bank guidelines on investment policy of commercial banks in Nepal (*A case study of Nepal investment bank Ltd.*). An unpublished master degree thesis, Shankar Dev Campus, Kathmandu.

There are not much articles published related to investment management in Nepal. **Shrestha (1998)** has given a short glimpse on the *"Portfolio management in commercial banks: Theory and Practice"*. Mr. Shrestha has highlighted following issues in the article. The portfolio management becomes very important fore individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to the following aspect:

- 1 Higher return which is comparable with alternative opportunities available according to the risk class of investors.
- 2 Good liquidity with adequate safety of investment

- 3 Maximum tax concession
- 4 Economic, efficient and effective investment mix
- 5 Flexible investment
- 6 Certain capital gains

In view of above aspects, following strategies can be adopted:

- 1 Do not hold any single security i.e try to have a portfolio of different securities
- 2 Do not put all the eggs in one basket i.e. to have a diversified investment
- 3 Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return but with added objective of wealth maximization

However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its management.

- 1 To find out invest able assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposition, liquidity, tax liability, etc.
- 2 To find out the risk of the securities depending upon the attitude of the investor toward risk
- 3 To develop alternative investment strategies for selecting a better portfolio that will ensure a trade-off between risk and return, so as to attach the primary objective of wealth maximization at lower risk
- 4 To identify securities for investment to refuse volatility of return and risk

Mr. Shrestha has presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence.

According to Mr. Shrestha, the portfolio management activities of Nepalese commercial banks at present are in nascent stage. However, on the other hand, most of the banks are not doing such activities so far because of following reasons:

- 1 Unawareness of the clients about the service available

- 2 Hesitation of taking risk by the clients to use such facility
- 3 Lack of proper techniques to run such activities in best and successful manner
- 4 Less developed capital market and availability of few financial instruments in the financial market.

Thapa (1994) has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks increasing they're lending to non-traditional sectors along with the traditional sectors.

Out of the different commercial banks, Nepal bank limited and Rastriya Banijya Bank are operating with a nominal profit and also turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest income is declining. These banks have not been able to increase their income from commission and discount, through traditional off-balance sheet operations. On the contrary, they have got heavy burden of personnel and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of loans and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet activities and efficient personnel management has added to the maximization of their profits.

Shrestha (1993) in her research, "*Investment planning of commercial banks in Nepal*" has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that bank portfolio (loans and investment) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory procedure of the central bank (Nepal Rastra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability,

liquidity, safety, productivity and social responsibility. To overcome this problem, she has suggested, “commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects”.

Sharma (1998), In article, *joint venture banks in Nepal: Co-existing or growing out*, would be definitely unwise for Nepal not to let the CBS operate in the company in the country and not to take advantage of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop CBS and the cost of domestic banks. So far one should admit frankly no different treatment has been extended to the domestic and CBS at least from the government side, which is commendable. If his Majesty’s Government keeps on the stance of treating the domestic and CBS equally deposit latter bargaining strengths and if this poor country, both types of banks will coalesce and co-exist complementing each other and contributing to the nation’s accelerated development on the country, if the CBS use their strength against trading into the number, some path of development along with domestic banks and the government these will eventually grow out the domestic bank from the never profitable urban areas and lucrative urban sectors, unless remedying by the determination of the government.

Shrestha, (2045) article on, *A study on deposits and credit of commercial banks in Nepal*, concluded that the credit deposit ratio would be 51.3%, other things remaining the same in 204 A.D, which has the lowest under the period of review. So the author had strongly recommended that the commercial banks should try to give more credit entering new field as for as possible, otherwise they might not be able to absorb even its total expenses.

2.10 Review of Thesis

Master’s degree researches are the important sources of literature review. Masters degree students have accomplished studies on various aspects of commercial banks. Before this study, several thesis works have been carried out by various students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization, capital structure etc. Some of the relevant findings of the research works for the study are presented below:

Pokhrel (1983) conducted a study on “*Investment Pattern and Policy of Rastriya Banijya Ban, 1983;85*” The research findings of the study are concluded as:

- 1 From the study of investment pattern of Rastriya Banijya Bank, it is observed that the investment is mainly towards the security of gold and silver.
- 2 From the study, it has been revealed that there has never been any clear and specific investment policy. In fact, the bank is running its business without having definite direction, except to follow the directive issued by the Rastra Bank from time to time in some specific matters.
- 3 The deposit raised by the bank is not properly utilized. This ratio reflects the lack of definite policy of Rastriya Banijya Bank.
- 4 The effect of change in interest rate has neither contributed to raise deposit nor has been favorable in investment extension.
- 5 Time to time checking and supervision by the bank should be faithfully followed.

Joshi (2005) conducted a study on “*Investment Policy of Commercial Banks in Nepal: A Comparative Study of Everest bank Limited with NABIL Bank Limited and Bank of Kathmandu*” has presented research findings of the study are:

- 1 The liquidity position of the EBL is comparatively better than NABIL and BOK. EBL has the highest cash and bank balance to total deposits, cash and bank balance to current assets ratio. Nabil has lowest liquidity position than that of other two banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan and advances.
- 2 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 and BOK. The total investment of EBL is in between in compared to other two banks.
- 3 In the study, loan and advances to total deposit is higher in BOK but total investment to total deposit is higher in NABIL. Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.

- 4 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 profitable in comparison to other compared banks i.e. NABIL and BOK. From the view point of risk ratio, EBL has higher capital risk ratio but average of credit risk ratio in compared to NABIL and BOK.

Shrestha (2004) conducted a study on “*Nepal Rastra Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A case study of Nepal Nepal Investment Bank Ltd.)*”. The main findings of the study are:

- 1 Bank is in good position to meet the daily cash requirement as bank has maintained the average cash and bank balance in respect to total deposit
- 2 The performance of NIBL regarding deposit collection, granting loan and advances and investment is quite satisfactory but does not seem to follow a definite policy
- 3 NIBL 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
- 4 Interest earned to total operating income of NIBL is high, however bank failed to maintain net profit on the study
- 5 From the analysis of coefficient of correlation, there is positive and significant relation between total deposits and loans and advances and current assets and current liabilities and loan loss provision and loan and advances but there is negative and no significant relationship between outside assets and net profit
- 6 Trend analysis and projection for next five year of total deposits, loan and advances, investment and net profits are in increasing trend

Mahat (2004) conducted a study on “*Investment Policy of Nepal Bangladesh Bank Limited*”. The research findings of the study are:

- 1 The proportion of non-performing assets on total loan and advances of the bank is more than the satisfactory level. It should be less than 5% to be graded as internationally A-grade commercial bank. For the Nepalese context. NPA level of the bank is higher than these standards. So the management of the should give its attention in time to manage NPA level within the satisfactory level.

- 2 The loan and advances portfolio of the bank is not satisfactory. The lending is not properly diversified. Half of the loan from total portfolio is given to industrial sectors. Bank is unable to explore the new and profitable sectors for the lending purpose; so, the bank has very risky portfolio of loan and advances. If industrial sector will not function properly, its impact to the bank will be huge.
- 3 Bank is not fulfilling its priority sector investment requirement every year, during the study period. In the course of failure to fulfill the directive credit requirement, bank is subject to penalty, which affects the profitability of the bank. The average priority sector lending of the bank is less than required 12% landmark.
- 4 The relation of total deposit is positive to total investment i.e. if total deposit increases, bank's loan and advances; investment on government securities, shares and debentures of other companies also increases. But the bank's investment, in the form of loans and other investments has not positive relation to total net profit of the bank. Bank's total profit is irrespective to its total investment.

Ojha (2002) conducted a study on “*Lending Practices: A study on NABIL Bank Ltd., SCB Nepal Ltd., and Himalyan Bank Ltd.*” The research findings of the study are:

- 1 The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current assets.
- 2 The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposits resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- 3 SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loan and advances to total assets whereas NABIL Bank Ltd. has the highest due to steady and high volume of loan and advance throughout the years.
- 4 The ratio of investment to investment on loan and advances has measured the total portion of investment in total of investment and advances. The mean ratio among the banks does not have deviated significantly.

- 5 The loan and advances and investment to deposits ratio has shown that NABIL Bank Ltd. has deployed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- 6 The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is highest in SCBNL with moderate variation. The volume net assets of Himalayan bank Ltd. is the least due to the low share of capital, reserves and surplus in its capital mix. But the volumes contribute by Himalayan Bank Ltd. in case of loan and advances are highly appreciable compared to its net assets. The volume of loan and advances contributed by NABIL Bank Ltd. is the greatest in five years of study period. The mean investment of NABIL bank Ltd. is the highest but the investment on government securities of SCBNL is the highest.
- 7 The portfolio analysis has revealed that the flow of loan and advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of all the banks in industrial sector is appreciable. The contribution made by Himalayan bank Ltd. in industrial sector is the greatest that of SCBNL is the least.
- 8 The lending in commercial purpose is the highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 24.47% of its total credit in general use and social purpose.
- 9 The measurement of efficiency in lending has revealed that the loan loss provision to loan and advances analysis shows that NABIL Bank Ltd. has the highest mean ratio. According to the Nepal Rastra Bank directives, the loan loss provision indicates the provision made against the performing loan (pass loan and sub-standard loan) only. It indicates that the volume of substandard loan in the loan mix of NABIL Bank Ltd. is higher and the volume of non-performing loan in the mix of NABIL Bank Ltd. is likely to increase in coming future.
- 10 The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Ltd and lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in Himalayan bank Ltd. is the highest and that of SCBNL is the least.

- 11 The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total expense reflects the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best.
- 12 The performance of SCBNL is significantly better than two banks in case of profitability. EPS is the highest in case of SCBNL.

Thapa (2002) conducted a study on "*Investment Policy of Nepal Bangladesh bank Ltd. and other joint venture banks (NABIL and Grindlays Bank Ltd.)*" has concluded the study are as follows:

- 1 The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL.
- 2 NB Bank is not in better position regarding its on balance sheet as well as off-balance sheet activities in comparison to NABIL and NGBL. NB Bank does not seem to follow any definite policy regarding the management of its assets.
- 3 Profitability position of NB bank is comparatively worse than that of NABIL and NGBL.
- 4 NB Bank has maintained high growth rates in comparison to other banks though it is not successful to make enough investment.
- 5 The position of NB Bank in regard to utilization of the fund to earn profit is not better as compared to NABIL and NGBL.

Khadka (1998) conducted a study on "*A study on the investment policy of NABIL Bank Ltd. in Comparison to Other Joint venture banks of Nepal*" The research findings of the study are as follows:

- 1 Liquidity position of NABIL bank Ltd. is comparatively worse than that of other JVBs. NABIL Bank has more portions of current assets as loan and advances but less portion as investment on government securities.
- 2 NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBs.
- 3 Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBs. The mean ratio of return on loan and advances of NABIL bank Ltd. has been found slightly lower than that of other JVBs. Similarly, the mean ratio of total interest earned to total outside assets of NABIL bank Ltd. has been found slightly lower than that of other JVBs.

- 4 Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBs (i.e. Nepal Grindlays Bank Ltd. and Nepal Indo Suez bank Ltd.).
- 5 There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between total deposits and total investment in case of both NABIL bank Ltd. and other JVBs.

Dhungana (1993) in a study entitled, “*A study of the joint venture bank’s profitability*” has presented following major findings:

- 1 Interest income of NIBL is the highest
- 2 Nabil’s commission and discount earning and foreign exchange income is higher than both NGBL and NIBL
- 3 NABIL’s other operating income is appeared higher than other bank.
- 4 NGBL has highest ‘EPS’ and cash dividend per share in average.

Jha, (1998) A study entitled, “*Comparative Analysis of Financial Performance of the Selected Joint Venture banks*” has concluded the following points.

- 1 General loan loss provision to total loan incase of Nabil has the highest among NIBL, NGBL and HBL.
- 2 Credit deposit ratio stood the highest at the end of FY 1996/97 among the selected banks.

NGBL has been investing most of its deposits in foreign investments.

Poudel (2059) In his thesis paper “*Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal*” had made an attempt to evaluate liquidity and investment of joint venture banks, special reference to Everest Bank Ltd. and Nabil Bank Ltd. He has concluded that liquidity position of EBL is comparatively better than Nabil. Growth rate of investment is higher in EBL than Nabil. He further found the banks do not have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. A commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So, he has

recommended exploring such investment and to increase its investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return.

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

2.11 Research Gap

The purpose of the research work is quite different from the studies made by the above persons (related to commercial banks). The author focuses this study in effectiveness on investment policy analysis of Nabil bank and Everest banking comprehensive manner considering the major items. The method of analysis is fully different. Financial tools and statistical tools are used in this study as ratio analysis, trend analysis, correlation coefficient and hypothesis.

This study is a little bit different than previous studies. It may be the first research study in the field of investment policy taking the comparative study of Nabil bank with Everest bank. This study has tried to indicate the effectiveness of investment policy of concerned banks.

CHAPTER - III

RESEARCH METHODOLOGY

This Chapter is related to the research methodology applied in the entire aspect of the study. Research methodology is a research tool, which is used to test the hypothesis and to come to a factual conclusion. It refers to the logical sequence of various steps to be adopted by a researcher in studying problems with certain objectives. In others words, research methodology describes the method and process applied in the entire subject of the study. The chapter includes research design, population of sample, Nature and sources of data, analysis of data and tools for analysis.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance. Research design specifies an outline of plant to be carried out concerning with the proposed research work. The design is simple form but it covers the main comprehension of the study. The research design show the investment situation of the banks are derived from using five-year data from internally generated accounting records maintained by Nabil Bank Limited and Everest Bank Limited. To accomplish this study, the applied design is descriptive and core perspective because the secondary data have been mainly applied for analysis.

3.2 Populations and Samplings

Population covers the whole or total of the observation that have selected for the study and sample is the part of population which represents population with regards to the study.

Commercial banks specially six joint venture banks are taken as population.

Though six joint venture commercial banks are in the operation throughout the country only two joint venture banks i.e Nabil Bank Limited and Everest Bank Limited are take for the research work, Nabil is the first joint-venture bank established in Nepal. Total net worth of Nabil in the year 2007 is Rs. 2033.30 million. Everest Bank Limited is the next joint venture bank established in Nepal having total net worth of Rs. 1684.8 million in the year 2007. These banks are compared as per fund collecting and mobilizing activities.

Total population, sample and sample percentage.

S.No.	Population	Sample	Sample %
1.	Nabil Bank Limited	1	
2.	Standard Chartered Bank Ltd.		
3.	Himalayan Bank Limited		
4.	Nepal SBI Bank Limited		
5.	Nepal Bangladesh Bank Ltd.		
6.	Everest Bank Limited	1	
Total	6	2	33.33

Source: www.nrb.org.np

3.3. Nature and Sources of Data

Defination of Secondary Data

The present study is mainly based on the secondary data related with the both banks viz. Nabil Bank and Everest Bank. The data relating to the investment e.g. loans and advances, deposits and profits/loss are directly obtained from banks Annual reports and financial statements of the banks. Likewise, newspapers, journals, periodicals, magazines, reports and unpublished thesis have been taking as other sources of date during the study.

Based on the requirements and objectives, all the secondary data were complied, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, they were complemented with the annual report of auditor. Formal and informal talks to the concern head of departments of the banks were also helpful to obtain the additional information of the related problems.

3.4 Analysis of Data

Several financial and statistical tools are used to analyze the collected data and to achieve the results of the study. The selective techniques of data analysis have been used according to pattern of available data. Various statistical and financial data has been in this heading.

3.5 Tools for Analysis

Both financial and statistical tools are used to make the analysis more effective, convenience, dependable and genuine. Analysis and presentation of the data is the most important part of the study. Financial analysis helps the judgment about the operating performance of investment position and statistical tools help find out the trends of financial position of the bank.

3.5.1 Financial Tools

Financial Analysis basically explores strengths and weaknesses of an organization. To achieve this, ratio analysis is the mostly used technique. Ratios are very important financial tools to interpret the financial performance of a firm. It is a reliable method to determine how a company is performing financially. It helps to show mathematical relationship between two accounting items or figures. By applying ratios to an organization's financial statements, managers would be able to evaluate better its short and long-term financial performance. Although there are various types of ratios to analyze and interpret the financial statement, only six ratios have been taken in this study, which are mainly related to the investment policy of bank. They are given hereunder:

a. Performance ratios

The lending efficiency of bank in terms of quality and turnovers is measured with the help of performance ratios. The following ratios are calculated under performance ratios.

b. Loan loss provision to loan and advances ratios

The quality of assets that a bank is holding is described by the ratio of loan loss provision to loan and advances. The low ratio indicates the good quality of assets in total volumes of

loan and advances and vice versa. This ratio is computed as :
$$= \frac{\text{Loan loss provision}}{\text{Loan and advances}}$$

c. Non-performing loans to loan and advances ratios

The ratios measure the proportion of non-performing loans on the total volume of loan and advances. These ratios are computed by following formula:

$$= \frac{\text{Non – performig loans}}{\text{loans and advances}}$$

3.5.2 Liquidity Ratios

Liquidity is related with all types of assets and liabilities. The working capital, the difference between current assets and current liabilities, provides the liquidity in business firms. It is highly essential for a business organization to meet its requirements and it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-term responsibilities, it reflects the short-term financial strength and weakness of the firm.

A high degree of liquidity exhibits proper utilization of funds whereas the lack of liquidity shows the signal of poor credit worthiness, loss of creditors' confidence or even in legal tangles resulting in the collapse of the company. Therefore, the firm should manage appropriate liquidity over the immediate future need of its short-term liabilities as they fall due. To measure the liquidity position of these two banks under the present study, the following ratios have been taken under consideration:

a. Current Ratio

The current ratio is the relation of current assets to the current liabilities. Its calculation is based on the comparison between current assets and current liabilities. It measures short-term solvency, so it is often called liquidity solvency ratio and working capital ratio. Current ratio is estimated with the help of following formula.

$$\text{Current ratio} = \frac{\text{current asset}}{\text{current liabilities}}$$

Where, current assets represents the amount of liquid i.e. cash and near cash assets available to the business, which can be converted into cash within a year. Likewise current liabilities give an indication of the upcoming cash requirements are payable within a year from current assets.

The current ratio is expected to be satisfactory when the calculated value is 2:1 or more. There is no hard and fast assumption that the current ratio must equal to 2:1. So many firms below this standard are also seen sound and meeting that obligation efficiently. Thus, the conventional rule is that even if half decrease in the current assets, the firm can meet its current obligations. It is the trend over time rather than the absolute value that gives the most valuable information.

b. Cash & Bank Balance to Current Assets Ratio

This ratio is the relation between cash and bank balance with current assets. It reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this ratio envisages higher liquidity position than current ratio. This ratio can be estimated by using the following formula:

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

The ratio shows the percentage of readily available fund within the bank. In the present study cash and bank balance represent total of local currency, foreign currencies, cheques in hand and various bank balance in local and foreign banks.

c. Cash & Bank Balance to Total Deposit Ratio

Cash and bank balance to deposit ratio reflects the ability of bank's immediate funds to meet their current deposits, margin, call and saving deposits. This ratio is computed by dividing the amount of cash and bank balance by the total deposit. This ratio can be estimated by applying the following formula:

$$\text{Cash and bank balance to deposits ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposits}}$$

Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa. In this study, cash and bank balance includes total cash in hand and total cash at banks. Similarly, deposits include all types of deposits, money at call and other deposits.

d. Investment on government Securities on Current Assets Ratio

Investment on government securities on current assets ratio includes the current assets invested on government securities, treasury bills and development bonds. This is the ratio investment on government securities to the current assets. This ratio can be computed by dividing investment securities by current assets. This ratio can be estimated by using the following formula.

$$\text{Investment on government securities on current assets ratio} = \frac{\text{Investment on government securities}}{\text{Current asset}}$$

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

e. Loan and Advances to current assets ratio

It is the relationship between loan & advances to current assets or it shows the bank's liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ratio can be estimated as follows:

$$\text{Loan and advances to current assets ratio} = \frac{\text{Loans and advances}}{\text{Total current assets}}$$

The general income of the bank is current assets, which include loan & advances. The ratio expresses the percentage of loan and advances in the total current assets. In the present study loan and advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

3.5.3 Assets Management Ratio / Activity Ratios

Assets management ratio or activity ratios are used to evaluate the assets management and utilization efficiency of the firm. The efficiency with which the assets are used would be reflected in the speed and rapidity by which the assets are converted into revenues. The greater the rate of turnover or conversion, the more efficient is the management/utilization of assets. If available assets are not utilized efficiently, the investment upon them will be idle and profitability decreases. If the investment is not sufficient, then adequate production and revenue cannot be made and profitability decreases. So, proper balance between revenue and assets is desired for the reflection of optimum utilization of the assets. Here, some of these ratios are estimated to assess the banks' efficiency in utilization and management of available assets.

a. Loan & Advances to Total Deposits Ratios

Commercial banks utilize the outsider's fund for profit generation. Loans & advances to deposit ratio shows whether the banks are successful in utilizing the outsider's funds for profit generation on the loan & advanced or not. This ratio can be estimated with the help of following formula:

$$\text{Loan \& advanced to Deposits ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

Generally, a high ratio reflects higher efficiency to utilize outsiders' fund and vice-versa. Here, Loan & Advances refer to total loan and overdraft (i.e. local currency plus convertible foreign currency) and total deposits refer to fixed, current, call and other kinds of deposits.

b. Loan and Advances to Working Fund Ratio

Loan and advances to working fund ratio is calculated through dividing the loan and advances by the total working fund. Loan & advances is the major component in the total working fund, which indicates the capability of bank to channel its deposits in the form of loan and advances to earn high return. This ratio can be estimated by applying the following formula.

$$\text{Loan \& advance to working fund ratio} = \frac{\text{Loan \& advances}}{\text{Total working fund}}$$

Here, total working fund includes total amount of assets given in balance sheet, which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

c. Total Investment to Total Deposits Ratio

Total investment to total deposit ratio is the relationship between total investments and total deposits. Total investment to total deposits ratio indicates how properly firms' deposits have been invested on government securities and debentures of the other companies. This ratio can be computed by dividing the total amount of investment by total amount of deposits collection. This ratio can be estimated by using the following formula:

$$\text{Total investment to total deposits ratio} = \frac{\text{Total investment}}{\text{Total deposits}}$$

Here, total investment refers to the investment on government securities, investment on debentures and bonds, share in subsidiary companies, share in other companies and other investment.

d. Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to total working fund ratio exhibits the actual part of total investment, which is invested on government securities and expressed as percentage. This ratio is estimated by dividing investment on government securities by total working fund.

$$\text{Investment on government securities to total working fund ratio} = \frac{\text{Investment on government securities}}{\text{Total working fund}}$$

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

Investment on shares and debentures to total working fund ratio shows the investment of banks and other financial institutions on shares and debentures of the other companies and

terms of total working fund. This ratio is computed by dividing shares and debentures by total working fund. This can be estimated as follows:

$$\text{Investment on shares and debentures to total working fund ratio} = \frac{\text{Investment on shares and debentures}}{\text{Total working fund}}$$

Here, total investment includes on government securities, Investment on debentures, bonds and shares of other companies.

3.5.4 Profitability Ratios

Commercial banks have to meet the defined objectives to express their commercial and financial efficiency. Efficiencies of any firm can be measured in term of profit. One of the important objectives of the commercial bank is to earn more profit, Management, owner and creditors of the banks expect reasonable and more return. Profitability ratio also indicates public acceptance of the service of banks and run competitively. The profitability ratios are computed by relating the profits of banks to their investment. To measure the profitability ratio of NABIL Bank and EVEREST Bank following ratios have been calculated and analyzed.

a. Return on Total Assets Ratio (ROA)

Return on total assets ratio measures the profitability with respect to the total assets. This ratio is used to measure the profitability of all financial resources invested in the banks assets. A higher ratio usually indicates efficiency in utilizing its overall resources and vice versa. The ratio can be estimated by using following formula:

$$\text{Return on total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

b. Return on Loan & Advances Ratios

Return on loan and advances ratio show how efficiently the bank and the other financial institutions have utilized their resources to ear good return from providing loans and advances. This ratio is computed by dividing net profit /loss by the total amount of loan and advances. This can be shown as,

$$\text{Return on loan and advances ratio} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

c. Interest Earned to Total Assets Ratio

Interest earned to total assets ratio is defined as the ratio of total interest earned to the total assets. This ratio reveals how much interest mobilizing the assets in the banks has generated. Interest occupies significant place in income for the banks. Generally, banks earn interest through the provision of loans and advances, overdrafts and investments in securities. This ratio is obtained from the following formula:

$$\text{Interest earned to total assets ratio} = \frac{\text{Total interest earned}}{\text{Total Assets}}$$

Here, interest earned represents the total interest earned in income statement of the banks. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

d. Interest Earned to Total outside Assets Ratio

This ratio measures the capacity of the firm for earning interest through appropriate utilization of outside assets. Higher ratio shows the efficiency of using the outside assets to earn profound interest. This ratio is computed by dividing total interest earned by total outside assets. This ratio can be estimated by using following formula:

$$\text{Interest earned to total outside assets ratio} = \frac{\text{Total interest earned}}{\text{Total outside assets}}$$

e. Interest Paid to Total Working Fund Ratio

Interest paid to total working fund ratio is defined as the ratio of total interest paid to total working fund. This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher expenses on total working fund and vice versa. This ratio is estimated by dividing total interest expenses by total working fund. It can be obtained from following formula:

$$\text{Interest paid to total working fund} = \frac{\text{Total interest paid}}{\text{Total working fund}}$$

3.5.5 Risk Ratios

Risk ratios are very important tools to measure the bank's financial risks. Risk means possibility of incurring loss or misfortune. Every bank or other financial institution should bear risk for their management and improvement. The profitability and effectiveness of the

firm increases when the firm wants to bear risk. To find out how much risk a bank should bear, the risk ratios will be helpful. These ratios are indicates the amount of risk associated with the various banking operation, which ultimately influences the investment policy of the banks. To measure the risk ratios of NABIL Bank and EVEREST bank have been calculated and analyzed as follows:

a. Credit Risk Ratios

Credit risk ratio is defined as the ratio of total loan and advances to total assets. Credit risk ratios help to check the profitability of loan non-repayment or the possibility of loan to go into default. Credit risk ratios are expressed as the percentage of non-performing loan to total loan and advances. These ratios are calculated by dividing total loan and advances by total assets. It can be estimated by using the formula given hereunder:

$$\text{Credit risk ratio} = \frac{\text{Total loan and advances}}{\text{Total assets}}$$

b. Capital Risk Ratios

The capital risk ratio is defined as the ratio of capital to the risk weighted assets. The capital risk of banks indicates how much assets value declines before the position of deposition and another creditors are jeopardized. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, deposits, liabilities and other corporate responsibilities. Capital risk ratio measures bank's ability to attract deposits and inter bank funds. It also determines the level of profit, a bank can earn if the banks chooses to take high capital risk and its ROE will be higher and vice versa. It can be estimated a follows:

$$\text{Capital Risk Ratio} = \frac{\text{Capital}}{\text{Risk weighted assets}}$$

Only loans & advances are taken as risk weighted assets.

3.5.6 Growth Ratios

Growth ratios are very important tools to measure the financial and economic status of the banks. Growth ratios represent bank's maintaining capacity to their economic and financial condition. It is linked to the fund mobilization and investment management of the bank. The higher ratio represents the superior performance. To measure the risk ratios of NABIL

bank and Everest Bank followings ratios have been calculated and analyzed.

- a. Growth ratios of total deposit
- b. Growth ratios of total investment
- c. Growth ratio of loan and advances
- d. Growth ratio of net profit

3.6 Statistical Tools

In the present study, some important statistical tools are used to achieve the objective of this study. The statistical techniques such as trend analysis of important variables, coefficient of correlation between different variables, and test of hypothesis etc. have been used to make the decision. A brief description of these tools is given hereunder:

3.6.1 Standard Deviation

Standard deviation is an important and widely used tool to measure dispersion. A standard deviation is the positive square root of the arithmetic mean of the squares of the deviation of the given observations from their arithmetic mean. It is denoted by δ (sigma). The minimum deviation of a variable from one place to other one replication to other is considered as stable and consistent variable. In this study, standard deviation of different parameters expressed as ratios is calculated.

The formula to calculate the Standard Deviation is given below;

$$\dagger = \sqrt{\frac{\sum x^2}{N}}$$

Where $x = (\bar{X} - X)$

$$\dagger = \sqrt{\frac{\sum x^2}{N}}$$

Where $x = (\bar{X} - X)$ and $f =$ frequency

$$\dagger = \sqrt{\frac{\sum dx^2}{N} - \left[\frac{\sum d}{N} \right]^2}$$

Where $d = (\bar{X} - X)$ and $A =$ assumed mean

3.6.2 Coefficient of Variation

It is one of the most important tools to measure the consistency and stability of the variable. The coefficient of variation is the most commonly used measure of relative variation. It is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. The minimum variation in any variable is desired for the variable to be consistent. There is no rule of how much CV must be but it should be as minimum as possible. The CV will be high if there is a high variation in performance of a variable from one replication to other. It depends on the nature of variables, design and study. The Cv is calculated as follows:

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

3.6.3 Trend Analysis

The future trend of the variables is studied under this heading. Analysis and interpretation are done on the trend of deposits, loan and advances, investment and net profit of NABIL Bank Limited and Everest Bank Limited that may help to forecast for next five years. The following trend value analysis has been used in this study.

- i) Trends analysis of total deposit
- ii) Trend analysis of loan and advances
- iii) Trend analysis of total investment
- iv) Trend analysis of net profit

The Trends of related variables can be calculated as, $Y = a + bx$

3.6.5 Coefficient of Correlation

The degree of relationship between two or more variables can be estimated by the coefficient of correlation. Coefficient of correlation is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and one independent. The correlation may be positive negative or zero. The value is always less than 1. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of one variable may have

effect on other correlated variable. The present study mainly focuses to find out the relationship between the following variables:

- i) Coefficient of correlation between deposits, & loan and advances.
- ii) Coefficient of correlation between total deposits and total investment.
- iii) Coefficient of correlation between total outside assets and net profit.

The above analytical tools are helpful to analyze the relationship between the relevant variables and to make appropriate policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization of the banks..

To estimate the relationship in above mentioned variables, given formula is used:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where, $x = (X - \bar{X})$, $y = (Y - \bar{Y})$

The result of coefficient is always between -1 to +1, where r=+1, it means there is significant relationship between two variables and when r=-1, it means there is no significant relationship between two variables.

3.6.6. Test of Hypothesis

Test of hypothesis is a useful tool to know the significance of the parameters. The objectives of this test are to test the significance regarding the parameters of the population on the basis of sample drawn from the population.

Type of Hypothesis

Null hypothesis

Alternative hypothesis

Null Hypothesis $H_0: \sim_1 = \sim_2$

Alternative Hypothesis $H_1: \sim_1 \neq \sim_2$

$;\sim_1 \geq \sim_2$

$;\sim_1 \leq \sim_2$

The steps are generally presented in their order of performance as follows:

Formulation of hypothesis

Choice of the statistical test

Computing the test statistics

Finding the level of significance and the sample size

Finding the critical region

Deciding two-tailed test or one-tailed test.

Making decision

It is assumed that the result obtained from a sample represents for the population. The assumption about the population to determine whether it is true or not by taking some sample with some procedure followed is called testing of hypothesis. The test of hypothesis discloses the fact whether the difference between the computed statistic and hypothetical parameter is significant. Here, the t-test has been used in the study on the following headings:

- i) Test of hypothesis on loan and advances to total deposits ratios.
- ii) Test of hypothesis on total investment to total deposits ratios.
- iii) Test of hypothesis on Investment on Government securities to current assets ratios
- iv) Test of hypothesis on loan and advances to current assets ratios
- v) Test on hypothesis on return on loan and advances ratios
- vi) Test of hypothesis on return on total assets.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The chapter is related to the presentation and analysis of data collected from various secondary sources. This chapter has been divided into main two sections. The first section of the chapter deals with the analysis of secondary data and second section deals with major findings of the study.

4.1 Financial Analysis

This is an analytical chapter, where the researcher has analyzed and evaluated those major financial items, which are mainly related to the investment, deposits, total assets and loan and advances of Nabil bank limited in comparison to the Everest bank limited. From the point of view of the investment policy only those ratios are calculated and analyzed which are relevant and important for this study. The ratios are designed and calculated to highlight the relationship between financial item and figures.

4.1.1 Performance Ratios

The lending efficiency of bank in terms of quality and turnover is measured under performance ratios. For this mainly two ratios are used to analyze the lending efficiency of banks. Through the following ratios effort has been made to measure the performance of EBL and Nabil Bank Limited.

4.1.1.1 Loan Loss Provision to Loan and Advances Ratios

The quality of assets that a bank is holding is described by the ratio of loan loss provision to loan and advances. NRB has directed the commercial bank to classify loan and advances into the category of pass, sub-standard, doubtful and loss to make the provision of 1,25,50 and 100 percentage respectively. NRB has classified the pass loan as performing loan and other remaining loan as non-performing loan. Non-performing loan is called non-performing assets. Non-performing loan is defined as specific loan loss provision. The loan loss ratio shows how effecting the bank manages its loan and advances. The low ratio indicates the good quality of asset in total volume of loan and advances whereas high ratio indicates the relatively more risky asset in the volume loan and advances. This ratio computed dividing loan loss provision by loan and advances.

Table 4.1.1.1:

Loan Loss Provision To Loan and Advances Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	1.01	0.99	0.82	0.29	0.91	0.804	0.297	36.94%
Everest	0.924	1.22	0.978	0.995	1.006	1.02	0.114	11.09%

Source: Annex A1

The table 4.1.1.1 shows the loan loss provision to loan and advances ratio of two commercial bank i.e. Nabil Bank and Everest Bank (Table 1). It is calculated as per mean, standard deviation and coefficient of variation. The ratio is in a fluctuating trend in both banks. The highest ratio (1.01) of Nabil is in FY 2003/04, while the lowest ratio (0.29) is in FY 2005/06. On the contrary, Everest has highest ratio (1.22) in FY 2004/2005 and it is lowest (0.924) in FY 2003/2004.

The mean value of the ratio in Nabil bank is lower than that of Everest bank i.e. $0.804 < 1.02$. Coefficient of variation of the ratio in Nabil bank is higher than Everest bank i.e. $36.94\% > 11.09\%$. It indicates that Nabil has good quality of assets in total volume of loan and advances whereas Everest has more risky assets in the volume of loan and advances, however, Everest has more consistency than Nabil because of the Everest has less coefficient of variation.

4.1.1.2 Non-Performing Loan to Loan and Advances Ratios

This ratio measures the proportion of non-performing loan to the total volume of loan and advances.

Table 4.1.1.2:

Non-Performing Loan to Loan and Advances Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	5.79	3.5	1.36	1.41	1.15	2.64	2.002	75.78%
Everest	2.26	1.78	1.49	1.31	0.946	1.56	0.496	31.83%

Source: Annex A2

The non-performing loan to loan and advances ratio of two commercial bank i.e. NABIL Bank and Everest Bank calculated as per mean, standard deviation and coefficient of variation (Table 2). The ratio was in a fluctuating trend in Nabil and decreasing trend in Everest bank. The highest ratio (5.79) of Nabil is in FY 2003/04 and lowest (1.15) in FY 2007/08. Similarly, Everest has highest ratio (2.26) in FY 2003/04 and lowest (0.946) in FY 2007/08.

The mean value of the ratio in Nabil bank is higher than that of Everest bank i.e. $2.64 > 1.56$. Coefficient of variation of the ratio in Nabil bank is higher than that of Everest bank i.e. $75.78\% > 31.83\%$. It indicates that Nabil has the bad performance of the bank in mobilizing loan and advances than Everest. Everest is more consistent than Nabil.

4.1.2 Liquidity Status of the Banks

The ability of the firm to meet its current obligation is measured by Liquidity ratios. Differences between current assets and current liabilities are known as working capital, which provides liquidity in business organizations. A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawal, pay maturity obligation in time and convert non cash into cash to satisfy immediate needs without loss to the bank and without consequent impact on long – run profitability of the banks.

4.1.2.1 Current Ratios

The calculation of current ratios is based on a simple comparison between assets and current liabilities. This is the broad measure of liquidity position of the bank. The standard of current ratios is 2:1 for banking and 1:1 for seasonal business.

Table 4.1.2.1:

Current ratios (times)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	0.92	0.93	0.95	0.88	0.91	0.918	0.026	2.83%
Everest	1.17	1.17	1.20	1.15	1.12	1.162	0.029	2.50%

Source: Annex B1

The current ratio of two commercial bank i.e. Nabil Bank and Everest Bank is calculated as per mean, standard deviation and coefficient of variation (Table 3). In the case of Nabil and Everest, the current ratio shows Fluctuating trend. The highest current ratio (0.95) in Nabil is in 2005/06 and lowest (0.88) in 2006/07. The highest current ratio (1.20) in the Everest is in 2005/06 and lowest (1.12) in 2007/08. On an average, Everest has maintained higher current ratio than Nabil indicating highest liquidity position of the Everest. The coefficient of variation of the current ratio in Nabil is comparatively higher (2.83%) than that of Everest (2.50%) exhibiting Everest as more consistent than Nabil.

4.1.2.2 Cash and Bank Balance to Current Assets Ratios

Cash & bank balance to current assets ratios reflect the portion of cash and bank balance in total of current assets. The ratio shows the banks liquidity capacity on the basis of cash and bank balance that is the most liquid asset. So this ratio visualizes higher liquidity position than current ratio.

Table 4.1.2.2:

Cash & Bank Balance to Current Assets Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	8.25	6.81	3.77	3.48	6.13	5.688	2.035	35.77%
Everest	14.4	6.63	9.05	10.2	12.06	10.468	2.9499	28.18%

Source: Appendix B 2

The cash and bank balance to current assets ratio and the mean, standard deviation and Coefficient of variation of commercial banks i.e. Nabil and Everest are presented in Table 4. The cash and bank balance to current asset ratio of Nabil and Everest bank has fluctuating trend. The cash and bank balance to current asset ratio of Nabil ranges from 3.48 (in FY 2006/07) to 8.25 (in FY 2003/04). On the other hand, this ratio of Everest bank ranges from 6.63 (in FY 2004/05) to 14.4 (in FY 2003/04). Thus, It can be concluded that liquidity position (only cash and bank balance to current asset ratio) of Nabil bank is lesser than that of Everest. Everest has higher consistency because its coefficient of variation is lower (28.18%) than that of Nabil.

4.1.2.3 Cash and Bank Balance to Total Deposits Ratios

Cash and bank balance to total deposit ratio is an important tool to determine the bank's financial efficiency and liquid assets. The ratio between the cash and bank balance and total deposits measure the ability of the bank to meet the unanticipated cash demand or cash withdrawals from all types of deposits.

Table 4.1.2.3:

Cash and Bank Balance to Total Deposits Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	8.51	6.87	3.83	3.26	5.99	5.692	2.1679	38.08%
Everest	17.02	7.83	10.39	11.25	13.15	11.928	3.4293	28.75%

Source: Annex B3

The mean, standard deviation and coefficient of variation as well as cash and bank balance to total deposits ratio of commercial bank i.e. Nabil and Everest are presented in Table 5.

The results reveal that both the banks i.e Nabil and Everest have fluctuating trend of cash and bank balance to total deposits ratio. Nabil bank has the highest ratio (8.51) in 2003/04 and lowest (3.26) in 2006/07. Similarly, Everest bank has highest ratio (17.02) in 2003/04 and lowest (7.83) in 2004/05. Mean and standard deviation ratios of Nabil (5.692 and 2.1679, respectively) are lesser than those of Everest (11.928 and 3.4293, respectively), while the Coefficient of variation of Nabil is higher (38.08%) than that of Everest bank (28.75%). It indicates that Nabil bank has maintained lower liquidity and than that of Everest bank. Thus, Everest bank is more consistent than the Nabil bank.

4.1.2.4 Investments on Government Securities to Current Assets Ratios.

This ratio is very important to recognize a bank's liquidity position. The government securities are not so much liquid as cash and bank balance. But they can easily be sold in the market or they can be converted into cash in other ways. Investment on government securities includes treasury bills and development bonds etc.

Table 4.1.2.4:

Investment on Government Securities to Current Assets Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	25.88	25.78	16.26	12.69	21.06	20.334	5.830	28.67%
Everest	20.22	25.89	18.18	27.46	25.04	23.358	3.959	16.95%

Source: Annex B 4

The calculated mean, standard deviation and coefficient of variation of investment on government securities to current assets ratio of two commercial banks i.e. Nabil bank and Everest bank are illustrated in Table 6. The results show the investment on government securities to current assets ratio of both banks i.e. Nabil and Everest Bank in fluctuating trend. However, Nabil has the highest ratio (25.88) in 2003/04 and lowest (12.69) in 2006/07, whereas Everest has highest ratio (27.46) in 2006/07 and lowest (18.18) in 2005/06. The mean ratio of investment on government securities to current assets of Nabil is lower (20.334) than that of the Everest (23.358). On the other hand, coefficient of variation of Nabil is higher (28.67%) than that of Everest (16.95%). It shows that Everest invests more current assets in government securities than Nabil bank. Thus, Everest bank is more consistent than the Nabil bank.

4.1.2.5 Loan and advances to Current Assets Ratios

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

Table 4.1.2.5:

Loan and advances to Current Assets Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	55.92	57.49	71.30	71.26	68.09	64.812	7.5348	11.63%
Everest	62.04	61.76	65.65	64.36	68.92	64.546	2.9337	4.55%

Source: Annex B 5

The mean, standard deviation and coefficient of variation of loan and advances to current assets ratio of two commercial banks i.e. Nabil bank and Everest bank are used to come to the decision (Table 7). In the case of Nabil, the loan and advances to current assets ratios are in fluctuating trend, which is the highest (71.30) in 2005/06 and the lowest (55.92) in 2003/04. Similarly, this ratio of Everest is also fluctuating, where the highest ratio (68.92) in 2007/08 and the lowest (61.76) in 2004/05. Nabil has higher mean (64.812) than that of Everest (64.546). Thus, Nabil bank has slowly fluctuating loan and advance to current assets ratio than that of Everest bank. Everest bank has lesser coefficient of variation (4.55%) than that of Nabil bank (11.63%). Hence, Nabil bank provides higher loan and advances in comparison to Everest bank. Everest bank has more consistency of providing loan and advances.

4.1.3 Assets Management Ratios / Activity Ratios

The efficiency of managing and utilizing the firm's assets is evaluated applying the assets management ratios. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversion, the more efficient is the management or utilization of assets. Here, some of these ratios are computed to assess the bank's efficiency in utilization of available assets.

4.1.3.1 Loans and Advances to Total Deposits Ratios

Loans and advances to total deposit ratio is one of the most important portion of assets management ratios. The relationship between loan & advances to total deposit is illustrated in the Table 8. The ratio measures to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances include loans, advances, cash credit, local and foreign bill purchased and discounted. Total deposits include saving, fixed current, current and call deposit.

Table 4.1.3.1:

Loans and Advances to Total Deposits Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	57.67	58	72.57	66.79	66.59	64.324	6.393	9.94%
Everest	73.32	72.97	75.45	71.01	75.13	73.576	1.799	2.45%

Source: Annex C1

The total mean, standard deviation and coefficient of variation of loan and advances total deposit ratio of two commercial bank i.e. Nabil bank and Everest bank are given in Table 4.1.3.1. The ratio of Nabil has increasing trend from FY 2003/04 to 2005/06 and decreasing trend from FY 2006/07 to 2007/08. It has highest ratio (72.57) in FY 2005/06 and lowest (57.67) in FY 2003/04. Yet, Everest has fluctuating trend in the ratio, which is the highest (75.45) in FY 2005/06 and lowest (71.01) in FY 2006/07. Nabil has lower (64.324) mean value than that of Everest (73.576). It shows that Everest is more successful to maintain highest loans and advances to total deposits ratios than Nabil. Coefficient of variation of Nabil and Everest are 9.94% & 2.45%, respectively. On the other hand, Everest has lesser C.V. than that of Nabil bank, indicating its loans and advances more stable and consistent than those of Nabil bank. Thus, Everest is in strong position regarding the mobilization of total deposits on loan and advances and maximizing the return.

4.1.3.2 Loan & Advances to Total Working Fund Ratios

Careful mobilization of bank's total asset as loan & advances in appropriate level is very important to generate profit. This ratio reflects the extent to which the commercial banks are successful in mobilizing their assets on loan & advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice versa. Total working fund consists of current assets, net fixed assets, loan for development banks and other miscellaneous assets.

Table 4.1.3.2:

Loan & Advances to Total Working Fund Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	46.82	48.91	62.04	57.87	57.04	54.536	6.420	11.77%
Everest	60.95	61.24	64.91	61.41	63.75	62.452	1.770	2.83%

Source: Annex C2

Total mean, standard deviation and coefficient of variation of loan and advances to total working fund ratio of the two commercial bank i.e. Nabil and Everest are determined to achieve this ratio table 4.1.3.2. The loan and advances to total working fund ratio of Nabil has increasing trend from FY2003/04 to FY 2005/06 and decreasing trend from FY 2006/2007 to 2007/08. The ratio is highest (62.04) in FY 2005/06 and lowest (46.82) in

2003/04. On the contrary, Everest has fluctuating trend of the ratio, which is highest (64.91) in the FY 2005/06 and lowest (60.95) in FY 2003/04. The Mean value of Nabil is lower (54.536) than that of the Everest bank (62.452). Standard deviation of Nabil is higher (6.420) than that of Everest (1.770). Coefficient of variation of Nabil is higher (11.77%) than that of the Everest (2.83%). Hence, Everest has become more successful for better mobilization of funds as loan & advances for the purpose of income generation in comparison to Nabil bank. Thus, Everest has higher consistency than Nabil.

4.1.3.3 Total Investment to Total Deposit Ratio

Mobilization of deposits is most important step undertaken by any bank investing its fund in different securities issued by government and other financial or non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities.

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

Table 4.1.3.3:

Total Investment to Total Deposit Ratio (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	44.85	41.33	29.31	31.93	38.32	37.148	6.458	17.38%
Everest	24.7	31.44	21.08	30.43	27.41	27.012	4.242	15.70%

Source: Annex C 3

Total mean, standard deviation & coefficient of variation of total investment to total deposit ratio of two commercial banks i.e. Nabil and Everest Bank are illustrated in Table 4.1.3.3. Nabil has decreasing trend in the ratio from FY 2003/04 to 2005/06 and increasing trend from FY 2006/07 to FY 2007/08. It has the highest ratio (44.85) in FY 2003/04 and the lowest (29.31) in FY 2005/2006. On the other hand, Everest has fluctuating trend in the ratio. It has highest ratio (30.43) in FY 2006/07 and the lowest (21.08) in FY 2005/06. The mean value of Nabil is higher (37.148) than that of Everest (27.012). However, coefficient variation of Everest is lower (15.70%) than that of Nabil (17.38%). Nabil has become successful for better utilization of deposits to investment than Everest bank but Everest bank has higher consistency to investment in securities than Nabil bank.

4.1.3.4 Investment on Government Securities to Total Working fund Ratios

Commercial banks utilize their fund to some extent by procuring government securities. Government securities are a safe medium of investment though it is not as liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different type of government securities to maximize its income and to minimize its risk assets.

Investment on government securities consists of investment made on treasury bills and development bonds etc.

Table 4.1.3.4:

Investment on Government Securities to Total Working fund Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	25.88	25.78	16.26	12.69	21.06	20.334	5.830	28.67%
Everest	20.22	25.89	18.18	27.46	25.04	23.358	3.96	16.95%

Source: Annex C 4

The total mean, standard deviation & coefficient of variation of total investment on government securities to total working fund ratio of two commercial banks i.e. Nabil and Everest Bank are illustrated in Table 4.1.3.4. The investment on government securities to total working fund ratio of Nabil has decreasing trend from FY 2003/04 to 2006/07 and it increases in FY 2007/08. On the contrary, Everest has fluctuating trend of the ratio. Nabil has highest ratio (25.88) in FY 2003/04 and lowest (12.69) in FY 2006/07 whereas Everest has highest ratio (25.89) in FY 2004/05 and lowest (18.18) in FY 2005/06. The mean value of Nabil is lower (20.334) than that of Everest (23.358). The coefficient of variation of Nabil is higher (28.67%) than that of Everest (16.95%). Everest has become successful for better utilization of investment in government securities than Nabil bank and also Everest has higher consistency to investment on government securities.

4.1.3.5 Investment on Shares and Debenture to Total Working Fund Ratios

The investment of bank and other financial institutions on shares and debentures of the other companies in term of total working fund can be reflected by the investment on share and debentures to total working fund ratio shows. This ratio can be computed by dividing shares and debentures by total working fund. Banks may invest in shares and debentures of any one organized institution not exceeding 10% of the paid of capital of such organized institution.

Table 4.1.3.5:

Investment on Shares and Debenture to Total Working Fund Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	0.133	0.133	0.26	0.05	0.105	0.1362	0.077	56.53%
Everest	0.23	0.2	0.17	0.124	0.09	0.1632	0.056	34.19%

Source: Annex C 5

The total mean, standard deviation & Coefficient of variation of investment on shares and debenture to total working funds ratio of two commercial bank i.e. Nabil and Everest are given in Table 4.1.3.5. The results revealed that both the banks have fluctuating trend in the ratios. However, Nabil has highest ratio (0.26) in FY 2005/06 and lowest (0.05) in FY 2006/07 whereas Everest has highest ratio (0.23) in FY 2003/04 and lowest (0.09) in FY 2007/08. The mean value of Nabil is lesser (0.1362) than that of Everest (0.1632). The coefficient of variation of Everest has also lower (34.19%) than that of Nabil (56.53%). It indicates that Everest is more successful and for better utilization of investment on shares and debenture than Nabil Bank and it is more consistent to investment on shares and debentures than Nabil bank.

4.1.4 Profitability Ratios

Profit maximization is the major objective of any commercial bank. Management, owners and creditors of the bank accept reasonable and more return. Efficiencies of any firm can be measured in term of profit. Profitability ratio indicates public acceptances of the services of the bank and run competitively. In this study, the profitability ratios are computed by relating the profits of banks to their investment. To measure the profitability of Nabil bank and Everest bank following ratios have been calculated and analyzed.

4.1.4.1 Return on Total Assets Ratios

The profitability with respect to total assets is measured with the help of the return on total assets ratio. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the bank's assets. A higher ratio usually indicates Efficiently in utilization its overall resources and vice-versa.

Table 4.1.4.1:

Return on Total Assets Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	2.51	2.72	3.05	2.84	2.47	2.718	0.2397	8.82%
Everest	1.17	1.49	1.43	1.49	1.38	1.393	0.1323	9.50%

Source: Annex D1

The total mean, standard deviation and coefficient of variation of return on total assets ratio of the two commercial bank i.e. Nabil bank and Everest bank are given in Table 4.1.4.1. The return on total assets ratio of Nabil has increasing trend from FY 2003/04 to 2005/06 and decreasing trend from FY 2006/07 to 2007/08. The Nabil bank has highest ratio (3.05) in FY 2005/06 and lowest (2.47) in FY 2007/08. However, Everest bank has fluctuating trend of the ratio, which is highest (1.49) in FY 2004/05 and 2006/07, and lowest (1.17) in FY 2003/04. The mean value of Nabil is higher (2.718) than that of Everest (1.393). Coefficient of variation of Nabil has lower (8.82%) than Everest (9.50%). It indicates that Nabil has good return on total assets ratio. Nabil has becoming more returning and more consistent than Everest.

4.1.4.2 Return on Loan & Advances Ratio

Return on loan and advances ratio shows how efficiently the banks and other financial institutions have utilized their resources to earn good return from providing loan and advances. Loan and advances includes loans, cash credit and overdraft and bill purchased and discounted.

Table 4.1.4.2:

Return on Loan & Advances Ratio (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	5.37	5.56	4.91	4.92	4.33	5.018	0.478	9.53%
Everest	1.92	2.44	2.21	2.42	2.17	2.232	0.2123	9.51%

Source: Annex D 2

The total mean, standard deviation and coefficient of variation of return on loan and advances ratio of two commercial bank i.e. Nabil and Everest are presented in the Table 4.1.4.2. The return on loan and advances ratio of both banks has fluctuating trend. Nabil has highest ratio (5.56) in FY 2004/05 and lowest (4.33) in FY 2007/08 whereas Everest has highest ratio (2.44) in FY 2004/05 and lowest (1.92) in FY 2003/04. Mean ratio of Nabil is greater (5.018) than that of Everest bank (2.232). Conversely, coefficient of variation of Everest is lower (9.51%) than that of Nabil (9.53%). It indicates that Nabil has become more successful to earn high return on its loan and advances than Everest bank. However, the C.V. of Nabil is higher indicating less consistency in return than that of Everest bank.

4.1.4.3 Total Interest Earned on Total Outside Assets Ratios

Bank's success to earn interest as major income on all the outside assets is determined by total interest earned on total outside assets ratios. Higher the ratio higher will be the earning power of total outside assets. This is very important ratio, as the main asset is the outside asset of a commercial bank and major income is the interest income in total income. Total outside assets includes loan and advances, investment on government securities, share and debentures and other all types of investment.

Table 4.1.4.3:

Total Interest Earned on Total Outside Assets Ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	7.38	7.14	7.09	8.17	8.62	7.68	0.6807	8.86%
Everest	7.76	7.62	6.96	6.44	6.07	6.97	0.7310	10.49%

Source: Annex D 3

The mean, standard deviation and coefficient of variation of total interest earned to total outside assets ratio of two commercial banks i.e. Nabil and Everest bank are in Table 4.1.4.3. The results show that the ratio of total interest earned to total outside assets of Nabil is decreasing from FY 2003/04 to 2005/06 and increasing from FY 2006/07 to 2007/08 and Everest has decreasing trend in the ratio from FY 2003/04 to 2007/08. The Nabil has highest ratio (8.62) in FY 2007/2008 and lowest (7.09) in FY 2005/06 where as it is highest (7.76) in FY 2003/04 and lowest (6.07) in FY 2007/08 of Everest. Mean value

of Nabil is higher than Everest i.e. $7.68 > 6.97$. Similarly, coefficient of variation of Nabil is lower than Everest i.e. $8.86\% < 10.49\%$. Thus, Nabil has better position with respect to the income earned from the total outside asset in comparison to Everest bank and it is also more consistent than Everest.

4.1.4.4 Interest earned to total working fund ratios

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

Table 4.1.4.4 :

Interest earned to total working fund ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	6.15	5.98	6.26	5.87	5.83	6.018	0.1835	3.05%
Everest	6.46	6.84	6.13	5.66	5.34	6.086	0.6017	9.89%

Source: Annex D 4

The total mean, standard deviation and coefficient of variation of total interest earned to total working fund ratio of commercial bank i.e. Nabil and Everest are presented in Table 4.1.4.4. The total interest earned to total working fund ratio of Nabil has fluctuating trend and Everest has increasing trend during first two years and decreasing trend during last three years of the study. The Nabil has highest ratio (6.26) in FY 2005/06 and lowest (5.83) in FY 2007/08 whereas Everest has highest ratio (6.84) in FY 2004/05 and lowest (5.34) in FY 2007/08. The Mean ratio and coefficient of variation of Nabil bank are lower than those of Everest (Mean ratio $6.018 < 6.086$ and C.V. $3.05\% < 9.89\%$, respectively). It shows that the ratio of total interest earned to total working fund ratio of Everest bank is more satisfactory as compared to that of Nabil bank, however, the ratio of the Nabil is more consistent in comparison to that of Everest.

4.1.4.5 Interest paid to total working fund ratios

It reflects the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice-versa. Total interest paid includes total interest expenses on deposit liabilities, loan and advances (borrowing) and other deposits.

Table 4.1.4.5 :

Interest paid to total working fund ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	1.92	1.69	1.42	1.59	2.04	1.732	0.2497	14.42%
Everest	3.81	3.29	2.55	2.51	2.41	2.914	0.611	20.97%

Source: Annex D 5

The mean, standard deviation and coefficient of variation of total interest paid to total working fund ratio of two commercial banks i.e. Nabil bank and Everest bank are presented in Table 4.1.4.5 . The total interest paid to total working fund ratio of Nabil has decreasing trend from FY 2003/04 to 2005/06 and increasing trend from FY 2006/07 to 2007/08. It has highest ratio (2.04) in FY 2007/08 and lowest (1.42) in FY 2005/06. However, the total interest paid to total working fund ratio of Everest has decreasing trend, where it has highest ratio (3.81) in FY 2003/04 and lowest (2.41) in FY 2007/08. Nabil has the lower mean ratio than Everest i.e. $1.732 < 2.914$. But, the coefficient of variation of Nabil is lower than that of Everest i.e. $14.42\% < 20.97\%$. It indicates that the total interest paid in Nabil is lower than Everest but it indicates that the total interest paid to total working fund ratio of Nabil has more consistent than Everest.

4.1.5. Risk Ratios

Risk ratios are very important in determining the extent of risk. The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. a bank has to take high risk if it expects high risk it except high return on its investment. So, the bank opting for high profit has to accept the risk and manage it effectively. Through the following ratios, effort has been made to measure the level of risk.

4.1.5.1 Credit Risk ratios

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. Actually credit risk ratio shows the proportion of non-performing assets in total loan and advances of a bank.

Table 4.1.5.1 :
Credit Risk ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	46.82	48.91	62.04	57.87	57.04	54.536	6.420	11.77%
Everest	60.96	61.24	64.93	61.41	63.75	62.458	1.775	2.84%

Source: Annex E1

The mean, standard deviation and coefficient of variation of credit risk ratio of Nabil and Everest banks are presented in Table 4.1.5.1. The credit risk ratios of both banks have fluctuating trend. Nabil has maintained a highest ratio of 62.04 in FY 2005/06 and lowest ratio of 46.82 in FY 2003/04. Everest has maintained a highest ratio of 64.93 in FY 2005/06 and lowest ratio of 60.96 in FY 2003/04. Mean ratio of Nabil is lower than that of Everest i.e. $54.536 < 62.458$. But coefficient of variation of Nabil has higher than that of Everest. It indicates that Everest has more stable credit policy and more consistent risk ratio than Nabil bank.

4.1.5.2 Capital risk ratios

Capital risk ratio is useful to estimate extent of risk. Capital risk ratio measures bank's ability to attract deposit and inter bank funds. It also determines the level of profit, a bank can earn if a bank chooses to take high capital risk. The capital risk is directly related to return on equity.

Table 4.1.5.2 :
Capital risk ratios (%)

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
Nabil	2.97	2.93	2.88	2.20	1.80	2.556	0.528	20.66%
Everest	5.65	4.73	4.42	3.26	4.42	4.496	0.855	19.02

Source: Annex E 2

The total mean, standard deviation and coefficient of variation of capital risk ratio of Nabil and Everest Bank are given in Table 4.1.5.2 . The capital risk ratio of Nabil has decreasing trend whereas Everest has fluctuating trend. Nabil bank has highest ratio of 2.97 in FY 2003/04 and Lowest ratio of 1.80 in FY 2007/08. Everest bank has highest ratio of 5.65 in FY 2003/04 and lowest ratio of 3.26 in FY 2006/07. The mean value of Nabil has lower than that of Everest i.e. $2.556 < 4.496$. The coefficient of variation of Nabil bank has higher than that of Everest bank i.e. $20.66\% > 19.02\%$. It indicates that Everest bank is more stable than the Nabil bank. It has also more consistency than Nabil bank.

4.1.6. Growth Ratios

Here, those growth ratio are analyzed and interpret which are directly related to the fund mobilization and investment of a commercial bank. Growth ratios represent how well the commercial banks are maintaining their economic position. Higher the ratio, better the performance of the bank and vice-versa.

Mathematically it is calculated as:

$$D_n = D_o(1 + g)^{n-1}$$

Here,

D_n = Total n^{th} year

D_o = Total initial year

g = growth rate

Under this section growth ratio of total deposit, loan and advances, total investment and net profit are calculated.

4.1.6.1: Growth ratios total deposits of NABIL Bank Limited and Everest Bank Limited

Table: 4.1.6.1.

Growth ratio of total deposit in NABIL bank limited and Everest bank limited (%)

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios(%)
NABIL Bank	13447.66	14119.03	14586.60	19347.39	23342.28	14.78%
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	28.36%

Source: Annex F1

The table 4.1.6.1 shows that the growth ratio of Nabil bank is less than Everest bank. It shows that the growth rate of Nabil (14.78%) is less than that of Everest (28.36%). The tabulated growth rate indicates that Everest used to increase its deposit compilation very highly than that of Nabil.

4.1.6.2: Growth ratios Loans and advances of NABIL Bank Limited and Everest Bank Limited

Table 4.1.6.2:

Growth ratios Loans and advances of NABIL Bank Limited and Everest Bank Limited (%)

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios (%)
NABIL Bank	13447.66	14119.03	14586.60	19347.39	23342.28	18.97
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	29.13

Source: Annex F2

The table 4.1.6.2 shows that the growth ratio of Nabil bank is less than Everest bank . It shows that the growth rate of Nabil (18.97%) is less than that of Everest (29.13%). The tabulated growth rate indicates that the performance of Everest to grant loan and advances in comparison than that of Nabil.

4.1.6.3: Growth ratios total investment of NABIL Bank Limited and Everest Bank Limited

Table 4.1.6.3.

Growth ratios total investment of NABIL Bank Limited and Everest Bank Limited (%)

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios %
NABIL Bank	13447.66	14119.03	14586.60	19347.39	23342.28	10.35
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	31.74

Source: Annex F3

The table 4.1.6.3 shows that the growth ratio of Nabil bank is less than Everest bank . It shows that the growth rate of Nabil (10.35%) is less than that of Everest (31.74%). The tabulated growth rate indicates that the better performance of Everest to grant investment in comparison than that of Nabil.

4.1.6.4: Growth ratios on total net profit of NABIL Bank Limited and Everest Bank Limited

Table 4.1.6.4

Growth ratios on total net profit of NABIL Bank Limited and Everest Bank Limited (%)

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios%
NABIL Bank	13447.66	14119.03	14586.60	19347.39	23342.28	12.79
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	33.16

Source: Annex F4

The table 4.1.6.4 shows that the growth ratio of Nabil bank is less than Everest bank. It is shows that the growth rate of Nabil (12.79%) is less than that of Everest (33.16%). The tabulated growth rate indicates that the better performance of Everest to grant net profit in comparison than that of Nabil

4.2 Statistical Tools

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

4.2.1 Trend Analysis

Analysis of trend of loan and advances, total deposits, total investment, and total net profit of Nabil and Everest banks are estimated and forecasted for next five years under this heading. The following assumptions are considered for the analysis.

- a. Other things will remain unchanged.
- b. The bank will run in present position.
- c. The economy will remain in the present stage.
- d. The forecast will be true only when the limitation of least square method is carried out.

The following trend value analysis has been used in the present study.

- i) Trend analysis of total investment
- ii) Trends analysis of total deposits
- iii) Trend analysis of total loan and advances
- iv) Trend analysis of net profit

i. Trend Analysis of Total Investment of Nabil and Everest bank.

Here, an effort has been made to analyze the trend values of total investment of Nabil and Everest for five years from FY 2003/04 to 2007/08 and forecasted the same for next five years till 2012/13. The following table shows the trend values of total investment of Nabil and Everest for 10 years from FY 2003/04 to 2012/013.

Table 4.2.1: Trend values of total investment of Nabil and Everest (2003/04 to 2012/013)

Years	Trend value of Nabil	Trends values of Everest
2003/2004	3784.964	-229.53
2004/2005	5019.132	1435.57
2005/2006	6203.3	3100.678
2006/2007	7487.468	4765.788
2007/2008	8721.636	6430.894
2008/2009	9955.804	8096.002
2009/2010	11189.972	9761.11
2010/2011	12424.14	11426.218
2011/2012	13658.308	13091.326
2012/2013	14892.476	14756.434

Source: Annex G1

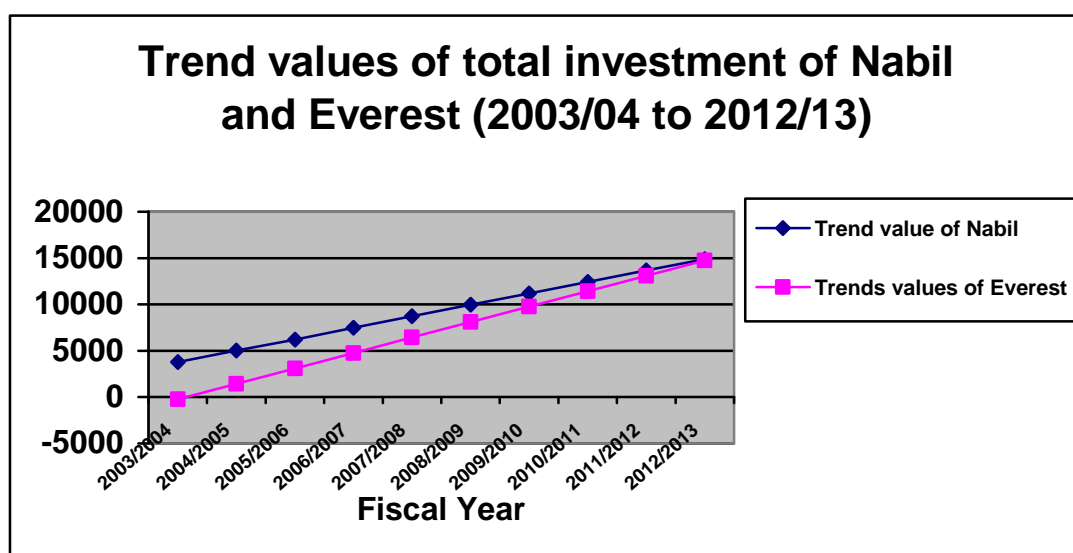


Figure 1: Trend values of total investment of Nabil and Everest (2003/04 to 2012/013)

Form the above information; it is clear that the total investment of Nabil and Everest is in increasing trend. Other things remaining the same, the total investment of Nabil bank in FY 2012/013 will be Rs. 14892.476 million, and it will be Rs. 14756.434 million of the Everest bank in the same year, which is the highest under the study period. It is obvious that Nabil's deposit utilization position in relation to investment is greater than that of the Everest bank but it has increasing trend. The Everest bank has increasing investment and reached Rs.14756.434 million, which is going to be more or less equal to that of Nabil at the end of the projected year. This means the Everest bank uses relatively large portion of their deposit as investment. It can be concluded that the total investment of Everest is increasing and it will be in better position in future.

ii. Trends Analysis of Total Deposits Nabil and Everest Bank

Here, an effort has been made to calculate the trend values of total deposits of Nabil and Everest for five years from FY 2003/04 to 2007/08 and forecasted the same for next five years till 2012/013.

Table 4.2.2: Trend values of total deposits of Nabil and Everest (2003/04 to 2012/013)

Years	Trend value of Nabil	Trends values of Everest
2003/04	6961.912	-119.41
2004/05	11965.672	5624.82
2005/06	16968.712	11369.046
2006/07	21972.112	17113.274
2007/08	26975.512	22857.502
2008/09	31978.912	28601.73
2009/010	36982.312	34345.958
2010/011	41985.712	40090.186
2011/012	46989.112	45834.414
2012/013	51992.512	51578.642

Source: Annex G 2

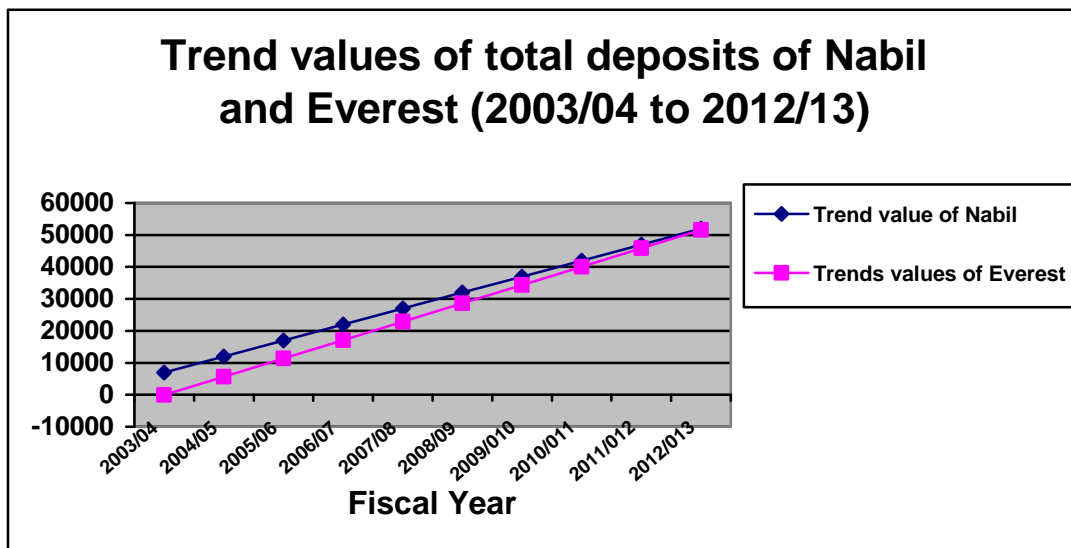


Figure 2: Trend values of total deposits of Nabil and Everest (2003/04 to 2012/013)

The analysis states that the total deposit of Nabil and Everest is in increasing trend. The total deposit of the Nabil bank in FY 2012/013 will be Rs. 51992.512 million, and it will be Rs. 51578.642 of the Everest bank in the same year, which is the highest under the study period. It is apparent that the Nabil's total deposits position is greater than that of the Everest bank but it has increasing trend. The Everest bank has increasing total deposits and reached Rs.51578.642 million, which is going to be more or less equal to that of Nabil (Rs.51992.512 million) at the end of the projected year. This means the Nabil bank pertains relatively large portion of their total deposits but it has less increasing trend than the Everest. Thus, it can be concluded that the total deposits of Everest is increasing and it will be in better position in future.

iii) Trend Analysis of Total Loan and Advances

The trend values of loan and advances of Nabil and Everest have been calculated for 5 years from 2003/04 to 2007/08 and forecasted for next 5 years from 2007/08 to 2012/013. The trend value of total loan and advances of both banks are given hereunder:

Table 4.2.3: Trend values of total loan and advances of Nabil and Everest (2003/04 to 2012/013)

Years	Trend value of Nabil	Trends values of Everest
2003/04	2875.202	-196.044
2004/05	6937.644	4089.642
2005/06	11000.086	8375.328
2006/07	15062.528	12661.014
2007/08	19124.97	16946.7
2008/09	23187.412	21232.386
2009/10	27249.854	25518.072
2010/011	31312.296	29803.758
2011/012	35374.738	34089.444
2012/013	39437.18	38375.13

Source: Annex G3

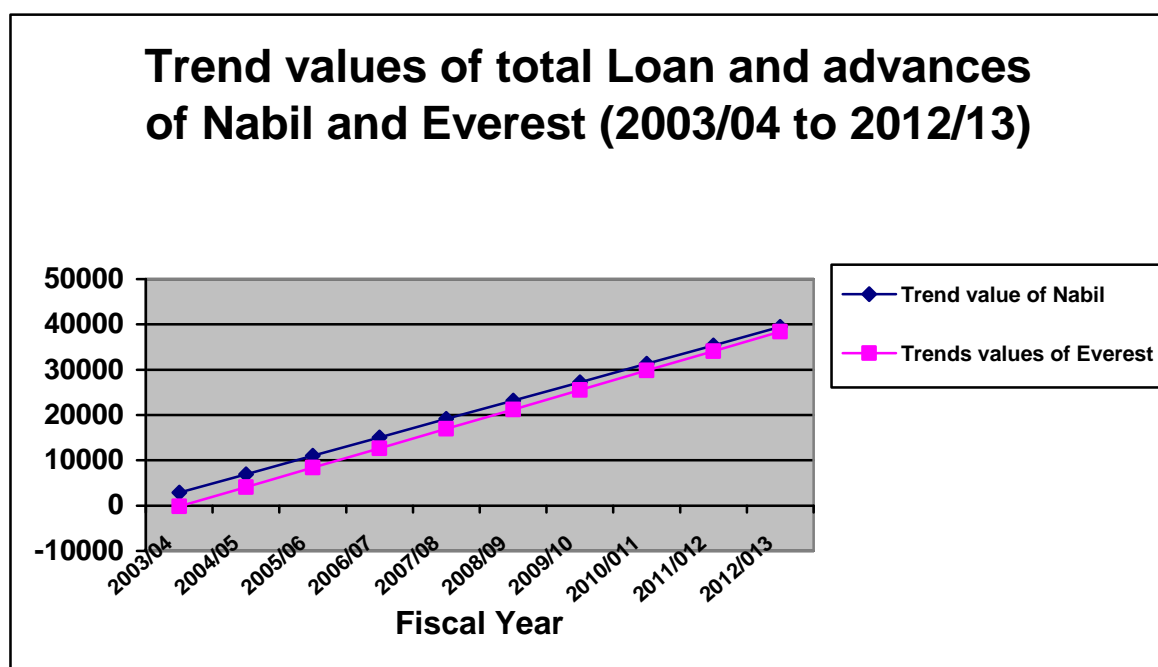


Figure 3: Trend values of total loan and advances of Nabil and Everest (2003/04 to 2012/013)

The analysis depicts that the total loan advances of Nabil and Everest is in increasing trend. The total loan and advances of the Nabil bank in FY 2012/013 will be Rs. 39437.18 million, and it will be Rs. 38375.13 of the Everest bank in the same year, which is the highest under the study period. It is evident that the Nabil's position in total loans and advances is greater than that of the Everest bank, but it has increasing trend. The Everest bank has increasing total loans and advances and reached Rs.38375.13 million, which is going to be more or less equal to that of Nabil (Rs.39437.18 million) at the end of the projected year. This means the Nabil bank pertains relatively large portion of total loans and advances but it has less increasing trend than Everest. Thus, it can be concluded that total loans and advances of Everest is increasing and it will be in better position in future.

iv) Trend Values of Total net Profit of Nabil and Everest

The trend values of total net profit of Nabil and Everest bank has been calculated for 5 years from 2003/04 to 2007/08 and forecasted for next 5 years from 2008/09 to 2012/013. The trend values of total net profit of both Nabil and Everest bank are given hereunder:

Table 4.2.4: Trend values of total Net profit of Nabil and Everest (2003/04 to 2012/013)

Years	Trend value of Nabil	Trends values of Everest
2003/04	262.02	-11.34
2004/05	401.098	88.296
2005/06	540.176	187.932
2006/07	679.254	287.568
2007/08	818.332	387.204
2008/09	957.41	486.84
2009/10	1096.448	586.476
2010/011	1235.566	686.112
2011/012	1374.644	785.748
2012/013	1513.722	885.384

Source: Annex G 4

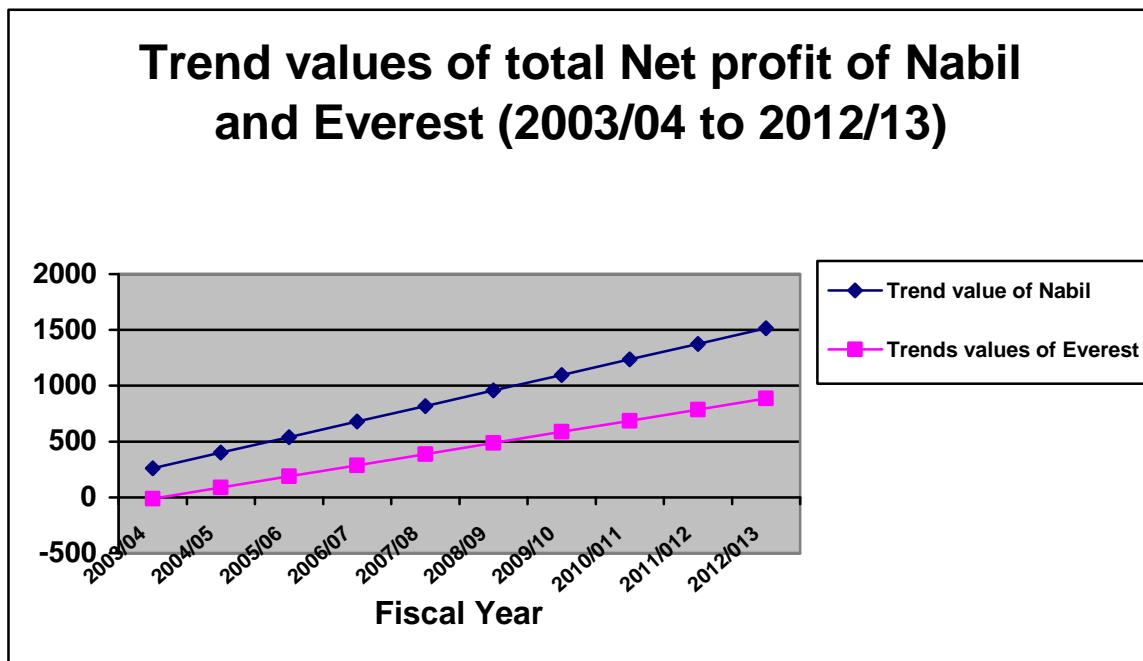


Figure 4: Trend values of total Net profit of Nabil and Everest (2003/04 to 2012/013)

The analysis illustrates that the total net profit of Nabil and Everest is in increasing trend. The total net profit of the Nabil bank in FY 2012/2013 will be Rs. 1513.722 million, which is far greater than that of the Everest bank (Rs. 885.384 million) in the same year, and the highest under the study period. The Everest bank has increasing total net profit and reached Rs.885.384 million, which is going to be more or less half amount of net profit earned by Nabil (Rs.885.384 million) at the end of the projected year. This means the Nabil bank pertains relatively higher total net profit than the Everest bank, but both have increasing trends. Thus, it can be concluded that the total net profit of Nabil is increasing fast and it will be in better position in future.

4.2.2 Coefficient of Correlation Analysis

Under this topic, Karl person's coefficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment and outside asset and net profit.

i) Co-efficient of Correlation between total Deposits and Loan and Advances

Coefficient of correlation (r) between total deposits and loan and advances measures the degree of relationship between these two variables. The purpose of correlation between deposit and loan and advances is to find out whether deposit is significantly used as loan

and advances or not. In this analysis deposit is independent variable (X) and loan and advances are dependent variables (Y).

Table i): Coefficient of Correlation between Deposits, loan, and advances

Evaluation Criteria	Nabil Bank	Everest Bank
R	0.967	0.998
R ²	0.935	0.996
P.E.r	0.019	0.0014
6P.E.r	0.12	0.0086

Source: Annex H1a and b

The above table exhibits r, r², P.Er. 6P.Er between deposits and loan, and advances of Nabil and Everest bank for the period of 2003/04 to 2007/08. It shows that the coefficient of correlation (r) between deposit and loan and advances of Nabil and Everest are 0.967 and 0.998 respectively, which shows the highly positive relationship between these two variables of both banks. On the other hand, the coefficient of determination i.e. r² of Nabil is 0.935 whereas it is 0.996 in case of Everest. Thus, the 93.5% of variation in dependent variable (loan and advances) is explained by independent variable (deposit) in Nabil and 99.6% of variation in loan and advances is explained due to independent variable in Everest, while rest part of variation in the dependent variable is due to other unexplained variables. Moreover, the probable error of Nabil is higher (0.12) than that of Everest (0.0086). It can be concluded that there is a highly significant relationship between deposit and loan and advances of both banks. Thus, both the banks are successful in mobilizing their deposit and loan and advances. However, Everest is at the better position in mobilizing deposit and loan and advances in comparison to Nabil.

ii) Co-efficient of Correlation between Deposits and total investment

Co-efficient of correlation between deposits and total investment measures the degree of relationship between these two variables. The main purpose of this analysis is to find out whether the deposit is efficiently used as investment or not. In this case, deposit is independent variable (X) and total investment is dependent variable (Y)

Table ii): Coefficient of Correlation between Deposits and total investment

Evaluation Criteria	Nabil Bank	Everest Bank
R	0.82	0.96
R ²	0.67	0.92
P.E.r	0.099	0.024
6P.E.r	0.59	0.14

Source: Annex H2a and b

The analysis revealed that the deposit and total investment of both banks are highly correlated, where the coefficient of correlation of Nabil and Everest are 0.82 and 0.96 respectively. It means there is highly significant relationship between these two variables of both banks. However, The Everest has greater (0.92) coefficient of determination than Nabil (0.67), which indicates that the variation in total investment of Nabil and Everest is explained by deposits at the rate of 67% and 92% respectively. Rest of the variation in dependent variable is caused by other unexplained variables. On the contrary, the value of 6P. Er is greater (0.59) in Nabil than in Everest (0.14). From this analysis, Everest bank is more successful in maximizing the investment of its deposits in comparison to the Nabil bank because the Everest has higher value of r than that of Nabil.

iii) Co-efficient of Correlation between Outside Assets and Net profit

The degree of relationship between outside assets and net profit is measured considering the outside assets as independent variable (X) and net profit as independent variable (Y). The main objective of this analysis is to find out whether the outside assets are significantly correlated with net profit or not.

Table iii): Coefficient of Correlation between outside assets and net profit

Evaluation Criteria	Nabil Bank	Everest Bank
R	0.94	0.99
R ²	0.88	0.98
P.E.r	0.035	0.006
6P.E.r	0.21	0.036

Source: Annex H3a and b

The analysis reveals that there is a higher (0.99) coefficient of correlation (r) in Everest bank than that in Nabil bank (0.94) during the study period. It shows a highly positive relationship between the two variables in case of both banks. As far as coefficient of determination (r^2) is concerned, it is higher (0.98) in Everest than in Nabil (0.88). It defines that about 98% of variation in net profit of Everest and 88% of variation in net profit of Nabil is explained due to outside assets, whereas rest of the variation is caused due to other unexplained variables.

4.2.3 Test of Hypothesis

It is an assumption about the population, which may not be true; to determine whether it is true or not by taking some sample with followed some procedure is called testing of hypothesis. The test of hypothesis discloses the fact whether the difference between the computed statistic and hypothetical parameter is significant.

i). Test of hypothesis on loan and advances to total deposits ratios.

Here, mean ratio of loan and advances to total deposits ratio of Nabil and Everest are taken and carried out under t-test of significance difference.

Table i): Test of Hypothesis on Loan and Advances to Total Deposit Ratios

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 321.62$	$\sum X_2 = 367.88$
2	$\bar{X}_1 = 64.324$	$\bar{X}_2 = 73.576$
3	$\sum x_1^2 = 167.482$	$\sum x_2^2 = 12.944$

Source: Annex I 1

Test of Significance of Difference between Nabil and Everest

Setting of hypothesis,

Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$

There is no significant difference between mean ratio of loan and advances to total deposit of Nabil and Everest.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ (two tailed test)

There is significant difference between mean ratio of loan and advances to total deposit of Nabil and Everest.

The calculated value of $t = -3.0809$

Tabulated value of 't' (two-tailed test) at 5% level of (n_1+n_2-2) d.f. i.e. 8 d.f. is 2.306 .

Decision: -

The calculated value of t (3.0809) is greater than the tabulated value (2.306) at 0.05 level of significance for two-tailed test. So there is significant difference between Nabil and Everest banks in terms of mean ratio of loan and advances to total deposit.

ii) Test of hypothesis on total investment to total deposits ratios.

Here, mean ratio of total investment to total deposit of Nabil and Everest are taken and carried out under t test of significant difference.

Table ii): Test of Hypothesis on Total Investment to Total deposit ratio

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 185.74$	$\sum X_2 = 135.06$
2	$\bar{X}_1 = 37.148$	$\bar{X}_2 = 27.012$
3	$\sum x_1^2 = 166.85$	$\sum x_2^2 = 71.98$

Source: Annex I 2

Test of Significance of Difference between Nabil and Everest

Setting of hypothesis,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$

There is no significant difference between mean ratio of total investment to total deposit of Nabil and Everest.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ (two tailed test)

There is significant difference between mean ratio of total investment to total deposit of Nabil and Everest.

The calculated value of $t = 2.933$

Tabulated value of 't' (two-tailed test) at 5% level of (n_1+n_2-2) d.f. i.e. 8 d.f. is 2.306 .

Decision: -

The calculated value of t (2.933) is greater than the tabulated value (2.306) at 0.05 level of significance for two-tailed test. So there is significant difference between Nabil and Everest banks in terms of mean ratio of total investment to total deposit.

iii) Test of hypothesis on Investment on Government securities to current assets ratios

Here, mean ratios of investment on government securities to current assets of Nabil and Everest are taken and carried out under t test of significance difference.

Table iii): Test of hypothesis on Investment on Government securities to current assets ratios

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 101.67$	$\sum X_2 = 116.79$
2	$\bar{X}_1 = 20.334$	$\bar{X}_2 = 23.358$
3	$\sum x_1^2 = 135.97$	$\sum x_2^2 = 62.73$

Source: Annex I 3

Test of Significance of Difference between Nabil and Everest

Setting of hypothesis,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$

There is no significant difference between mean ratio of investment on government securities to current asset of Nabil and Everest.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ (two tailed test)

There is significant difference between mean ratio of investment on government securities to current assets of Nabil and Everest.

The calculated value of $|t| = 0.9594$

Tabulated value of 't' (two-tailed test) at 5% level of (n_1+n_2-2) d.f. i.e. 8 d.f. is 2.306 .

Decision: -

The calculated value of t (0.9594) is less than the tabulated value (2.306) at 0.05 level of significance for two-tailed test. So there is no significant difference between Nabil and Everest banks in terms of mean ratio of investment on government securities to current assets.

iv) Test of hypothesis on loan and advances to current assets ratios

Here, mean ratios of loan and advances to current asset ratio of Nabil and Everest are taken and carried out under t test of significance difference.

Table iv): Test of hypothesis on loan and advances to current assets ratios

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 324.06$	$\sum X_2 = 322.73$
2	$\bar{X}_1 = 64.812$	$\bar{X}_2 = 64.546$
3	$\sum x_1^2 = 227.095$	$\sum x_2^2 = 34.43$

Source: Annex I 4

Test of Significance of Difference between Nabil and Everest

Setting of hypothesis,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$

There is no significant difference between mean ratio of loan and advances to current assets of Nabil and Everest.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ (two tailed test)

There is significant difference between mean ratio of loan and advances to current assets of Nabil and Everest.

The calculated value of $t = 0.0625$

Tabulated value of 't' (two-tailed test) at 5% level of (n_1+n_2-2) d.f. i.e. 8 d.f. is 2.306 .

Decision: -

The calculated value of t (0.0625) is less than the tabulated value (2.306) at 0.05 level of significance for two-tailed test. So there is no significant difference between Nabil and Everest banks in terms of mean ratio of loan and advances to current assets.

v) Test on hypothesis on return on loan and advances ratios

Here, mean ratios of return on loan and advances ratio of Nabil and Everest are taken and carried out under t test of significance difference.

Table v): Test on hypothesis on return on loan and advances ratios

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 25.09$	$\sum X_2 = 11.16$
2	$\bar{X}_1 = 5.018$	$\bar{X}_2 = 2.232$
3	$\sum x_1^2 = 0.9123$	$\sum x_2^2 = 0.1803$

Source: Annex I 5

Test of Significance of Difference between Nabil and Everest

Setting of hypothesis,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$

There is no significant difference between mean ratio of return on loan and advances of Nabil and Everest.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ (two tailed test)

There is significant difference between mean ratio of return on loan and advances of Nabil and Everest.

The calculated value of $t = 11.906$

Tabulated value of 't' (two-tailed test) at 5% level of (n_1+n_2-2) d.f. i.e. 8 d.f. is 2.306 .

Decision: -

The calculated value of t (11.906) is greater than the tabulated value (2.306) at 0.05 level of significance for two-tailed test. So there is significant difference between Nabil and Everest banks in terms of mean ratio of return on loan and advances.

vi) Test of hypothesis on return to total assets ratio

Here, mean ratios of return on return to total assets ratio of Nabil and Everest are taken and carried out under t test of significance difference.

Table vi): Test of hypothesis on return to total assets ratio

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 13.59$	$\sum X_2 = 6.96$
2	$\bar{X}_1 = 2.718$	$\bar{X}_2 = 1.392$
3	$\sum x_1^2 = 0.2299$	$\sum x_2^2 = 0.07008$

Source: Annex I 6

Test of Significance of Difference between Nabil and Everest

Setting of hypothesis,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$

There is no significant difference between mean ratio of return to total assets of Nabil and Everest.

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ (two tailed test)

There is significant difference between mean ratio of return to total assets of Nabil and Everest.

The calculated value of $t = 10.82$

Tabulated value of 't' (two-tailed test) at 5% level of (n_1+n_2-2) d.f. i.e. 8 d.f. is 2.306 .

Decision: -

The calculated value of t (10.82) is greater than the tabulated value (2.306) at 0.05 level of significance for two-tailed test. So there is significant difference between Nabil and Everest banks in terms of mean ratio of return to total assets.

4.3 Major Findings of the Study

The main findings of the study derived on the analysis of financial data of Nabil and Everest is given below.

1. Performance Ratio Analysis

- ❖ The loan loss provision to loan and advances ratio were fluctuating trend in both banks during the study period. The highest ratio of Nabil is 1.01 in FY 2003/04 and lowest ratio 0.29 in FY 2006/07. Everest has highest ratio 1.22 in FY 2004/05 and lowest ratio 0.924 in FY 2003/04. The mean value of the ratio in Nabil bank lower than Everest bank i.e. $0.804 < 1.02$. Coefficient of variation of the ratio in Nabil bank higher than Everest bank i.e. $36.94\% > 11.09\%$. It indicates that Nabil has good quality of assets in total volume of loan and advances whereas Everest indicates the more risky assets in the volume of loan and advances but Everest has more consistency than Nabil because of the Everest has less coefficient of variation.
- ❖ The ratio was in a fluctuating trend in Nabil and decreasing trend in Everest bank. The highest ratio of Nabil is 5.79 in FY 2003/04 and lowest ratio 1.15 in FY 2007/08. Everest has highest ratio 2.26 in FY 2003/04 and lowest ratio 0.946 in FY 2007/08. The mean value of the ratio in Nabil bank was higher than Everest bank i.e. $2.64 > 1.56$. Coefficient of variation of the ratio in Nabil bank was higher than Everest bank i.e. $75.78\% > 31.83\%$. It indicates that Nabil has the bad performance of the bank in mobilizing loan and advances than Everest. Everest has more consistency than Nabil.

2. **Liquidity Ratios.**

The liquidity position of Nabil has compared than Everest

- ❖ From the analysis of current ratio, it is found the mean ratio of Nabil is less than Everest. It means Everest has maintained higher current ratio in compared to Nabil. The ratio of Everest is more variable than Nabil. Everest has more consistency than Nabil because of Everest has lower C.V. than Nabil.
- ❖ The mean ratio of cash and bank balance to current assets ratio of Nabil is lesser than Everest. It states that the Everest has utilized its fund better than that of Nabil. Everest has more consistency to utilize its fund than that of Nabil because of Everest has lower C.V than that of Nabil.
- ❖ The mean ratio of cash and bank balance to total deposits of Nabil is less than that of Everest. It states that the liquidity position of Nabil is not better than that of Everest. Everest bank has better to maintain of its liquidity position. Everest bank has more consistent to maintain of its liquidity position than that of Nabil because of Everest has less C.V. than that of Nabil.
- ❖ The mean ratio of investment on government securities to current asset of Nabil is less than that of Everest. It states that the Everest uses to invest its current asset in government securities more than that of Nabil. Everest bank has more consistent to maintain of its uses to invest current asset than that of Nabil because of Everest has less C.V. than that of Nabil.
- ❖ The mean ratio of loan and advances to current assets of Nabil is higher than Everest bank. It concluded that Nabil use to provide more loan and advances than that of Everest. But Everest has more consistency than Nabil bank because of Everest has less C.V. than that of Nabil.

The above result shows that the liquidity position of Nabil is comparatively lower than Everest. It has lower cash and bank balance to total deposit, cash and bank balance to current assets ratio, and Investment on government securities to current assets ratio but it has higher mean ratio of Nabil is loan and advances to current assets. It reveals that Everest has better liquidity position than that of Nabil.

3. **Assets Management Ratio**

The assets management ratio of Nabil and Everest bank shows that.

- ❖ The mean ratio of loan and advances to total deposit of Nabil is lower than Everest. Everest has less C.V. than that of Nabil banks it indicates that loan and advances of Everest is stable and consistent.
- ❖ The mean ratio of loan and advances to working fund ratio of Nabil is lower than that of Everest. It can conclude that Everest has better mobilizing its fund than that of Nabil. Everest has more consistency than that of Nabil because of Everest has less C.V. than that of Nabil.
- ❖ The mean ratio of total investment to total deposits of Nabil is higher than that of Everest. It can be concluded that Nabil is success to better utilization of deposit to investment than Everest bank. But Everest bank has more consistency than that of Nabil because of Everest has less C.V. than that of Nabil.
- ❖ The mean ratio of investment on government securities to total working fund ratio of Nabil has lower than that of Everest. It can be concluded that the Everest has investment policy is more variable than that of Nabil. Everest has more consistency than Nabil because of Everest has less C.V.
- ❖ The mean ratio of investment on shares and debenture to total working fund of Nabil has lower than that of Everest. Everest has investment in shares and debenture seems to stable than Nabil. Everest has more consistency than Nabil i.e. the C.V. of Everest has less.

From the above analysis, it can be concluded that Nabil has highest investment policy towards investment to total deposits but it has lowest government securities to total working fund, share and debenture to total working funds. Everest has stable and consistent than that of Nabil.

4. **Profitability Ratio**

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

- ❖ The mean ratio of return on total assets ratio of Nabil is higher than that of Everest. It can be concluded that the Nabil has success to maintain the high ratio in return on total asset. Nabil has more consistent than Everest because of Nabil has less C.V. than that of Everest.

- ❖ The mean ratio of return to loan and advances ratio of Nabil higher than that of Everest. The variability of return on loan and advances of Nabil has highest than that of Everest. But Nabil has less consistency than that of Everest because of Nabil is higher C.V.
- ❖ The mean ratio of total interest earned to total outside assets of Nabil is greater than that of Everest. It indicated that the Nabil has average position towards income earned from total outside asset in comparison to Everest bank. Nabil has more consistency income earned than that of Everest bank because of Nabil has less C.V.
- ❖ The mean ratio of interest earned to total working fund ratio of Nabil is less than that of Everest. It indicated that Everest has better to Nabil. But Nabil has more consistency than that of Everest Because of the interest earned to total working fund ratios C.V. of Nabil is less than that of Everest.
- ❖ The mean ratio of total interest paid to total working fund of Nabil is lower than that of Everest. It means Nabil has paid lower interest than that of Everest. Nabil has more consistency paid interest than that of Everest because of Nabil has lower C.V.

From the above findings, it can be concluded that Nabil has average profitable in comparison to Everest bank. Nabil bank to earn high profit in future the bank must maintain its high profit margin. Nabil bank to earn high profit more consistency in future.

5. Risk Ratio

The risk ratios of Nabil and Everest indicate that;

- ❖ The mean ratio of credit risk of Nabil is lower than that of Everest. Therefore Nabil has less credit risk than that of Everest. But Everest has more consistency than that of Nabil because of Everest has less C.V.
- ❖ The mean ratio of capital risk of Nabil is lower than that of Everest. Nabil has less capital risk than Everest.
- ❖ From the above findings, it can be concluded that Nabil has average risk ratio. The bank should maintain risk against credit fund to earn high profit.

6. Growth Ratio

The growth ratio of Nabil and Everest shows that;

- ❖ The growth ratio of total deposit of Nabil is lower than that of Everest. It indicated that the performance of Nabil to collect deposit is not better.
- ❖ The growth ratio of loan and advances of Nabil is lower than that of Everest. It indicated that the performance of to grant loan and advances is not satisfactory.
- ❖ The growth ratio of investment is also lower than that of Everest. It indicated that the performance of to grant investment is not better.
- ❖ The growth ratio of Nabil net profit is higher than that of Everest . It indicated that the Nabil has not successful to earn more profit than than of Everest.

7. Trend Analyses and Forecasting for Next Years.

- ❖ The total investment of both banks is in increasing trend where it will be Rs. 14892.476 million of Nabil and Rs. 14756.434 million of the Everest bank in FY 2011/, which are going to be more or less equal. This means the Everest bank uses relatively a large portion of its deposits as investment and it will be in better position in future.
- ❖ The total deposit of both banks is also in increasing trend. It will be Rs. 51992.512 million of Nabil bank and Rs. 51578.642 of the Everest bank in in FY 2012/2013. The Nabil bank pertains relatively large portion of their total deposits but it has less increasing trend than the Everest. So, the Everest bank will be in better position in future.
- ❖ Yet, the total loan advances of both banks are in increasing trend. It will be Rs. 39437.18 million of Nabil bank and Rs. 38375.13 of the Everest bank in FY 2012/2013 indicating the greater position of Nabil, however, Everest has more increasing trend. Loans and advances of both banks are going to be more or less equal indicating that the Everest Bank will be in better position in future.
- ❖ The total net profit of both banks is still in increasing trend. The total net profit of the Nabil bank will be Rs. 1513.722 million while it will be Rs. 885.384 million of the Everest bank in FY 2012/2013. The Everest bank has increasing total net profit and reached Rs. 885.384 million, which is going to be more or less half amount of net profit earned by Nabil (Rs.885.384 million) at the end of the projected year. The Nabil bank pertains relatively higher total net profit than the Everest bank, though both have increasing trends. Thus, the total net profit of Nabil is increasing fast and it will be in better position in future.

8. Coefficient of correlation Analysis

- ❖ The coefficient of correlation (r) between deposit and loan and advances of Nabil and Everest are 0.967 and 0.998 respectively, which shows the highly positive relationship between these two variables of both banks. The coefficient of determination i.e. r^2 of Nabil is 0.935 whereas it is 0.996 in case of Everest indicating that the 93.5% of variation in loan and advances is caused by deposit in Nabil and 99.6% of it is caused deposit in Everest, while rest part of variation in the is due to other unexplained variables. The probable error of Nabil is higher (0.12) than that of Everest (0.0086) exhibiting a highly significant relationship between deposit and loan and advances of both banks. Thus, both the banks are successful in mobilizing their deposit and loan and advances, however, Everest is better in mobilizing deposit and loan and advances in comparison to Nabil.
- ❖ The deposit and total investment of both banks are highly correlated exhibiting r -values 0.82 and 0.96 of Nabil and Everest bank, respectively. The Everest has greater (0.92) coefficient of determination (r^2) than Nabil (0.67) indicating that the variation in total investment of Nabil and Everest is caused by deposits at the rate of 67% and 92%, respectively. Rest of the variation in dependent variable is caused by other unexplained variables. However, the value of 6P. Er is greater (0.59) in Nabil than in Everest (0.14). Everest bank is more successful (r -value is high) in maximizing the investment of their deposits in comparison to the Nabil bank.
- ❖ There is a highly positive relationship between net profit and outside assets of both Everest bank ($r = 0.99$) and Nabil bank ($r = 0.94$). The coefficient of determination (r^2) is higher (0.98) in Everest than in Nabil (0.88) indicating that about 98% of variation in net profit of Everest and 88% of variation in net profit of Nabil is caused due to outside assets, whereas rest of the variation is caused due to other unexplained variables.

9. Test of Hypothesis

By analyzing the test of significance difference of regarding the parameter of the population, it has been found:

- ❖ There is significant difference between Nabil and Everest banks in terms of mean ratio of loan and advances to total deposit.
- ❖ There is significant difference between Nabil and Everest banks in terms of mean ratio of total investment to total deposit.

- ❖ There is no significant difference between Nabil and Everest banks in terms of mean ratio of investment on government securities to current assets.
- ❖ There is no significant difference between Nabil and Everest banks in terms of mean ratio of loan and advances to current assets.
- ❖ There is significant difference between Nabil and Everest banks in terms of mean ratio of return on loan and advances.
- ❖ There is significant difference between Nabil and Everest banks in terms of mean ratio of return to total assets.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The summary is a spectrum of the whole thesis, which is developed from the background information of the problem studied; its significance and objectives; the design of the study, the tools applied for the research and some promising highlights of the activities. It is a brief representation of the research works carried out during the whole study period.

The conclusion is that part of the thesis, which tells what actually is done and what is achieved from the study. It includes the concrete findings regarding with the problem, strength and weakness of the study, and the limitations related with the research. It may also include some assumptions about the positive and negative impact of the research in the future.

Recommendation is a very short and direct statement of the study, which indicates the direction of the study, real achievements, guideline for the future research works, actual steps to be carried out in the future for the improvement of the firm or bank, and the solutions of existing problem that should be followed immediately to uplift the status of the bank. It may also create awareness about the obstacles and constraints of the bank and may suggest for enhancing its economic development.

5.1 Summary

Poor mobilization and utilization of resources, weak infrastructure development and unstable eco-political environment are the major constraints of Nepalese economy. The mobilization of the domestic resources is one of the key factors in the economic development of the country. The financial institutions are viewed as catalyst in the process of the economic growth. The under-developing countries including Nepal are suffering from the problem of improper mobilization of the financial, physical and human resources. One of the efforts applied to mobilize both internal and external financial resources is to set up banking organization and institutionalize them. Commercial banks and other financial institutions collect immobilized money in the form of deposit from every corner and parts of the country. Commercial banks formulate sensible investment policies to make it more effective, which eventually contribute to the economic development of the country.

Bank is a resource for the economic development, which maintains the self-confidence of various sectors of society and extends credit to the people. Commercial banks deal with the activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing. The objective of commercial banks is to mobilize idle resources into the most profitable sectors.

Investment is a commitment of money and other resources that are expected to generate additional money and resources in the future. This study focuses our attention to reveal the investment policy by joint venture bank, namely Nabil bank limited and Everest bank limited.

Nabil bank limited, the first joint venture commercial banks, was established in 1984. Dubai Bank Ltd. was the initial foreign joint-venture partner with 50% equity investment. Similarly, Everest Bank Limited was established in 1992 under the company Act, 1964 with an objective of carrying out commercial banking activities under the commercial Bank Act, 1974. United Bank of India Ltd. under Technical services agreement signed between it Nepali promoters was managing the bank from the very beginning till November 1996. Although joint venture banks have managed to perform better than other local commercial banks within short span of time, they have been facing a neck-to-neck competition against one another. Fluctuating and low interest rates on deposits, poor deposit mobilization, trade, commerce etc. have affected on the return of funds, total assets, total deposits and shareholder's wealth position.

The main objectives of this study is to evaluate the investment policy of Everest bank and Nabil bank limited and to recommend corrective measure, if any, in order to improve its performance. So this researcher has focused this resource mainly to highlight and examine the investment of the selected banks ignoring other aspects of banks transaction to highlight the investment of bank.

The applied design is descriptive and core perspective because the secondary data have been mainly applied for analysis. It includes all the process of collecting, verifying, evaluating and comparing recent information systematically and objectively to reach the final conclusion. Various financial parameters and effective research technique are employed to especially identify the strength and weaknesses in investment policy of the banks.

Financial and statistical tools are used to analyze the collected data and to achieve the results of the study. Ratios are very important financial tools to interpret the financial performance of a firm. Only six ratios have been taken in this study, which are: performance ratios, liquidity ratios, assets management ratio /activity ratios, profitability ratios, risk ratios, and growth ratios. Statistical tools such as trend analysis, coefficient of correlation, standard deviation, mean, coefficient of variation, and test of hypothesis etc. have been used to make the decision.

5.2 Conclusion

1. Performance Ratio Analysis

- The loan loss provision to loan and advances ratio were fluctuating trend in both banks during the study period. The highest ratio of Nabil is 1.01 in FY 2003/04 and lowest ratio 0.29 in FY 2006/07. Everest has highest ratio 1.22 in FY 2004/05 and lowest ratio 0.924 in FY 2003/04. The mean value of the ratio in Nabil bank lower than Everest bank i.e. $0.804 < 1.02$. Coefficient of variation of the ratio in Nabil bank higher than Everest bank i.e. $36.94\% > 11.09\%$. It indicates that Nabil has good quality of assets in total volume of loan and advances whereas Everest indicates the more risky assets in the volume of loan and advances but Everest has more consistency than Nabil because of the Everest has less coefficient of variation.
- The ratio was in a fluctuating trend in Nabil and decreasing trend in Everest bank. The highest ratio of Nabil is 5.79 in FY 2003/04 and lowest ratio 1.15 in FY 2007/08. Everest has highest ratio 2.26 in FY 2003/04 and lowest ratio 0.946 in FY 2007/08. The mean value of the ratio in Nabil bank was higher than Everest bank i.e. $2.64 > 1.56$. Coefficient of variation of the ratio in Nabil bank was higher than Everest bank i.e. $75.78\% > 31.83\%$. It indicates that Nabil has the bad performance of the bank in mobilizing loan and advances than Everest. Everest has more consistency than Nabil.

2. Liquidity Ratio

- From the analysis of current ratio, it is found the mean ratio of Nabil is less than Everest. It means Everest has maintained higher current ratio in compared to Nabil. The ratio of Everest is more variable than Nabil. Everest has more consistency than Nabil because of Everest has lower C.V. than Nabil.

- The mean ratio of cash and bank balance to current assets ratio of Nabil is lesser than Everest. It states that the Everest has utilized its fund better than that of Nabil. Everest has more consistency to utilize its fund than that of Nabil because of Everest has lower C.V than that of Nabil.
- The mean ratio of cash and bank balance to total deposits of Nabil is less than that of Everest. It states that the liquidity position of Nabil is not better than that of Everest. Everest bank has better to maintain of its liquidity position. Everest bank has more consistent to maintain of its liquidity position than that of Nabil because of Everest has less C.V. than that of Nabil.
- The mean ratio of investment on government securities to current asset of Nabil is less than that of Everest. It states that the Everest uses to invest its current asset in government securities more than that of Nabil. Everest bank has more consistent to maintain of its uses to invest current asset than that of Nabil because of Everest has less C.V. than that of Nabil.
- The mean ratio of loan and advances to current assets of Nabil is higher than Everest bank. It concluded that Nabil use to provide more loan and advances than that of Everest. But Everest has more consistency than Nabil bank because of Everest has less C.V. than that of Nabil.

3. Assets Management Ratio

- The mean ratio of loan and advances to total deposit of Nabil is lower than Everest. Everest has less C.V. than that of Nabil banks it indicates that loan and advances of Everest is stable and consistent.
- The mean ratio of loan and advances to working fund ratio of Nabil is lower than that of Everest. It can conclude that Everest has better mobilizing its fund than that of Nabil. Everest has more consistency than that of Nabil because of Everest has less C.V. than that of Nabil.
- The mean ratio of total investment to total deposits of Nabil is higher than that of Everest. It can be concluded that Nabil is success to better utilization of deposit to investment than Everest bank. But Everest bank has more consistency than that of Nabil because of Everest has less C.V. than that of Nabil.

- The mean ratio of investment on government securities to total working fund ratio of Nabil has lower than that of Everest. It can be concluded that the Everest has investment policy is more variable than that of Nabil. Everest has more consistency than Nabil because of Everest has less C.V.
- The mean ratio of investment on shares and debenture to total working fund of Nabil has lower than that of Everest. Everest has investment in shares and debenture seems to stable than Nabil. Everest has more consistency than Nabil i.e. the C.V. of Everest has less.

4. Profitability Ratio

- The mean ratio of return on total assets ratio of Nabil is higher than that of Everest. It can be concluded that the Nabil has success to maintain the high ratio in return on total asset. Nabil has more consistent than Everest because of Nabil has less C.V. than that of Everest.
- The mean ratio of return to loan and advances ratio of Nabil higher than that of Everest. The variability of return on loan and advances of Nabil has highest than that of Everest. But Nabil has less consistency than that of Everest because of Nabil is higher C.V.
- The mean ratio of total interest earned to total outside assets of Nabil is greater than that of Everest. It indicated that the Nabil has average position towards income earned from total outside asset in comparison to Everest bank. Nabil has more consistency income earned than that of Everest bank because of Nabil has less C.V.
- The mean ratio of interest earned to total working fund ratio of Nabil is less than that of Everest. It indicated that Everest has better to Nabil. But Nabil has more consistency than that of Everest Because of the interest earned to total working fund ratios C.V. of Nabil is less than that of Everest.
- The mean ratio of total interest paid to total working fund of Nabil is lower than that of Everest. It means Nabil has paid lower interest than that of Everest. Nabil has more consistency paid interest than that of Everest because of Nabil has lower C.V.

5. Risk Ratio

- The mean ratio of credit risk of Nabil is lower than that of Everest. Therefore Nabil has less credit risk than that of Everest. But Everest has more consistency than that of Nabil because of Everest has less C.V.
- The mean ratio of capital risk of Nabil is lower than that of Everest. Nabil has less capital risk than Everest.

6. Growth Ratio

- The growth ratio of total deposit of Nabil is lower than that of Everest. It indicated that the performance of Nabil to collect deposit is not better.
- The growth ratio of loan and advances of Nabil is lower than that of Everest. It indicated that the performance of to grant loan and advances is not satisfactory.
- The growth ratio of investment is also lower than that of Everest. It indicated that the performance of to grant investment is not better.
- The growth ratio of Nabil net profit is higher than that of Everest . It indicated that the Nabil has not successful to earn more profit than than of Everest.

7. Trend Analysis And Forecasting For Next Years

- The total investment of both banks is in increasing trend where it will be Rs. 14892.476 million of Nabil and Rs. 14756.434 million of the Everest bank in FY 2011/, which are going to be more or less equal. This means the Everest bank uses relatively a large portion of its deposits as investment and it will be in better position in future.
- The total deposit of both banks is also in increasing trend. It will be Rs. 51992.512 million of Nabil bank and Rs. 51578.642 of the Everest bank in in FY 2012/2013. The Nabil bank pertains relatively large portion of their total deposits but it has less increasing trend than the Everest. So, the Everest bank will be in better position in future.
- Yet, the total loan advances of both banks are in increasing trend. It will be Rs. 39437.18 million of Nabil bank and Rs. 38375.13 of the Everest bank in FY 2012/2013 indicating the greater position of Nabil, however, Everest has more increasing trend. Loans and advances of both banks are going to be more or less equal indicating that the Everest Bank will be in better position in future.

- The total net profit of both banks is still in increasing trend. The total net profit of the Nabil bank will be Rs. 1513.722 million while it will be Rs. 885.384 million of the Everest bank in FY 2012/2013. The Everest bank has increasing total net profit and reached Rs. 885.384 million, which is going to be more or less half amount of net profit earned by Nabil (Rs.885.384 million) at the end of the projected year. The Nabil bank pertains relatively higher total net profit than the Everest bank, though both have increasing trends. Thus, the total net profit of Nabil is increasing fast and it will be in better position in future.

8. Coefficient Of Correlation Relationship

- The coefficient of correlation (r) between deposit and loan and advances of Nabil and Everest are 0.967 and 0.998 respectively, which shows the highly positive relationship between these two variables of both banks. The 6P.Er. of Nabil is higher (0.12) than that of Everest (0.0086), indicating a highly significant relationship between deposit and loan and advances of both banks. Thus, both the banks are successful in mobilizing their deposit and loan and advances. However, Everest is at the better position in mobilizing deposit and loan and advances in comparison to Nabil.
- The deposit and total investment of both banks are highly correlated exhibiting r -values 0.82 and 0.96 of Nabil and Everest bank, respectively. However, the value of 6P. Er is greater (0.59) in Nabil than in Everest (0.14). Everest bank is more successful (r -value is high) in maximizing the investment of their deposits in comparison to the Nabil bank.
- There is a highly positive relationship between net profit and outside assets of both Everest bank ($r = 0.99$) and Nabil bank ($r = 0.94$). The coefficient of determination (r^2) is higher (0.98) in Everest than in Nabil (0.88) indicating that about 98% of variation in net profit of Everest and 88% of variation in net profit of Nabil is caused due to outside assets, whereas rest of the variation is caused due to other unexplained variables.

9. Test of Hypothesis

- There is significant difference between Nabil and Everest banks in terms of mean ratio of loan and advances to total deposit.
- There is significant difference between Nabil and Everest banks in terms of mean ratio of total investment to total deposit.
- There is no significant difference between Nabil and Everest banks in terms of mean ratio of investment on government securities to current assets.
- There is no significant difference between Nabil and Everest banks in terms of mean ratio of loan and advances to current assets.
- There is significant difference between Nabil and Everest banks in terms of mean ratio of return on loan and advances.
- There is significant difference between Nabil and Everest banks in terms of mean ratio of return to total assets.

5.3 Recommendations

Based on the results revealed from the analysis and findings of the two commercial banks, following suggestions and recommendations could be made for the improvement of financial and economic position of the Nabil bank, which may be helpful to overcome the limitations and less usefulness of the existing fund mobilization and investment policy.

- Nabil has good quality of assets in total volume of loan and advances whereas Everest indicates the more risky assets in the volume of loan and advances but Everest has more consistency than Nabil because of the Everest has less coefficient of variation. Thus, Everest should reduce its risky assets.
- Nabil has the bad performance of the bank in mobilizing loan and advances than Everest. Everest has more consistency than Nabil. So, Nabil should increase its loan and advances mobilization.
- As Nabil has lower ratio of cash and bank balance to total deposits and current assets than that of Everest. Therefore, Nabil is recommended to increase cash and bank balance to make immediate payment to the depositors and to meet the demand of loan and advances. Everest bank has excess liquidity; it should not be beyond the limit. Everest should maintain it within the satisfactory level.

- The loan and advances to total deposit ratio and loan and advances to total working fund ratio of Nabil is lower than that of Everest bank. To overwhelm this condition, Nabil is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit and total working fund in loan and advances. Everest has invested its more fund in loan and advances compared to Nabil bank. Everest seems to be more aggressive in lending which is not fair from liquidity point of view. So, Everest is recommended to be moderate in its lending.
- Besides investing on government securities, Nabil is recommended to invest its fund in purchase of shares and debentures of that the Everest bank. Government securities such as treasury bills have very lower yield than that of Everest. This also helps to maintain the sound portfolio of the bank.
- Profitability ratio of Nabil is good from the return point of view but it seems that Nabil cannot earn higher interest through the outside assets and working fund. Therefore, Nabil is recommended to increase its interest earned in outside assets and working fund by investing more funds in loan and advances and different types of securities. The high interest earning capacity of the Everest bank implies a good performance of the bank.
- Since, the risk increases effectiveness and profitability of the bank, the capital risk taken by Nabil is an average whereas credit risk is lower than that of Everest bank and its consistency is highly unstable which may result higher loss. The bank should not take high risk, Nabil should carefully analyze in above risk to achieve higher returns.
- Nabil's growth ratio is lower than that of Everest. It has very much fluctuating growth rate and Nabil is recommended to increase its growth ratio into deposits, loan and advances, investment and net profit by designing new products and services to the depositors so as to attract them.
- Coefficient of correlation between outside assets and net profit of both banks is highly positive, however, Everest has higher coefficient of correlation than that of Nabil bank. It shows that there is highly positive relationship between these two variables of both banks. But, Nabil is less capable to earn profit by mobilizing its total outside assets than the Everest. So, Nabil should innovate

new strategy and changing its current policy for more utilizing its outside assets to earn more profit to compete with the Everest bank.

- To gather more funds, Nabil is suggested not to focus only on big clients i.e. multinational companies, large industries, manufacturing companies, NGOs and INGOs etc. It should attract the lower and middle level people too. Different kind of schemes such as easy saving scheme, cumulative deposit scheme, house building deposit scheme, deposit linked life insurance scheme, recurring deposit scheme should be launched.
- Since the Nabil has limited branches in outside the Kathmandu valley and the developing rural areas, it should establish its branches at the respective sites to mobilize the scattered money to the industrial sectors in the city areas.
- Considering the growing competition in the banking sector, the business of the bank should be customer oriented. The bank is recommended to adopt innovations and services such as SWIFT, ATM cards, visa electron debit card, international credit card, locker services, lending against gold and silver services, 24-hour services, holiday banking etc. The bank should involve in different kind of social and community development activities. The bank has been able to provide more personalized services and better environment for its customer, it is an effective tool to attract the retain the customers.

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ANNEX:

Annex A1: Loan loss provision & loan and advances ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Loan loss provision	Loan and advances	Ratios	Year	Loan loss provision	Loan and advances	Ratios
2003/04	78.66	7755.95	1.01	2003/04	45.37	4908.46	0.924
2004/05	81.3	8189.99	0.99	2004/05	71.66	5884.12	1.22
2005/06	86.62	10586.17	0.82	2005/06	74.53	7618.67	0.978
2006/07	37.69	12922.54	0.29	2006/07	97.57	9801.31	0.995
2007/08	142.06	15545.78	0.91	2007/08	137.5	13664.081	1.006

Source: Annual report Nabil and Everest

Annex A2: Non-performing Loan to loan and advances ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Non-performing loan	Loan and advances	Ratios	Year	Non-performing loan	Loan and advances	Ratios
2003/04	449.63	7755.95	5.79	2003/04	111.19	4908.46	2.26
2004/05	286.68	8189.99	3.50	2004/05	104.75	5884.12	1.78
2005/06	144.51	10586.17	1.36	2005/06	113.18	7618.67	1.49
2006/07	182.62	12922.54	1.41	2006/07	128.81	9801.31	1.31
2007/08	178.29	15545.78	1.15	2007/08	129.24	13664.081	0.946

Source: Annual report Nabil and Everest

Annex B1: Current ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Current assets	Current liabilities	Ratios	Year	Current assets	Current liabilities	Ratios
2003/04	13868.30	15135.42	0.92	2003/04	7911.26	6733.69	1.17
2004/05	14244.04	15374.61	0.93	2004/05	9526.77	8127.99	1.17
2005/06	14845.75	15667.12	0.95	2005/06	11604.85	9710.68	1.20
2006/07	18133.82	20501.92	0.88	2006/07	15227.78	13209.05	1.15
2007/08	22829.54	25022.27	0.91	2007/08	19826.78	17739.13	1.12

Source: Annual report Nabil and Everest

Annex B2: Cash and Bank balance Current ratios of Nabil Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Cash & Bank balance	Current Assets	Ratios	Year	Cash&Bank balance	Current assets	Ratios
2003/04	1144.77	13868.30	8.25	2003/04	1139.59	7911.26	14.40
2004/05	970.49	14244.04	6.81	2004/05	631.80	9526.77	6.63
2005/06	559.38	14845.75	3.77	2005/06	1049.99	11604.85	9.05
2006/07	630.24	18133.82	3.48	2006/07	1552.96	15227.78	10.20
2007/08	1399.82	22829.54	6.13	2007/08	2391.42	19826.78	12.06

Source: Annual report Nabil and Everest

Annex B3: Cash and bank balance to total deposits ratios of Nabil Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Cash & Bank balance	Total deposits	Ratios	Year	Cash & Bank balance	Total deposits	Ratios
2003/04	1144.77	13447.66	8.51	2003/04	1139.59	6694.96	17.02
2004/05	970.49	14119.03	6.87	2004/05	631.80	8063.90	7.83
2005/06	559.38	14586.60	3.83	2005/06	1049.99	10097.69	10.39
2006/07	630.24	19347.39	3.26	2006/07	1552.96	13802.44	11.25
2007/08	1399.82	23342.28	5.99	2007/08	2391.42	18186.25	13.15

Source: Annual report Nabil and Everest

Annex B4: Investment on Government securities to Current ratios of NABIL Bank Limited
and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Government securities	Current Assets	Ratios	Year	Government securities	Current Assets	Ratios
2003/04	3588.77	13868.30	25.88	2003/04	1599.35	7911.26	20.22
2004/05	3672.62	14244.04	25.78	2004/05	2466.43	9526.77	25.89
2005/06	2413.93	14845.75	16.26	2005/06	2109.54	11604.85	18.18
2006/07	2301.46	18133.82	12.69	2006/07	4181.43	15227.78	27.46
2007/08	4808.35	22829.54	21.06	2007/08	4965.23	19826.78	25.04

Source: Annual report Nabil and Everest

Annex B5: Loan and advances to current ratios of NABIL Bank Limited and Everest Bank
Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Loan and advances	Current Assets	Ratios	Year	Loan and advances	Current Assets	Ratios
2003/04	7755.95	13868.30	55.92	2003/04	4908.46	7911.26	62.04
2004/05	8189.99	14244.04	57.49	2004/05	5884.12	9526.77	61.76
2005/06	10586.17	14845.75	71.30	2005/06	7618.63	11604.85	65.65
2006/07	12922.54	18133.82	71.26	2006/07	9801.30	15227.78	64.36
2007/08	15545.78	22829.54	68.09	2007/08	13664.08	19826.78	68.92

Source: Annual report Nabil and Everest

Annex C1: Loan and advances to total deposits ratios of NABIL Bank Limited and Everest
Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Loan and advances	Total deposits	Ratios	Year	Loan and advances	Total Deposits	Ratios
2003/04	7755.95	13447.66	57.67	2003/04	4908.46	6694.96	73.32
2004/05	8189.99	14119.03	58.00	2004/05	5884.12	8063.90	72.97
2005/06	10586.17	14586.60	72.57	2005/06	7618.63	10097.69	75.45
2006/07	12922.54	19347.39	66.79	2006/07	9801.30	13802.44	71.01
2007/08	15545.78	23342.28	66.59	2007/08	13664.08	18186.25	75.13

Source: Annual report Nabil and Everest

Annex C2: Loans and advances to total working fund ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Loan and advances	Total working fund	Ratios	Year	Loan and advances	Total working fund	Ratios
2003/04	7755.95	16562.62	46.82	2003/04	4908.46	8052.20	60.95
2004/05	8189.99	16745.49	48.91	2004/05	5884.12	9608.57	61.24
2005/06	10586.17	17064.08	62.04	2005/06	7618.63	11737.52	64.91
2006/07	12922.54	22329.97	57.87	2006/07	9801.30	15959.28	61.41
2007/08	15545.78	27253.39	57.04	2007/08	13664.08	21432.57	63.75

Source: Annual report Nabil and Everest

Annex C3: Total investment to total deposits ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Total investment	Total deposits	Ratios	Year	Total investment	Total deposits	Ratios
2003/04	6031.18	13447.66	44.85	2003/04	1653.97	6694.96	24.70
2004/05	5835.95	14119.03	41.33	2004/05	2535.66	8063.90	31.44
2005/06	4275.53	14586.60	29.31	2005/06	2128.93	10097.69	21.08
2006/07	6178.53	19347.39	31.93	2006/07	4200.52	13802.44	30.43
2007/08	8945.31	23342.28	38.32	2007/08	4984.31	18186.25	27.41

Source: Annual report Nabil and Everest

Annex C4: Investment on government securities to total working fund ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Government securities	Total working fund	Ratios	Year	Government securities	Total working fund	Ratios
2003/04	3588.77	16562.62	21.67	2003/04	1599.35	8052.20	19.86
2004/05	3672.62	16745.49	21.93	2004/05	2466.43	9608.57	25.67
2005/06	2413.93	17064.08	14.17	2005/06	2109.54	11737.52	17.98
2006/07	2301.46	22329.97	10.31	2006/07	4181.43	15959.28	26.20
2007/08	4808.35	27253.39	17.64	2007/08	4965.23	21432.57	23.17

Source: Annual report Nabil and Everest

Annex C5: Investment on shares & debentures to total working fund ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Shares & debentures	Total working fund	Ratios	Year	Shares & Debentures	Total working fund	Ratios
2003/04	22.22	16562.62	0.133	2003/04	18.36	8052.20	0.23
2004/05	22.22	16745.49	0.133	2004/05	19.38	9608.57	0.20
2005/06	44.31	17064.08	0.26	2005/06	19.38	11737.52	0.17
2006/07	10.41	22329.97	0.05	2006/07	19.89	15959.28	0.124
2007/08	28.69	27253.39	0.105	2007/08	19.89	21432.57	0.092

Source: Annual report Nabil and Everest

Annex D1: Return on total assets ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Net profit	Total assets	Ratios (%)	Year	Net profit	Total assets	Ratios (%)
2003/04	416.24	16562.62	2.51	2003/04	94.18	8052.20	1.17
2004/05	455.31	16745.49	2.72	2004/05	143.57	9608.57	1.49
2005/06	520.11	17064.08	3.05	2005/06	168.21	11737.52	1.43
2006/07	635.26	22329.97	2.84	2006/07	237.29	15959.28	1.49
2007/08	673.96	27253.39	2.47	2007/08	296.41	21432.57	1.38

Source: Annual report Nabil and Everest

Annex D2: Return on loan and advances ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Net profit	Loan and advances	Ratios (%)	Year	Net profit	Loan and advances	Ratios (%)
2003/04	416.24	7755.95	5.37	2003/04	94.18	4908.46	1.92
2004/05	455.31	8189.99	5.56	2004/05	143.57	5884.12	2.44
2005/06	520.11	10586.17	4.91	2005/06	168.21	7618.63	2.21
2006/07	635.26	12922.54	4.92	2006/07	237.29	9801.30	2.42
2007/08	673.96	15545.78	4.33	2007/08	296.41	13664.08	2.17

Source: Annual report Nabil and Everest

Annex D3: Interest earned total outside ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Interest earned	Outside assets	Ratios (%)	Year	Interest earned	Outsides assets	Ratios (%)
2003/04	1017.87	13787.13	7.38	2003/04	520.17	6703.58	7.76
2004/05	1001.62	14025.94	7.14	2004/05	657.25	8631.49	7.62
2005/06	1068.75	15083.23	7.09	2005/06	719.29	10312.23	6.96
2006/07	1309.99	16022.12	8.17	2006/07	903.41	14027.32	6.44
2007/08	1587.76	18422.59	8.62	2007/08	1144.41	18838.04	6.07

Source: Annual report Nabil and Everest

Annex D4: Interest earned to total working fund ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Interest earned	Working fund	Ratios (%)	Year	Interest earned	Working Fund	Ratios (%)
2003/04	1017.87	16562.62	6.15	2003/04	520.17	8052.20	6.46
2004/05	1001.62	16745.49	5.98	2004/05	657.25	9608.57	6.84
2005/06	1068.75	17064.08	6.26	2005/06	719.29	11731.52	6.13
2006/07	1309.99	22329.97	5.87	2006/07	903.41	15959.28	5.66
2007/08	1587.76	27253.39	5.83	2007/08	1144.41	21432.57	5.34

Source: Annual report Nabil and Everest

Annex D5: Interest paid to total working fund ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Interest Paid	Working fund	Ratios (%)	Year	Interest Paid	Working fund	Ratios (%)
2003/04	317.35	16562.62	1.92	2003/04	307.05	8052.20	3.81
2004/05	282.95	16745.49	1.69	2004/05	316.37	9608.57	3.29
2005/06	243.54	17064.08	1.42	2005/06	299.57	11731.52	2.55
2006/07	357.16	22329.97	1.59	2006/07	401.39	15959.28	2.51
2007/08	555.71	27253.39	2.04	2007/08	517.17	21432.57	2.41

Source: Annual report Nabil and Everest

Annex E1: Credit Risk ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Loan and advances	Total assets	Ratios (%)	Year	Loan & advances	Total assets	Ratios (%)
2003/04	7755.95	16562.62	46.82	2003/04	4908.46	8052.20	60.96
2004/05	8189.99	16745.49	48.91	2004/05	5884.12	9608.57	61.24
2005/06	10586.17	17064.08	62.04	2005/06	7618.63	11731.52	64.93
2006/07	12922.54	22329.97	57.87	2006/07	9801.30	15959.28	61.41
2007/08	15545.78	27253.39	57.04	2007/08	13664.08	21432.57	63.75

Source: Annual report Nabil and Everest

Annex E2 : Capital risk ratios of NABIL Bank Limited and Everest Bank Limited

NABIL BANK LIMITED				EVEREST BANK LIMITED			
Year	Share capital	Total assets	Ratios (%)	Year	Share capital	Total assets	Ratios (%)
2003/04	491.65	16562.62	2.97	2003/04	455.00	8052.20	5.65
2004/05	491.65	16745.49	2.93	2004/05	455.00	9608.57	4.73
2005/06	491.65	17064.08	2.88	2005/06	518.00	11731.52	4.42
2006/07	491.65	22329.97	2.20	2006/07	518.00	15959.28	3.26
2007/08	491.65	27253.39	1.80	2007/08	518.00	21432.57	4.42

Source: Annual report Nabil and Everest

Annex F1: Growth ratios total deposits of NABIL Bank Limited and Everest Bank Limited

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios (%)
Nabil Bank	13447.66	14119.03	14586.60	19347.39	23342.28	14.78%
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	28.36%

Source: Annual report Nabil and Everest

Growth rate can be calculated as follows

Here,

D_n = Total deposits in n^{th} year

D_0 = Total deposits in initial year

g = growth rate

we have.

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

Where, Nabil bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$23342.28 = 13447.66 (1+g)^4$$

$$\text{or } 1+g = 1.1478$$

Therefore, $g = 14.78\%$

Where, Everest Bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$18186.25 = 6694.95 (1+g)^4$$

$$\text{or } 1+g = 1.2836$$

Therefore, $g = 28.36\%$

Annex F2: Growth ratios Loans and advances of NABIL Bank Limited and Everest Bank Limited

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios (%)
NABIL Bank	13447.66	14119.03	14586.60	19347.39	23342.28	18.97
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	29.13

Source: Annual report Nabil and Everest

Growth rate can be calculated as follows

Here,

D_n = Total loan and advances in n^{th} year

D_0 = Total loan and advances in initial year

g = growth rate

We have.

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

Where, Nabil bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$15545.78 = 7755.95 (1+g)^4$$

$$\text{or } 1+g = 1.1897$$

Therefore, $g = 18.97\%$

Where, Everest Bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$13664.08 = 4908.46 (1+g)^4$$

$$\text{or } 1+g = 1.2913$$

Therefore, $g = 29.13\%$

Annex F3: Growth ratios total investment of NABIL Bank Limited and Everest Bank Limited

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios %
NABIL Bank	13447.66	14119.03	14586.60	19347.39	23342.28	10.35
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	31.74

Source: Annual report Nabil and Everest

Growth rate can be calculated as follows

Here,

D_n = Total Investment in n^{th} year

D_0 = Total investment in initial year

g = growth rate

We have. $D_n = D_0(1 + g)^{n-1}$

Where, Nabil bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$8945.31 = 6031.18 (1+g)^4$$

$$\text{or } 1+g = 1.1035$$

Therefore, $g = 10.35\%$

Where, Everest Bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$4984.31 = 1653.97 (1+g)^4$$

$$\text{or } 1+g = 1.3174$$

Therefore, $g = 31.74\%$

Annex F4: Growth ratios on total net profit of NABIL Bank Limited and Everest Bank Limited

Bank/Year	2003/04	2004/05	2005/06	2006/07	2007/08	Growth ratios %
NABIL Bank	13447.66	14119.03	14586.60	19347.39	23342.28	12.79
Everest Bank	6694.95	8063.90	10097.69	13802.44	18186.25	33.16

Source: Annual report Nabil and Everest

Growth rate can be calculated as follows

Here, D_n = Total Net profit in n^{th} year, D_o = Total net profit in initial year, g = growth rate

We have.

$$D_n = D_o(1 + g)^{n-1}$$

Where, Nabil bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$673.96 = 416.24 (1+g)^4$$

$$\text{or } 1+g = 1.1279$$

Therefore, $g = 12.79\%$

Where, Everest Bank

$$D_{2007/08} = D_{2003/04} (1+g)^{5-1}$$

$$296.41 = 94.18 (1+g)^4$$

$$\text{or } 1+g = 1.3316$$

Therefore, $g = 33.16\%$

TRENDS ANALYSIS:

Annex G 1a: Trends analysis Of Total Deposits in NABIL Bank Limited.

Year (t)	Total deposits (Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	13447.66	-2	4	-26895.32	6961.912
2004/05	14119.03	-1	1	-14119.63	11965.672
2005/06	14586.6	0	0	0	16968.712
2006/07	19347.39	1	1	19347.39	21972.112
2007/08	23342.28	2	4	46684.56	26975.512
Total	84842.96		$\sum x^2 = 10$	$\sum xy = 25017$	

Source: Annual reports of Nabil Bank Limited

N=5

$$a = \frac{\sum Y}{N} = \frac{84843.56}{5} = 16968.712$$

$$b = \frac{\sum xy}{N} = \frac{25017}{5} = 5003.4$$

Trends Value of Total Deposits in Nabil bank in 2007/08 to 2011/012 (Rs. In Million)

Year	x	y _c = a + bx
2008/09	3	31978.912
2009/010	4	36982.312
2010/011	5	41985.712
2011/012	6	46989.112
2012/013	7	51992.512

The eqⁿ th straight line trend is Y_c = a+bx

$$Y_c = 16968.712 + 5003.4x$$

Annex G 1b: Trends analysis Of Total Deposits In Everest Bank.

Year (t)	Total deposits(Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	6694.95	-2	4	-13389.9	-119.41
2004/05	8063.9	-1	1	-8063.90	5624.82
2005/06	10097.69	0	0	0	11369.046
2006/07	13802.44	1	1	13802.44	17113.274
2007/08	18186.25	2	4	36372.5	22857.502
Total	56845.23		$\sum x^2 = 10$	$\sum xy = 28721.14$	

Source: Annual reports of Everest Bank Limited

N=5

$$a = \frac{\sum Y}{N} = \frac{56845.23}{5} = 11369.046$$

$$b = \frac{\sum xy}{N} = \frac{28721.14}{5} = 5744.228$$

Trends Values in Everest Bank Limited in 2007/08 to 2011/012 (Rs. In Million)

Year	x	y _c = a + bx
2008/09	3	28601.73
2009/010	4	34345.958
2010/011	5	40090.186
2011/012	6	45834.414
2012/013	7	51578.642

The eqⁿ th straight line trend is Y_c = a+bx

$$Y_c = 11369.046 + 5744.228x$$

Annex G 2 a: Trends analysis of Total loan & advance in Nabil Bank.

Year (t)	Loan & advances (Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	7755.95	-2	4	-15511.9	2875.202
2004/05	8189.99	-1	1	-8189.99	6937.644
2005/06	10586.17	0	0	0	11000.086
2006/07	12922.54	1	1	12922.54	15062.528
2007/08	15545.78	2	4	31091.56	19124.97
Total	55000.43		$\sum x^2 = 10$	$\sum xy = 20312.21$	

Source: Annual reports of Nabil Bank Limited

$$N = 5$$

$$a = \frac{\sum Y}{N} = \frac{55000.43}{5} = 11000.086$$

$$b = \frac{\sum xy}{N} = \frac{20312.21}{5} = 4062.442$$

Trends Values Of Total loan & Advances in Nabil Bank in 2007/08 to 2011/012 (Rs. In Million)

Year	x	y _c = a + bx
2008/09	3	23187.412
2009/010	4	27249.854
2010/011	5	31312.296
2011/012	6	35374.738
2012/013	7	39437.18

The eqⁿ th straight line trend is $Y_c = a+bx$

$$Y_c = 11000.086 + 4062.442x$$

Annex G 2 b: Trends analysis Of Total Loan and Advances in Everest Bank.

Year (t)	Loan & advances (Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	4908.46	-2	4	-9816.92	-196.044
2004/05	5884.12	-1	1	-5884.12	4089.642
2005/06	7618.67	0	0	0	8375.328
2006/07	9801.31	1	1	9801.31	12661.014
2007/08	13664.08	2	4	27328.16	16946.7
Total	$\sum Y = 41876.64$		$\sum x^2 = 10$	$\sum xy = 21428.43$	

Source: Annual reports of Everest Bank Limited

N =5

$$a = \frac{\sum Y}{N} = \frac{41876.64}{5} = 8375.328$$

$$b = \frac{\sum xy}{N} = \frac{21428.43}{5} = 4285.656$$

Trends Values of loan & Advances in Everest Bank Limited in 2007/08 to 2011/012
(Rs. In Million)

Year	x	y _c = a + bx
2008/09	3	21232.386
2009/010	4	25518.072
2010/011	5	29803.758
2011/012	6	34089.444
2012/013	7	38375.13

The eqⁿ th straight line trend is Y_c = a+bx

$$Y_c = 8375.328 + 4285.656x$$

Annex G 3a: Trends analysis Of Total Investment in Nabil Bank.

Year (t)	Investment (Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	6031.18	-2	4	-12062.36	3784.964
2004/05	5835.95	-1	1	-5835.95	5019.132
2005/06	4275.53	0	0	0	6203.3
2006/07	6178.53	1	1	6178.53	7487.468
2007/08	8945.31	2	4	17890.62	8721.636
Total	31266.5		$\sum x^2 = 10$	$\sum xy = 6170.84$	

Source: Annual reports of Nabil Bank Limited

$$N = 5$$

$$a = \frac{\sum Y}{N} = \frac{31266.5}{5} = 6253.3$$

$$b = \frac{\sum xY}{N} = \frac{6170.84}{5} = 1234.168$$

Trends Values of investment in Nabil Bank Limited in 2007/08 to 2011/012 (Rs. In Million)

Year	x	y _c = a + bx
2008/09	3	9955.804
2009/010	4	11189.972
2010/011	5	12424.14
2011/012	6	13658.308
2012/013	7	14892.476

The eqⁿ th straight line trend is $Y_c = a+bx$

$$Y_c = 6253.3 + 1234.168x$$

Annex G 3b: Trends analysis Of Total Investment in Everest Bank.

Year (t)	Investments (Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	1653.97	-2	4	-3307.94	-229.53
2004/05	2535.66	-1	1	-2535.66	1435.57
2005/06	2128.93	0	0	0	3100.678
2006/07	4200.52	1	1	4200.52	4765.788
2007/08	4984.31	2	4	9968.62	6430.894
Total	15503.39		$\sum x^2 = 10$	$\sum xy = 8325.54$	

Source: Annual reports of Everest Bank Limited

$$N = 5$$

$$a = \frac{\sum y}{N} = \frac{15503.39}{5} = 3100.678$$

$$b = \frac{\sum xy}{N} = \frac{8325.54}{5} = 1665.108$$

Trends Values of Investment in Everest Bank Limited in 2007/08 to 2011/012 (Rs. In Million)

Year	x	y _c = a + bx
2008/09	3	8096.002
2009/010	4	9761.11
2010/011	5	11426.218
2011/012	6	13091.326
2012/013	7	14756.434

The eqⁿ th straight line trend is $Y_c = a+bx$

$$Y_c = 3100.678 + 1665.108x$$

Annex G 4a: Trends analysis Of Net profit in Nabil Bank.

Year (t)	Net profit (Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	416.24	-2	4	-832.48	262.02
2004/05	455.31	-1	1	-455.31	401.098
2005/06	520.11	0	0	0	540.176
2006/07	635.26	1	1	635.26	679.254
2007/08	673.96	2	4	1347.92	818.332
Total	2700.88		$\sum x^2 = 10$	$\sum xy = 695.39$	

Source: Annual reports of Nabil Bank Limited

$$N = 5$$

$$a = \frac{\sum Y}{N} = \frac{2700.88}{5} = 540.176$$

$$b = \frac{\sum xY}{N} = \frac{695.39}{5} = 139.078$$

Trends Values in Nabil Bank Limited in 2007/08 to 2011/012 (Rs. In Million)

Year	x	y _c = a + bx
2008/09	3	957.41
2009/010	4	1096.448
2010/011	5	1235.566
2011/012	6	1374.644
2012/013	7	1513.722

The eqⁿ th straight line trend is $Y_c = a + bx$

$$Y_c = 540.176 + 139.078x$$

Annex G 4b: Trends analysis Of Net profit in Everest Bank.

Year (t)	Net profit (Y)	x = t-2004	x ²	xy	y _c = a + bx
2003/04	94.18	-2	4	-188.36	-11.34
2004/05	143.57	-1	1	-143.57	88.296
2005/06	168.21	0	0	0	187.932
2006/07	237.29	1	1	237.29	287.568
2007/08	296.41	2	4	592.82	387.204
Total	939.66		$\sum x^2 = 10$	$\sum xy = 498.18$	

Source: Annual reports of Everest Bank Limited

N= 5

$$a = \frac{\sum y}{N} = \frac{939.66}{5} = 187.932$$

$$b = \frac{\sum xy}{N} = \frac{498.18}{5} = 99.636$$

Trends Values in Everest Bank Limited in 2007/08 to 2012/013 (Rs. In Million)

Year	x	y _c = a + bx
2003/04	3	486.84
2004/05	4	586.476
2005/06	5	686.112
2006/07	6	785.748
2007/08	7	885.384

The eqⁿ th straight line trend is Y_c = a+bx

$$Y_c = 187.932 + 99.636x$$

Annex H 1a: Coefficient of correlation Analysis total deposits and total investment in Nabil bank.

Year	Deposits (X)	Investment (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2003/04	13447.66	6031.18	-3520.932	-222.12	782069.42	12396962.15	49337.29
2004/05	14119.03	5835.95	-2849.562	-417.35	1189264.70	8120003.59	174181.02
2005/06	14586.6	4275.53	-2381.992	-1977.77	4711032.32	5673885.89	3911574.17
2006/07	19347.39	6178.53	2378.798	-74.77	-177862.73	5658679.92	5590.56
2007/08	23342.28	8945.31	6373.688	2692.01	17158031.83	40623898.72	7246917.84
Total	84842.96	31266.5			23662535.54	72473430.27	11387600.88

$$\bar{X} = \frac{\sum X}{n} = \frac{84842.96}{5} = 16968.592$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{31266.5}{5} = 6253.3$$

$$\text{Coefficient of correlation } (r) = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = \frac{23662535.54}{\sqrt{72473430.27 \times 11387600.88}} = 0.82$$

$$P.Er. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.67458 \times \frac{(1-0.82^2)}{\sqrt{5}} = 0.099$$

$$6P.Er. = 6 \times 0.099 = 0.594$$

Annex H 1b: Coefficient of correlation Analysis total deposits and total investment in Everest bank.

Year	Deposits (X)	Investment (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2003/04	6694.96	1653.97	-4674.096	-1446.708	6762052.076	21847173.42	2092964.037
2004/05	8063.90	2535.66	-3305.146	-565.018	1867466.983	10923990.08	319245.3403
2005/06	10097.69	2128.93	-1271.356	-971.748	1235437.65	1616346.079	944294.1755
2006/07	13802.44	4200.52	2433.394	1099.842	2676348.924	5921406.359	1209652.425
2007/08	18186.25	4984.31	6817.204	1883.632	12841103.6	46474270.38	3548069.511
Total	56845.23	15503.39			25382409.24	86783186.31	8114225.489

$$\bar{X} = \frac{\sum X}{n}$$

$$= \frac{56845.23}{5}$$

$$= 11369.046$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{15503.39}{5} = 3100.67$$

Coefficient of correlation(r)

$$= \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = \frac{25382409.24}{\sqrt{86783186.31 \times 8114225.489}} = 0.956514394 = 0.96$$

$$P.Er. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{(1-0.96^2)}{\sqrt{5}} = 0.024 = 6P.Er. = 6 \times 0.024 = 0.14$$

Annex H 2a: Coefficient of correlation Analysis total deposits and total loan & advances of Nabil bank.

Year	Deposits (X)	Loan & advances (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2003/04	13447.66	7755.95	-3520.932	-3244.14	11422382	12396962	10524418
2004/05	14119.03	8189.99	-2849.562	-2810.1	8007543	8120004	7896640
2005/06	14586.6	10586.17	-2381.992	-413.916	985944.6	5673886	171326.5
2006/07	19347.39	12922.54	2378.798	1922.454	4573130	5658680	3695829
2007/08	23342.28	15545.78	6373.688	4545.694	28972835	40623899	20663334
Total	84842.96	55000.43			53961835	72473430	42951548

$$\bar{X} = \frac{\sum X}{n} = \frac{84842.96}{5} = 16968.59$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{55000.43}{5} = 11000.09$$

$$\text{Coefficient of correlation } (r) = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = \frac{53961835}{\sqrt{72473430 \times 42951548}} = 0.967$$

$$P.Er. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{(1-0.967^2)}{\sqrt{5}} = 0.019 = 6P.Er. = 6 \times 0.019 = 0.1175$$

Annex H 2b: Coefficient of correlation Analysis total deposits and total loan & advances Everest Bank

Year	Deposits (X)	Loan & advances (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2003/04	6694.95	4908.46	-4674.1	-3466.87	16204474	21847173	12019174
2004/05	8063.9	5884.12	-3305.15	-2491.21	8233806	10923990	6206117
2005/06	10097.69	7618.67	-1271.36	-756.658	961981.7	1616346	572531.3
2006/07	13802.44	9801.31	2433.394	1425.982	3469976	5921406	2033425
2007/08	18186.25	13664.08	6817.204	5288.752	36054501	46474270	27970898
Total	56845.23	41876.64			64924738.7	86783185	48802145.3

$$\bar{X} = \frac{\sum X}{n} = \frac{56845.23}{5} = 11369.05$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{41876.64}{5} = 8375.328$$

$$\text{Coefficient of correlation } (r) = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = \frac{64924738.7}{\sqrt{8683185 \times 48802145.3}} = 0.9976$$

$$P.Er. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{(1-0.9976^2)}{\sqrt{5}} = 0.0014 = 6P.Er. = 6 \times 0.0014 = 0.0084$$

Annex H 3a: Coefficient of correlation Analysis total outside assets and net profit in Nabil bank

Year	Outside assets (X)	Net profit(Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2003/04	13787.13	416.24	-1681.072	-123.936	208345.3394	2826003.069	15360.1321
2004/05	14025.94	455.31	-1442.262	-84.866	122399.0069	2080119.677	7202.237956
2005/06	15083.23	520.11	-384.972	-20.066	7724.848152	148203.4408	402.644356
2006/07	16022.12	635.26	553.918	95.084	52668.73911	306825.1507	9040.967056
2007/08	18422.59	673.96	2954.388	133.784	395249.8442	8728408.455	17898.15866
Total	77341.01	2700.88			786387.7777	14089559.79	49904.14012

$$\bar{X} = \frac{\sum X}{n} = \frac{77341.01}{5} = 15468.202$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{2700.88}{5} = 540.176$$

$$\text{Coefficient of correlation } (r) = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = \frac{786387.7777}{\sqrt{14089559.79 \times 49904.14012}} = 0.94$$

$$P.Er. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{(1-0.94^2)}{\sqrt{5}} = 0.0351 = 6P.Er. = 6 \times 0.0351 = 0.2107$$

Annex H 3b: Coefficient of correlation Analysis total outsiders assets and net profit in Everest Bank

Year	Outsides assets (X)	Net profit (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2003/04	6703.58	94.18	-4998.952	-4998.952	468661.7479	24989521.1	8789.437504
2004/05	8631.49	143.57	-3071.042	-3071.042	136237.5652	9431298.966	1967.987044
2005/06	10312.23	168.21	-1390.302	-1390.302	27419.53604	1932939.651	388.957284
2006/07	14027.32	237.29	2324.788	2324.788	114746.8861	5404639.245	2436.212164
2007/08	18838.04	296.41	7135.508	7135.508	774045.6368	50915474.42	11767.47648
Total	58512.66	939.66			1521111.372	92673873.38	25350.07048

$$\bar{X} = \frac{\sum X}{n} = \frac{58512.66}{5} = 11702.532$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{939.66}{5} = 187.932$$

$$\text{Coefficient of correlation } (r) = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = \frac{1521111.372}{\sqrt{92673873.38 \times 25350.07048}} = 0.99$$

$$P.Er. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{(1-0.99^2)}{\sqrt{5}} = 0.0060 = 6P.Er. = 6 \times 0.0060 = 0.0360$$

Annex. II: Test of hypothesis on loan and advances to total deposits ratios.

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 321.62$	$\sum X_2 = 367.88$
2	$\bar{X}_1 = 64.324$	$\bar{X}_2 = 73.576$
3	$\sum x_1^2 = 167.482$	$\sum x_2^2 = 12.944$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + x_2^2)$$

$$S^2 = \frac{1}{5 + 5 - 2} (167.482 + 12.944)$$

$$S^2 = 22.55$$

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$t = \frac{64.324 - 73.576}{\sqrt{22.55 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = -3.0809$$

Annex I2: Test of hypothesis on total investment to total deposits ratios.

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 185.74$	$\sum X_2 = 135.06$
2	$\bar{X}_1 = 37.148$	$\bar{X}_2 = 27.012$
3	$\sum x_1^2 = 166.85$	$\sum x_2^2 = 71.98$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + x_2^2)$$

$$S^2 = \frac{1}{5 + 5 - 2} (166.85 + 71.98)$$

$$S^2 = 29.85$$

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$t = \frac{37.148 - 27.012}{\sqrt{29.85 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = 2.933$$

Annex I3: Test of hypothesis on Investment on Government securities to current assets ratios

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 101.67$	$\sum X_2 = 116.79$
2	$\bar{X}_1 = 20.334$	$\bar{X}_2 = 23.358$
3	$\sum x_1^2 = 135.97$	$\sum x_2^2 = 62.73$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + x_2^2)$$

$$S^2 = \frac{1}{5 + 5 - 2} (135.97 + 62.73)$$

$$S^2 = 24.84$$

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$t = \frac{20.334 - 23.358}{\sqrt{24.84 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = -0.9594$$

Annex I4: Test of hypothesis on loan and advances to current assets ratios

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 324.06$	$\sum X_2 = 322.73$
2	$\bar{X}_1 = 64.812$	$\bar{X}_2 = 64.546$
3	$\sum x_1^2 = 227.095$	$\sum x_2^2 = 34.43$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + x_2^2)$$

$$S^2 = \frac{1}{5 + 5 - 2} (227.095 + 34.43)$$

$$S^2 = 32.69$$

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$t = \frac{64.812 - 64.546}{\sqrt{32.69 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = 0.0625$$

Annex I5 Test on hypothesis on return on loan and advances ratios

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 25.09$	$\sum X_2 = 11.16$
2	$\bar{X}_1 = 5.018$	$\bar{X}_2 = 2.232$
3	$\sum x_1^2 = 0.9123$	$\sum x_2^2 = 0.1803$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + x_2^2)$$

$$S^2 = \frac{1}{5 + 5 - 2} (0.9123 + 0.1803)$$

$$S^2 = 0.1366$$

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$t = \frac{5.018 - 2.232}{\sqrt{0.1366 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = 11.906$$

Annex I6: Test of hypothesis on return to total assets ratio

S.N.	Nabil Bank Limited	Everest Bank Limited
1	$\sum X_1 = 13.59$	$\sum X_2 = 6.96$
2	$\bar{X}_1 = 2.718$	$\bar{X}_2 = 1.392$
3	$\sum x_1^2 = 0.2299$	$\sum x_2^2 = 0.07008$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + x_2^2)$$

$$S^2 = \frac{1}{5 + 5 - 2} (0.2299 + 0.07008)$$

$$S^2 = 0.0375$$

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$t = \frac{2.718 - 1.392}{\sqrt{0.0375 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = 10.82$$