CHAPTER – I
INTRODUCTION

1.1 Background of the Study

Commercial banks are major financial institutions, which play an important role in the economy because through the deposits they collect, they provide much needed capital for the development of industry, trade and business and other different sectors, thereby contributing to the economic growth of the nation. An investment is a commitment of money that is expected to generate additional money. Every investment entail some degree of risk, it requires at present certain sacrifice for a future uncertain benefit.

Investment in the actual sense refers to the sacrifice of current dollars for future dollars *(Sharpe, 1986)*. Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, and the magnitude of which is uncertain. In some cases the element of time predominates (for example, government bonds). In other case, risk is more dominant (for example, call option on common stock). In yet others, both time and risk play a dominant role (for example, share of common stock).

Investment is the use of money to earn profit. It can be said that investment is concerned with the proper management of the investor's wealth, which are the sum of the current income and the present value of all future income. Fund to be invested come from assets already owned, borrowed money and saving or foregone consumption. By foregoing today and investing the saving, investors expect to enhance their future consumption possibilities i.e. the fund is 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 possible harms.

Investment policy involves determining the investor's objectives and the amount of his or her investable wealth. It is not appropriate for an investor to say that his objective is to

make a lot of money (Clarke, 1989). What is appropriate for an investor in this situation is to state that the objective to earn a profit while recognizing that there exist some chances of incurring large losses. Investment objectives should be stated in terms of both risk and return.

National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being listed among least developed country is trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and carried to every corner of the country. It has been well established that the economic activities of any country can hardly be carried forward without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice- versa.

The initial step an investing policy involves determining the investment objectives and the amount of one's investable wealth. Investment is always related with risks and returns. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Therefore, investment objective should be stated in terms of both risks and returns. Setting a clear investment policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. The identification of assets depends

upon many things, such as investment objectives, investable wealth, tax consideration etc *(Bhattarai, 2004: 3).*

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

1.1.1 Evolution of Bank

The evolution of bank is not a non-phenomenon. The terms banking such as deposits, pledge, policy of loan, interest rates etc can be found.

The Roman Empire collapsed in the last of 15th century and beginning of 16th century. Consequently, commercial banking transactions emerged because of revival of commercial and other trading activities in European countries. According to the opinion of great economist Geoffrey Crowther, following community groups are the ancestors of modern banking.

i. The merchant trader
ii. The goldsmith
iii. The money lenders

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

The next stage in the growth of banking was the goldsmith; the business of goldsmith was such that he had to take deposits such as bullion, money and amendments for the security from theft. This makes possible to the goldsmith to charge something for taking

care of the money and bullion. On the other hand, as the evidence of receiving valuables, he used to issue a receipt to the depositors. As such receipts are good for payment equipment to the amount mentioned, it become like the modern cheque, as a medium of exchange and a means of payments.

Finally, moneylender contributed in the growth of banking to a larger extent. He advanced the coins on loan by charging interest. As a safeguard he used to keep some money in the reserve. Therefore goldsmith, moneylender became a banker who started performing the two functions of depositing and advancing loans. "The bank of Venice" of Italy was established in 1157 A. D. as first banking institution in the world. The second banking institution namely, 'The bank of Barcelona' of Spain was established in 1401 A.D. Its function was to exchange money, receive deposits and discount bill of exchange, both for the citizens and for the foreigners during 1407 A.D. The Bank of Genon was established in 1609 A.D. "The Bank of England" was incorporated in 1694 A.D. as a joint stock bank and later on the 1844 A.D. It became a first central bank in the world.

1.1.2 Commercial Banks and Investment Policy

Commercial Bank is a corporation, which accepts demand deposits subject to check and make short term loans to business enterprises, regardless of the scope of its other services. *(American Institution of Banking, 1972: 345-346).*

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy. Commercial banks render numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus, commercial banks have become the heart of financial system.

Commercial bank deals with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets that are not easily

realizable. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keen adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to deep a long portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity *(Radhaswamy and Vasudevan, 1998: 510).*

Commercial banks must mobilize its deposits and other funds to profitable, secured, stable and marketable sector. Then, only it can earn more profit as well as it should be secured and can be converted into cash whenever needed. But, commercial banks have to pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one face of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. Commercial bank should be careful while performing the credit creation function. The banks should never invest its funds in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute. Emphasizing upon this, H.D. Crosse stated, "The investment policy should be carefully analyzed" *(Crosse, 1963).* So they must invest their funds where they gain maximum profit.

Commercial banks must follow the rules and regulations as well as different directions issued by central bank, ministry of finance, and ministry of law and other while mobilizing its funds. So, the bank should invest its funds in legal securities only. Diana McNaughton in her research paper 'Banking institutions in developing markets' state that, investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities *(McNaughton, 1994).* Commercial banks should incorporate several elements while making investment policy. The loan provided by

commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment decisions. The following principles or feature of investment policy must be abided by the commercial banks in order to achieve the goals.

A) Safe & securities
B) Profitability
C) Liquidity
D) Purpose to loan
E) Diversification
F) Tangibility
G) Legality

1.1.3 Evolution of Commercial Banks in Nepal

The development of banking in Nepal is relatively recent. The establishment of "Tejarath Adda" during the year 1877 A.D. was the first step in institutional development of banking sector in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently the major parts of the country remained untouched from these limited-banking activities. The development of trade with India and other countries increased the necessity of the institutional banker, which could act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy. Reviewing this situation, the "Udyog Parishad" was constituted in 1936 A.D. One year after its formation, it formulated the "company Act" and "Nepal Bank Act" in 1937 A.D. Nepal Bank limited was established under Nepal Bank ACT in 1937 A.D. as a first commercial bank of Nepal with 10 million authorized capital.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However, the stand of Nepal Bank limited alone in total monetary and financial sector was not sufficient and satisfactory. Thus, Nepal Rastra Bank was set up on 1956 A.D.(2013) as a central Bank under Nepal Rastra Bank Act 1956 A.D.(2012 B.S.).Similarly, on 1966 A.D. (2022 B.S.) Rastriya Banijaya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality &

competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development center was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal Industrial Development Corporation (NIDC) in 1959 A.D.(2016 B.S.).Similarly, Agriculture Development Bank (ADB) was established in 1976 AD (2024 B.S.) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques. As the country moved towards economic liberalization in 1980 A.D., foreign Banks were invited to operate in Nepal. The financial scenario has changed with the introduction of joint venture banks in 1984.The number of commercial banks has been increasing. Since then, various financial institutions like, JVBs, Domestic Commercial Banks, Development Banks, Finance Companies, Co-operative Banks credit Guarantee Corporation, Employee provident funds, National Insurance Corporation, Nepal stock Exchange have come into existence to cater the financial needs of the country thereby assisting financial development of the country.

In 1990 A.D. after the restoration of democracy in Nepal, the governments highlight the agenda of economic liberalization policies were announced and emphasized to invite foreign direct investment (FDI) in the banking sector of Nepal. Therefore the development of CB's in Nepal is categorized in three phases on the basis of financial institutions policies adopted by the country from time to time.

There are only two banks prior to 1980's they are NBL and RBB .All the three CBs of 1980's were established as joint venture bank. Similarly six commercial banks of past 1990's were also come into operation as joint venture banks. Latest six banks including Nepal industrial and commercial, Lumbini Bank Ltd, Machapuchhre Bank Ltd, Kumari Bank Ltd, Laxmi Bank Ltd, Siddharth Bank Ltd, were established by the private sector of Nepal consequently the name of the banks are also changed. Nepal Arab Bank Ltd. Is now known as Nabil Bank Ltd.

Similarly, Nepal Grindlays Bank Ltd, Nepal Indosuez Bank Ltd, and Nepal Bank of Ceylon Ltd, are known as standard chartered Bank Nepal Ltd, Nepal standard chartered Bank Nepal Ltd, Nepal Investment Bank Ltd, Nepal credit and commerce Bank Ltd. respectively.

Now a day there are 31 commercial banks working and 87 development banks , 79 Financial companies, 21 Micro-Credit Development Banks ,15 Cooperatives (limited banks), 45 NGO's (Limited Banks). In total 278 financial institutions are operating the financial activities as per Mid July 2013 statistics. In the history of commercial bank there are two banks namely NIC and bank of Asia merge and became NIC Asia bank. The list of commercial banks operating today in Nepal is given below:

List of Licensed Commercial Banks in Nepal

S.N	Name of Banks	Estd (B.S.)
1	Nepal Bank Ltd.	1994
2	Rastriya Banijya Bank Ltd	2022
3	Agriculture Development Bank Ltd.	2024
4	Nabil Bank Ltd.	2041
5	Nepal Investment Bank Ltd	2042
6	Standard Chartered Bank Nepal Ltd.	2043
7	Himalayan Bank Ltd.	2049
8	Nepal SBI Bank Ltd.	2050
9	Nepal Bangladesh Bank Ltd.	2051
10	Everest Bank Ltd.	2051
11	Bank of Kathmandu Ltd.	2051
12	Nepal Credit & Commercial Bank Ltd.	2053
13	NIC Asia Nepal Ltd.	2070
14	Lumbini Bank Ltd.	2055
15	Machapuchhre Bank Ltd.	2057
16	Kumari Bank Ltd.	2056
17	Laxmi Bank Ltd.	2058
18	Siddhartha Bank Ltd.	2059
19	Global IME Bank Ltd.	2007
20	Citizens Bank International Ltd.	2063
21	Sunrise Bank Ltd.	2064
22	Grand Bank Nepal Ltd.	2001
23	Sanima Bank Ltd.	2012
24	Prime Bommercial Bank Ltd.	2008
25	NMB bank Ltd.	2008
26	Kist Bank Ltd.	2009
27	Janata Bank Nepal Ltd.	2010
28	Mega Bank Nepal Ltd.	2010
29	Commerz and Trust Bank Nepal Ltd.	2010
30	Civil Bank Ltd.	2010
31	Century Commercial Bank Ltd.	2011

Source: www.nrb.org.np

After the announcement of liberal and free market economic based policy, Nepalese banks and financial Sectors are having greater network and access to national and international markets. They have to go with their portfolio management very seriously. Fighting various challenges in order to increase their regular basis of income as well as to enrich the quality base of service for the attraction of good clients. In this competitive and market oriented open economy, each and every commercial banks and financial

institution has to play a determine role by widening various opportunities for the sake of expanding provisions of best service to their customers and by making themselves as a strong and potential financial intermediaries as per country's need of present scenario to obtain the desired level of economic development of nation.

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

1.1.4 Rastriya Banijya Bank Ltd.

Introduction

Rastriya Banijya Bank (RBB) is fully government owned, and the largest commercial bank in Nepal. RBB was established on January 23, 1966 (2022 Magh 10 BS) under the RBB Act. RBB provides various banking services to a wide range of customers including banks, insurance companies, industrial trading houses, airlines, hotels, and many other sectors. The bank is fully committed to contribute its best for the socioeconomic development of the country and people in the days to come.

RBB has Nepal's most extensive banking network with over 141 branches. It has 60 branches in mountain region, 57 branches in Terai region and 24 branches in Kathmandu valley. Through its branch network, RBB has been contributing to Nepal's economic development by providing banking services throughout the country.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and interbank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks.

In addition RBB runs various progrmames i.e. banking with the Poor, Micro Credit project for Women etc. to enhance the living stander of people as per the government directives.

As well, RBB actively delivers various government programs to people living in remote parts of the country; these programs are intended to raise living standards. .

1.1.5 Mission of Rastriya Banijya Bank Ltd.

RBB is committed towards the satisfaction of its customers by providing modern banking facilities at the same time, the Bank is equally committed to the economic growth and development of the country. The Bank aims to reach every rural and urban corner of Nepal to accommodate the requirement of the people.

The Bank's extensive branch network and international connections are designed to transact banking activity between and part of the country and any part of the world.

1.1.6 Major Objectives of Rastriya Banijya Bank Ltd.

RBB's main objectives are to provide banking services throughout Nepal and contribute in the socio economic development of the country. The bank's major activities include accepting deposits, investment in government securities, lending to productive sectors, dealing with foreign currency, processing domestic and foreign remittances, merchant banking and correspondent banking services etc.

The bank has deposit base of with more than 1.7 million depositors. The depositors are individual, institution, private organizations, business houses, non – profit organizations,

social organizations, industries, finance companies, cooperatives, etc. The bank has more than 300,000 clients who have used the bank's resources for their business and development activities. They vary from big business houses to public sector enterprise, medium and small-scale industries to farmer and individuals. Banking with poor is an important development- oriented program is run under the priority sector credit program.

Major objectives/Activities of the program include:

- Production Credit for Rural Women.
- Banking with the poor for the deprived people
- Business growth and increase in market share.
- Loan to unemployed graduates.
- Intensive banking program
- Focus on providing innovative financial services.
- Increase in capital base of the bank by meeting the minimum capital requirement.

1.1.7 Investment Policies of RBB Ltd.

A bank is a legal person which cannot do anything alone. Central bank is established without the aim of gaining profit, but commercial banks are inspired with the objective of earning profit and helping economic development and to take social responsibility. RBB is also established to gain profit and helping economic development of nation. RBB has different policies to invest in different sectors such as business loan, housing loan, vehicle loan, education loan etc. for to be successful it should have the ability to use the policy of banking investment and to implement it much more carefully. RBB has adopted many policies such as;

Policies of liquidity, policies of profitability, policies of safety, policies of legality, policies of tangibility, policies of diversification, policies of national interest, policies of marketability etc.

1.2 Statement of the Problems

The major problems of banking sectors at present are the slow growing and underdeveloped real sector. The Slackness in industries, agriculture, trade and tourism have caused to slimming down the scope of investment in banking.

The other problem of banking sector is absence of several legal provisions like secured transaction acts, separate commercial benches and problems in proper understanding of banking problems from judiciary. International defaults from the customers do also stand as problem to banking sector. The study is basically faced on problem relating, loan advances risk, liquidity and profitability.

So, the problems of the study are thus based on the following research questions:-

A. What are the investment policies adopted by RBB ltd.?
B. What is the state of implementation of investment policy?
C. What is the relationship between deposit and loan advance?
D. What is the proportion of profitability, risk and liquidity?
E. How to make effective investment policy?
F. Which investment policy is more effective?
G. How are the deposits being utilized?

1.3 Objectives of the Study

The major objective of this study is to examine the policies and implementation effectiveness of the investment policy of Rastriya Banijya Bank Ltd. so the specific objectives of the study are as follows:-

i. To examine the profitability and risk position, performance and liquidity management efficiency of RBB Ltd.
ii. To find out relationship between investment and deposit, deposit and loan and advance, current assets and current liabilities.
iii. To analyze the deposit utilization and its projection for next five years of RBB.
iv. To provide suggestion and recommendation to improve investment policy and practices, its problems and way to solve some problems on the basis of the study.

1.4 Significance of the Study

This study " Investment Policy and practices of Rastriya Banijya Bank Ltd" of Government commercial bank of RBB deserve some importance in this field which provide a useful feedback for academic institutions, bank employees, trainees and investor and also for financial person, Policy-making bodies banks. This study will serve to be a guide to the management of banks financial institutions, related parties, shareholders, general public (customers, depositors, creditors and students) etc. the main focus of the study will be to highlight the investment policies and practices of commercial banks expecting that the study can be bridge the gap between deposits and investment policies on the other hand, the study would provide information to management of the bank that would help to take collective action. Further from the shareholders would get information to make decision while making investment on shares of various banks.

1.5 Limitations of the Study

This study attempts to evaluate the investment policies and practices of Nepal Rastriya Banijya Bank limited. Every study or research is always accompanied by some natural limitation and as such this study has following limitations:

1. This study is mainly based on secondary data.
2. Non-availability of the various reference or sources act as constraints for the study.
3. Time and money are also constraints for the study.
4. The whole study is based on the data of five years period (i.e. F/Y 2007/08 to 2011/12).
5. The study focuses on investment aspects of banking performance only.
6. In this study only selected tools and technique are used.

1.6 Organization of the Study

This study is divided into five different chapters. The titles of each chapter are as follows:

A. Introduction:-

The first chapter is introduction chapter, which includes general background, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of overall study.

B. Review of literature:-

The second chapter deals with the review of literature in the field of the study being conducted. It contains conceptual framework and the other section contains the review if related studies such as conceptual framework, review of legislative provisions, review of previous studies(review of articles and review of thesis).

C. Research methodology:-

The third chapter includes the research methodology adopted to achieve the purpose of the study which includes research design; sources of data, method of data collection financial and statistical tools used to analysis the data research variables etc.

D. presentation and analysis of data:-

The fourth chapter relates to the analysis and presentation of data collected through the various sources. There are many financial and statistical tools are used like current ratio, liquidity ratio, asset management ratio, profitability ratio and risk ratio. Similarly mean, median, correlation and regression are also calculated.

E. summary, conclusion and recommendation:-

The last chapter deals with the summary, conclusion and recommendation. The bibliography and glossary have been submitted at the end of the study paper.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature is an essential part of all the studies because this chapter has the main sources of information related with the study. In this chapter all those studies related to this thesis works are categorized into two parts, first conceptual framework which covers the area of the research work and theoretical concepts developed by various scholars' and writers. The second part refers review of relates studies. It includes review of empirical studies review of articles and review of thesis. All the review literatures have been presented orderly as follows:

2.1 Conceptual Framework

2.1.1 Commercial Bank

Commercial bank is a financial institution that provides services such as accepting deposits and giving business loans. Commercial banks are the major components in the financial system. Commercial Bank Act 2031 B.S. of Nepal has defined that " A commercial bank is one which exchange money, deposit money, accepts deposit, grant loans and performs commercial banking functions and which is not a bank means for cooperative, agriculture, industries or for such specific purposes."

The central bank is the bank that works as the leader of the money market. It is the chief of all banks operating in the country. It supervises and regulates and controls the functions of the commercial banks and other financial institutions. The central bank also works as the bankers to the government and advises the government on several matters. It is the only organization that monitors the whole economy of the country. Therefore, central bank is an important financial institution in every sovereign independent country in the modern times. It is the apex of economy's banking system. Central bank is the central arch of the monetary and fiscal framework in every country of the world and its function is indispensable for proper functioning of the economy and fiscal operation of the government *(Vaidya, 1999)*

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No functions are more important to the economy and it's constituted than financing. Banking assists both the flow of goods and service from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and is in important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy.

2.1.2 Investment

Investment is a word which sounds good and prestigious. There is always a risk and return in investment. It is said that higher risk gives high return and vice versa but it is not always true. Investment means to sacrifice current rupee in the present and certain for the future rupees, which comes later and is uncertain too. Investment may be defined as the purchase by an individual or the institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period *(Amling, 1994).*

But the word investment covers a wide range of activities. It is not possible without adequate saving. There will be no investment if all the income is consumed to solve the basic needs. Therefore both saving and investment are interrelated. Saving is forgone consumption and investment is restricted to real investment of the sorts and increase output in the future.

Investment means to manage the surplus resources in such a way that it maximizes the investor's wealth. Investment is a procedural task and should follow definite process. It begins with the formulation of policy. Policy is a course of future plan action which is proposed to adopt regarding a particular field of activities. Investment policy may be different according to the objectives and nature of the organization. It must be balanced as if risk and return characters and suggest investing in liquidity, profitable and safe sectors.

From the bank's management point of view, investment and return in income is the most important point of view. Commercial bank gives more emphasis in short term loan rather than long term projects. It is because they want securities for their investment. Unsecured loan and investment may cause the liquidation of the bank. Investment helps in economic growth and nation's wealth. People deposit their surplus money in banks and banks lend those funds to various business and companies. These firms may invest in new factories and equipments to increase their production. This raises the living standard of the nations. The World Book Encyclopedia, "Investment buy individual, business and government involve a present sacrifice of income to get an expected future, benefit and investment raises national standard of living."

2.1.3 Investment Policy

A bank is a legal person which cannot do anything alone. Central bank is established without the aim of gaining profit. But commercial banks are inspired with the objective of earning profit and helping economic development and to take social responsibility. For to be successful it should have the ability to use the policy of banking investment and to implement it much more carefully.

Here are some of the investment policies:-

a. Principle of Liquidity.
b. Principle of Profitability
c. Principle of safety
d. Principle of Diversification
e. Principle of National Interest
f. Principle of Marketability
g. Principle of Legality
h. Principle of Tangibility

2.1.4 Features of a Sound Lending

The income and profit of the banks depend upon its lending and investment policy of its fund in different sectors. The greater credit created by bank, the higher will be the profitability. A sound lending and investment policy is not only a prerequisite for the joint venture banks. Profitability but also crucially significant for the promotion of

commercial savings of a backward country like Nepal. Some required features of lending investment policies explained below.

a) **Safety and Security**

The joint venture banks should invest their fund in those securities, which are too safe and have security because a little difference may cause a great loss. Joint venture banks should accept that type of securities, which are commercial durable, marketable and high market price. In this case "STAM" should be applied for the investment where,

S = Stability	T = Transferability
A = Ascertain-ability	M = Marketability

b) Profitability

To maximize the return on investment and lending position, financial institution must invest their collection in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

c) Purpose of Loan

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

d) Legality

Every financial institution must follow the rules and regulation of the company, Government and various direction supplied by Nepal Rastra Bank. Ministry of Finance and on while issuing securities and mobilizing there fund illegal securities will bring out any problems to the investor. Lastly, the reputation and good will of the firm may be lost.

e) Liquidity

Bank collects deposit thorough different types of account, which are repayable, when depositors demand. To fulfill this option, bank must keep this point in mind while investing in different securities or at the time of lending. So that it can meet the current or short-term obligation whenever they are due for payment.

f) Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.1.5 Sources of funds for the investment

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

A) Capital

Capital is the lifeblood of the trade and commerce. Therefore, capital is needed for the operation of the bank as in other business. So, far as that fund, it is only nominal source. So it can be used for the investment purpose. The capital fund consists the following elements:

- **Issuing shares:**

  Bank 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 share, the bank can increase its capital.

- Gen**eral reserves:**

  Reserves are kept by the bank separated from the profit. This reserve is also invested in the times 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 take up the accumulated profit to invest. In the time of contingency also, the bank invests its accumulated profit for recovering its future loss.

C) Deposits

Deposits are the main source of funds. By providing certain rate of interest, commercial bank calls for the deposit from customer. Mainly, three types of 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 agriculture, productive work, trade and industry. The deposits will lead to increase the working capital of the bank.

D) External and internal borrowing

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 bank may not have sufficient fund to invest in different sector. In that case, it has to borrow from other bank or other economic institution. Generally, the commercial bank borrows from two sources i.e. external and internal. In general, external borrowing means the borrowing from foreign banks and foreign government. Internally the commercial banks borrow mainly from Nepal Rastra Bank. Therefore, the commercial bank cannot provide loan or investment without the funds. From the above different source of fund, the commercial bank grants loan.

2.1.6 Meaning of Some Important Terminology

Assets

Assets are the valuable and important properties of the firm and represent economic resources. All the assets should be measured in monetary term, which help to earn future benefits to on organization such as: building, debtors, marketable securities, goodwill, patents etc. in the firms; there may be tangible intangible assets as well as fixed assets and current assets to run the activities properly and for the smooth operation.

Advances

Amount of money, which are paid or lent before data expiration is called advances. It is the sum of amount which was prepaid and treated as assets, will be returned in future and expired the date in future.

Balance Sheet

Balance sheet is a financial statement, which is prepared at the end of each accounting year, which contains assets liabilities, owner share capital. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, viz. (i) the nature and value of assets, (ii) the nature and value of liability, and (iii) the position of capital.

Bond

A bond is the source long term financing or long term promissory note issued by an organization under which borrower agrees to pay interest as well as principle on specific data to the lender. It is of two types: i.e. mortgage bond and debenture bond.

Deposit

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

Liquidity Position

It is the states of owing things of value that can easily be changed into cash. Liquid assets determine the liquidity position of the organization and higher the liquid assets better the liquidity position.

Share

The part of capital owned by a shareholder is called share. These shares are transferable in nature. Thus, any person can be the member of the company by purchasing the certificates of investment on company and could with draw his/her membership by transferring his/her shares. In joint stock Company, total amount of capital is divided into number of shares through which company can collect capital.

Interest

Interest is that additional sure of money changed on borrowings or paid to someone who borrows money from the bands or other financial institutions or moneylenders. It is an opportunity cost on sacrificing the saving from own state for certain period.

Securities

Securities are the main sources of long term financing, which involve shares, and debentures issued by the company or government and redeemed in future with interest.

Income Statement

It is a statement, which summarizes and provides the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and selling and distribution the goods for the particular accounting period which gives the amount of net profit.

Retained Earning

It is the certain portion of the firm's earnings, which is kept for the future use or contingencies. It is an internal source of financing.

Variance

The square of standard deviation is called variance they may be denoted by 'σ^2'. It is one of the statistical tools, which is used to analyze data for this study.

Standard Deviation

Standard deviation is the positive square root of the mean of the deviations taken from the arithmetic mean, which measures the variability of a set of observations, it can be denoted by 'σ'.

Co-efficient of Variations

Co-efficient of variation (C.V.) is the proportion of standard deviation with mean and multiplied by 100. It can be defined by:

$$C.V = \frac{\sigma}{\overline{X}} \times 100$$

Mean

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted by X. The formula is,

$$\overline{X} = \frac{\Sigma X}{N}$$

Correlation

Correlation is one of the statistical tools, which represent the relationship between or among the variables, which does not explain the causes and effects of the change of variables. It explains that two variables are correlated if the changed in one variable results in a corresponding change in the others. It can be categorized into two groups' i.e. Positive correlation and Negative correlation. Correlation Coefficient can be written as:

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

Ratio Analysis

The relationship between two accounting figures expressed in mathematical manner is called a financial ratio. Ratio analysis is used to compare and analyzed as well as interpret a firm's financial performance qualitative judgment regarding with financial performance of a firm. Only the following ratios of selected firms are calculated and analyzed for this study on investment policy.

a) Liquidity Ratio b) Asset Management Ratio

c) Profitability Ratio d) Growth Ratio

Loan & Advances

Loan & advances and overdraft are the main sources of income for a firm. Bank deposits can be crossed beyond a desired level but the level of loan & advances and overdraft will never cross it. Commercial banks and other financial institution may take more preferential collateral while granting loan & advances. Some portion of loan & advances and overdrafts included that amount which is given to staffs of the banks as home loan, personal loan and others.

2.2 Investment Related Provision to Financial Institutions

Nepal Rastra Bank has made following provisions through its unified directives 2069 for financial institutions:

a) Implementation of Investment Policy and Procedures upon Approval

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

b) Provision for Investment in Government of Nepal Securities and Nepal Rastra Bank Bonds

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

c) Provisions for Investment in Shares and Debenture of Corporate Bodies

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

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

body that where such company is not listed in stock exchange within two years from the date of operation or investment being made, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve. However, no Investment Adjustment Reserve is required to be created in case of investment in shares of Rural Development Bank, Rural Micro Finance Development Centre, Credit Information Centre Ltd., Nepal Clearing House Ltd. and National Banking Training Institute.

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

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

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

the purpose of calculation of the capital fund, shall be deducted from the Core capital fund.

d) Provision for Review of Investment Portfolios

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

e) Valuation of Shares and Debentures

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

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

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

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

(a) Entire pre-operating expenses of the bank/financial institution is written off.

(b) The first general meeting is completed upon issue of shares to general public as prescribed in the Memorandum of Association/Articles of Association.

(c) The institution is in profit continuously 2 years at the time of purchase of the Property.

(d) The capital fund is adequate according to the Directives issued by this Bank.

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

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

g) Additional Arrangement Regarding Investment

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

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

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

2.3 Review of previous Studies

2.3.1 Review of Articles

Morris (1990), in his dissertation paper "*Latin America's Banking system in the 1980"*, has concluded that most of the banks concentrated on compliance with central bank rules on research requirements, credit allocations and interest rates. while analyzing loan portfolio, operating efficiency and soundness of bank investment management has largely been overlooked. The huge losses now found in bank's portfolio in many developing countries are testimony to the poor quality of this oversight investment function.

He further adds that mismanagement in financial institutions has involved inadequate and over optimistic loan appraisal , lower loan recovery, high risk diversification of lending and investment, high risk concentrations, connected and insider lending, loan mismatching etc. this has lead many banks of developing countries to the failure in 1980.

Bajracharya (1990), In his article *"Monetary Policy and Deposit Mobilization in Nepal",* has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal and commercial banks are the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Kishi (1996), In his article , "*The Changing Face of Banking Sector and the HMG/N Recent Budgetary Policy",* concluded that following an introduction of the reform in the banking sectors as an integrate part of the liberal economy policy, more bands and finance companies have come up as a well come measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Ltd. and Rsatriya Banijya Bank have also shown an improvement of non-performing loans and are taking steps to adopt improved technologies . However , higher economic growth with social justice bringing an significant benefit to the poor are yet to be achieved as envisaged by the HMG/ N.

Shrestha (1998) in her article, *"Lending Operation of Commercial Banks of Nepal and Its Impact on GDP",* has presented with the objectives to make an analyses of contribution of commercial bank's lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology she has considered GDPas the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service and general and social sectors as the independent variables. A multiple regression technique has been applied to analyze the contributing. The multiple regression analysis has shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e, there has been positive

impact on GDP. She accepted that there has been positive impact by the lending of commercial banks in various sectors of economy, except services sector investment.

Shrestha (1998), in his article "*A Study on Deposit and Credit of Commercial Bank in Nepal",* concluded that in Nepal, the credit deposit ratio would be 51.30% other things remaining the same. It was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering few fields as far as possible; otherwise they might not be able to absorb even the total expenses.

Chopra (1999), in his article *"Role of Foreign Banks in Nepal"* has conducted the joint venture banks playing on increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

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 resource in the form of deposit of the private sector so far providing credit to the investors in different aspect of the economy.

Panthi (2061), highlights on his article entitled "*The Importance of Human Resource Management"* published in souvenir of RBB where the banking services are onlmade by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straight way of identifying workforce requirement recruiting-selecting-placing-promoting-appraising-training and retirement.

Pradhan (2003), in his research paper "*Role of Saving Investment and Capital Formation in Economic Development: A Case of Nepal"* has studied about the strong role and impact of

saving, investment capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has 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 in to different sub period.

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

Mahat (2004) published on The Kathmandu Post daily of 28th April 2004 entitled *"Efficient Banking"* by, in his article he has accomplished, the efficiency of banks can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

Mahat, the analysis of operational efficiency of banks will help one in understanding the extant of vulnerability of banks under the changed scenario and deciding whom to bank upon. This may also help the inefficient banks to upgrade their efficiency and be winner in the situations developing due to slowdown in the economy. The regulators should also be

concerned on the fact that the banks with unfavorable ratio may bring catastrophe in the banking industry.

Pradhan (2005), has pointed out some of major issues on local Commercial banks in recently established Joint venture banks, through his article, *"Nepal Banijya Bank, Upalabdhe Tatha Chunauti"*. The study deals with the whole loss system of Nepal in respect of their performance and profitability. Some of his finding relevant to his study is summarized below;

- The deposit collection rate of local banks is very poor in comparisons to joint venture banks.
- The patterns of deposits are also different between these banks the rate of current deposit in local banks is 9.34% only where as in the same joint venture banks is 52.6%, but fixed deposit ratio is very high in local banks.

Sharane (2006) in his article *"A Study of Joint Venture Banks in Nepal, co- existing and growing out"* that it is very much beneficial for Nepalese to let joint venture banks to enhance the development of local Commercial banks. But the government should charge cost to joint venture banks than the local commercial banks. He suggested to Nepal government to treat equally to joint venture banks and local banks, both types of banks will co- exist complementing each other and contribution the national accelerated development.

2.3.2 Review of Thesis

Many researchers have published their research article about the investment policy in Nepal. There are many thesis that have been conducted by students regarding the various aspects of commercial banks and financial institution as supposed to be relevant for the study a presented below.

Shrestha (2004) in her study "*A comparative study on Investment Policy of Joint Venture Banks"* has studied primarily of four Commercial banks i.e. Himalayan Bank Ltd., Nepal SBI Bank Ltd., Everest Bank Ltd. and Bank of Kathmandu Ltd (BOKL). The main objectives of her studies were as follows;

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

The study was limited on four commercial banks and the study period is up to FY 2002/03 and can not define the investment policy of other Commercial banks.
The conclusions of the research study were as follows:

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

Dhital (2005) in his thesis work *"A comparative study of investment policy of Standard Chartered Bank Nepal Ltd. and Bank of Kathmandu Ltd*., tried to evaluate the liquidity, assets management, profitability and risk position of the concerned banks-along with its deposit utilization trend.

His study period is limited to 2003/04 and can not represent the investment policy of succeeding years. He has not analyzed the risk factors and his study focuses on two banks only and cannot analyze the investment policy of commercial banks and finance companies.
The findings of his studies were:

- The liquidity position of BOKL was far better than SCBNL although they both were doing quite satisfaction.
- Most of the portion of deposit of SCBNL was in investment where as BOKL has in loan and advances.
- BOKL had high degree of liquidity and credit risk than SCBNL.

Profitability position of SCBNL was better than BOKL. He presented the following suggestions:

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

Shrestha (2005), prepared a thesis report on "*investment policy of SCBL."* His objectives of studies were as follows:

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

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

The study primarily forces on the analysis of liquidity, profitability and assets management, various financial and statistical tools have been used to obtain these objectives tools are mean, standard deviation co-efficient of co-relation, coefficient of variation, co-efficient of determination and trend analysis. The study is limited up to five years data from 1999 A.D. to 2004 A.D. Only one bank has been taken as sampled bank. So it might not have a true picture of the overall conditions of the bank. Following were the conclusions of his study.

Liquidity position of the bank is good enough to meet the short term obligations. The bank has utilized about 85% of its deposit liquidity in income generating assets and most of them in the form of loans and advances and it has invested 71% of its total assets for

income generating purpose profitability ratio are more constants and less volatile as a result of profitability of the bank in increasing.

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

Amatya (2006), in his research study entitled. *"A Comparative study on Investment Policy of Commercial Bank and Finance Companies of Nepal"*, has pointed out the followings objectives:

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

The study was based on secondary data *and.* time period is limited of 9 years from 1996/97 to 2004/05. His study had mentioned only three Banks and three finance companies.

The conclusions of the study were as follows:

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

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

He has made the following recommendation:

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

Silwal (2007) had conducted a study on "*Lending Policy of Commercial Banks in Nepal."* The research was conducted mainly on the basis of secondary data. The findings of the research study summarized as follows:

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

Bhatta (2008) conducted a study on *"A Comparative Study of Investment Policy of Nepal Investment Bank Ltd. and Himalayan Bank Ltd"* with objective of:-

a. To compare investment policies of concern banks and discuss the fund mobilization of these two banks

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

The study was conducted through secondary data.

The research findings of the study were as follows:-

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

Basnet (2009) conducted a study on *"Investment Policy of Commercial Banks in Nepal",* with objective of:-

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

  The study was conducted through secondary data.

The research findings of the study were as follows:-

- Current Assets dominated current liabilities. It means both banks are able to meet its current obligation.
- BOKL & EBL had maintained almost equal level of cash and bank balance out of its total deposit.
- Assets management ratios are almost equal of both Banks. EBL is investing higher risk than BOKL.
- Investment on government security was higher of EBL than that of BOKL.
- BOKL had high profitability ratio than that of EBL. BOKL has been exercising more to generate profit through mobilizing its assets than EBL.

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

CHAPTER - III
RESEARCH METHODOLOGY

Research methodology is the way to solve systematically about the research problem, which includes many techniques and tools, as it is necessary for every study. Research methodology can be defined as "A systematic process that is adopted by the researcher in studying a problem with certain objective in view." In another words, research methodology are those methods which are used by the researcher during the course of studying the research problem.

3.1 Research Design

Research design is necessary for each research work. It is the plan, strategy, investigation conceived so as to obtain answer to reach questions and to control variances. This study depends on the secondary data. It includes all process of collecting verifying and evaluating of past evidence systematically and objectively to reach conclusion. Some statistical and accounting tools have been adopted to examine facts in this study and descriptive and analytical research design also has been used. "A research design is the arrangement conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." Chaire:selliz and others,(1967;261). The research design being adopted for this study is exploratory and analytical in nature.

3.2 Population and Sample

There are all together 31 commercial banks in Nepal, among them only Rastriya Banijya Bank (RBB) have been taken into account for research purposes as samples in this study to analyze its investment policy and practices.

3.3 Data Collection Techniques

Data are collected from two sources i.e. primary and secondary sources. However, for this research purpose, only secondary sources have been employed.

ii) Secondary Sources

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used form published sources used by someone previously. The secondary sources of data are balance sheet; P&L account of concerned banks; annual report and literature publication of the concerned bank has been furnished for this project study. Some supplementary data and information have been collected from the authoritative sources like Annual General Report of RBB, Nepal Rastra Bank, Mechi Multiple Campus Library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, internet and websites, different journals, Magazines and other published and unpublished reports documented by the authorities.

The data for the study are collected from record available, security board and annual reports of concerned banks. The various stock exchange publications formed an important supplementary source of the data for this project study, particularly on investment policy. The data is collection of raw information taken in stateside manner. The data are prerequisites of any project study. The data collection details the labors and time and it is the most necessary step in project study without the study cannot be done.

3.4 Data Analysis Tools

This study needs some financial and statistical tools to accomplish the objectives of this study. The financial and statistical tools are most reliable. To achieve the objective of the study, various financial statistical and accounting tools have been used in this study.

1. Financial tools and
2. Statistical tools.

1. Financial Tools

Financial tools basically help to analyze the strength and weakness of a firm. Ratio analysis is one of the important financial tools has been used in the study. It helps to show the mathematical relationship between two accounting items or figures. Ratio analysis is the only two that can collect the financial performance and status of a firm with other firms. Although, there are various types of ratios to analyzed and interpret the

financial statement only four ratios have been taken in the study, which are mainly related to investment policy of banks. They are as follows:

A. Liquidity Ratio

i. Current ratio
ii. Cash & bank balance to total deposit ratio
iii. Cash & bank balance to current asset ratio
iv. Investment on Government securities to current asset ratio

I. Current Ratio

It refers to the relationship between current assets and current liabilities of a firm that also measures the short-term solvency of the firm. Current assets involve cash and bank balance, money at call or short, loans & advances, investment on government securities and others interest receivables, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and other miscellaneous current liabilities.

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

The widely accepted slandered of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business.

ii. Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid current assets of firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

$$\text{Cash and Bank Balance to Total Deposit} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

iii. Cash and Bank Balance to Current Asset Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be presented as,

$$\text{Cash and Bank Balance to Current Asset Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

iv. Investment on Government Securities to Current Asset Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows,

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

B. Asset Management Ratio

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to investment policy are calculated under asset management ratio and interpretations are made by these calculations.

i. Loan & Advances to total deposit ratio
ii. Loan & Advances to total working fund ratio
iii. Total investment to total deposit ratio
iv. Investment on Government securities to total working fund ratio
v. Investment on shares & debentures to total working fund ratio

i. Loan & Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on loan & advances for the

purpose of earning profit. Greater ratio shows the better utilization of total deposits this ratio can be obtained dividing loan & advances by total deposits, which can be shown as,

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

ii. Loan & Advances to Total Working Fund Ratio

The main element of total working fund is loan & advances. This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan & advances. Loan & advances to total working fund can be obtained dividing loan & advances amount by total working fund. That is formulized as,

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

Where, total working fund include 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 of guarantee etc.

iii. Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning income. This ratio indicates how properly firms' deposits have been invested on government securities and shares and debenture of other companies. This ratio can be computed diving total amount of investment by total amount deposit collection, which can be shown as,

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

iv. Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by;

Investment on Government Securities to Total Working Fund Ratio

$$= \frac{\text{Investment on Government Securities}}{\text{Total working Fund}}$$

v.Investment on Shares & Debentures to Total Working Fund Ratio

Investment on shares and dentures to total working fund ratio shows the investment of banks and finance companies on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. That van be calculates as,

Investment on Share & Debenture to Total Working Fund Ratio

$$= \frac{\text{Investment on Share \& } Debenture}{\text{Total Working Fund}}$$

Where, total investment includes investment on government securities, investment on debenture and bands, shares of other companies.

C. Profitability Ratios

Profitability ratios are used to indicate and measure the overall efficiency of a firm in term of profit and financial position and performance of any institution. For better financial performance, profitability ratios of firms should be higher. Profitability position of the firms can be presented though the following different ways:

i. Return on total assets (Total working fund)
ii. Return on loan & advances ratio
iii. Total interest earned to total working fund ratio
iv. Interest earned to total operating income ratio
v. Total interest paid to total working fund ratio

i. Return on Total Assets (Total Working Fund)

Return on total assets ratio measures the profitability position of the selected banks and finance companies in comparison with total assets of those selected firms. It is calculated dividing return or net profit (loss) by total working fund and can expressed as,

$$\text{Return on Total Assets} = \frac{\text{Net Profit (Loss)}}{\text{Total Assets}}$$

ii. Return on Loan & Advances Ratio

Return on loan & advances ratio shows how efficiently the banks and the finance companies have utilized their resources to earn good return from provided loan & advances. This ratio is computed dividing net profit (loss) by the total amount of loan & advances and can be mentioned as,

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Total Loan \& } Advances}$$

iii. Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working ratio is calculated to find the percentage of interest earned to total assets. Higher ratio indicates the better performance of financial institutions in the form of interest earning on its working fund. This ratio is calculated divining total interest earned from investment by total working fund and is mentioned as below,

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

iv. Interest Earned to Total Operating Income Ratio

Interest earned to total operating income ratio is calculated to find out the ratio of interest income with operating income of financial institutions. This ratio indicates how efficiently the selected banks and finance companies have mobilized their resources to bear the interest on total operating income and can be stated a,

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

v. Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa.

This ratio is calculated by dividing total interest paid by total working fund. The following table shows the total interest paid to total working fund ratio of NRBB.

D. Risk Ratios

Risk means uncertainty, which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm increases. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interpret the financial data and investment policy.

i. Liquidity risk ratio

ii. Credit risk ratio

i. Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is the indicator of bank liquidity needed.

The risk is low if funds are kept idle as cash and bank balance. But this reduces profitability. When bank flow loan, it's profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank and vice-versa. This ratio is calculated by dividing cash and bank balances to total deposit.

ii. Credit Risk Ratio

Credit risk ratio helps to check the probability of loan non-repayment or the possibility of loan to go into default. Credit risk ratio is calculated in percentage dividing total loan & advances by total assets and is expressed as,

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

E. Growth Ratios

Here, the growth ratios represent how well the commercial banks are maintaining their economic and financial condition. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growth of the

selected banks the following growth ratios is calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

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

2. Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as correlation coefficient analysis, standard deviation coefficient of variance least square linear trend. The basic statistical analysis related to this study is given below:

i. Arithmetic Mean

Arithmetic mean is an average of a given set of data that is divided by the number of observation / years. The arithmetic mean (AM) is denoted by **X.**

In general, if x1, x2 …. Xn are the n observations, then their arithmetic means.

$$\overline{X} = \frac{X_1 + X_2 + \cdots + X_n}{n}$$

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

ii. Trend Analysis

There most popular and mathematical method of determining of time series is least square method. Here, using this least square method, it has been estimated the trend values of different variables. For the estimation of linear trend line follow formula has been used:-

$$\mathbf{Y = a + bx}$$

Where,

Y = Dependent

X= Independent Variable

a= intercept of the line

b= slope of the line (shows the average changes in the value of Y as a result of one change in the value of X)

The value of the constant **a** and **b** can be determined by solving the following two norm equations:-

$\Sigma Y = na + b\Sigma x$

$\Sigma XY = a\Sigma x + b\Sigma x^2$

By using this method, trend line can be obtained:-

iii. Standard Deviation (S.D.)

The absolute dispersion is measured by standard deviation. The higher the value of standard deviation, the higher the variability and lower the value of standard deviation lower the variability. The concept of standard deviation was introduced by Karl Person in 1823. It is denoted by small Greek letter σ (read as sigma). Standard deviation is calculated with the help of the following formula:-

$$\sigma = \frac{\Sigma X^2}{N}$$

Where,

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

i. Karl Pearson's Correlation Co-efficient Analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyzes the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund utilization through providing loan & advances or investment on other companies. Karl Pearson's co-efficient of correlation has been used to find out the relationship between the following variables.

i. Co-efficient of correlation between deposit and loan & advances.
ii. Co-efficient of correlation between deposit and total investment.
iii. Co-efficient of correlation between outside assets and net profit.

Simply Karl Pearson's correlation co-efficient (r) can be obtained as;

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

Where,

n = number of observation in series X & Y

ΣX = Sum of observation in series X

ΣY = Sum of observation in series Y

ΣX^2 = Sum of squares of observation in series X

ΣY^2 = Sum of squares of observation in series Y

ΣXY = Sum of product of observation in series X & Y

b. Trend Analysis

This type of statistical analysis interprets the trend of deposits, loan & advances, investments and net profit of NBBL and EBL from 1998/99 to 2002/03. It is necessary to calculate the forecasting for next five years till 2007/08.

The following trend analysis has been used in this study.

i. Trend analysis of total deposits.
ii. Trend analysis of loan & advances.
iii. Trend analysis of total investment.
iv. Trend analysis of net profit.

CHAPTER- IV
DATA PRESENTATION AND ANALYSIS

4.1 Data Presentations and Analysis

This is analytical chapter where the researcher has analyzed and evaluated those major financial items, which mainly affect the investment management and fund mobilization of RBB. There are many types of financial ratios but those ratios are calculated and analyzed which are very important to evaluate fund mobilization of commercial bank.

4.1.1 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used with the help of it, data has been analyzed.

Under this chapter various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of RBB. Study of all types of ratios is not done. Only those ratios that are important from the point of view of the fund mobilization and investment are calculated. The important ratios that are studied for this purpose are given below:

A. Liquidity ratio
B. Asset management ratio
C. Profitability ratio
D. Performance ratio
E. Risk ratio

4.1.1.1 Liquidity Ratios

Commercial banks collects the fund from community with commitment of return their money when they demand it. So they must maintain its sufficient liquidity position to fulfill that commitment of return depositor's deposit, withdraw, and convert non-cash

assets to cash to satisfy immediate needs without any loss to bank and consequent impact on long-run profit. Under liquidity ratios following are calculated:

4.1.1.1.1 Current Ratio

Current ratio indicates the ability of the bank to meet its current obligation. It measures the liquidity position of financial institutions. Current ratio is calculated dividing current assets by current liabilities. The current ratio of RBB is given bellow in table.

Table 4.1

Current Ratio (Times)

(Rs. millions)

F/Y	Current Asset	Current Liability	Ratio	%change Ratio
2007/08	19128	29789	0.64	-
2008/09	29630	8045	3.68	475
2009/10	33579	10881	3.08	-16.30
2010/11	46388	15182	3.05	-0.97
2011/12	54465	17165	3.17	3.93
Mean	**-**	**-**	**2.72**	
S.D.			**1.19**	
C.V. (%)			**43.81**	

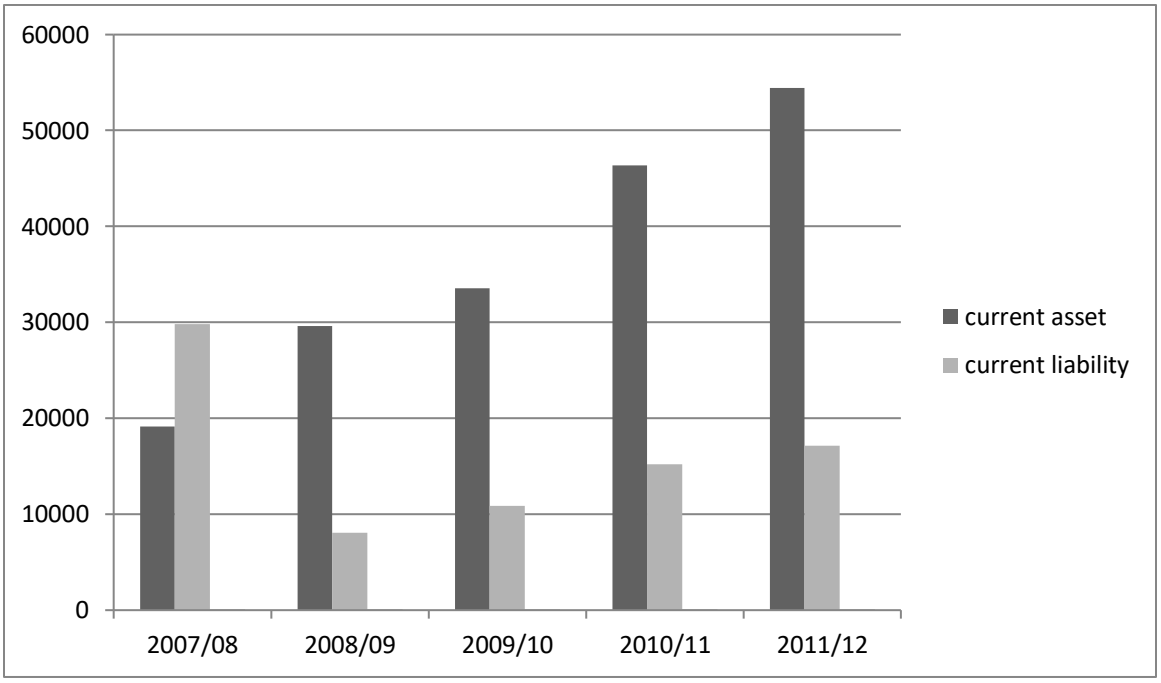
(Source: Appendix -1)

From the above table it is clear that current asset of RBB is some time more and some time less than current liabilities. The comparative table has revealed that current ratios of RBB has fluctuating trend through the study period.

The table shows that the highest ratio is in F/Y 2008/09 i.e., 3.68 times and lowest ratio is in F/Y 2007/08 i.e. 0.64 times. The figure shows the ratio is in fluctuating trend between less than 0.64 to more than 3 times. The above table can show following multiple bar diagram:

Figure A

Diagrammatic presentation in multiple bar diagram



The average ratio(mean) is 2.72 times. It is good liquidity condition. The coefficient of variation of current ratio is 43%. The percentage change ration is more negative fluctuation. The lowest percentage change ratio is -0.97 and highest ratio is 475 percent.

In conclusion, the current ratio is 2:1 is best for obligation. In starting F/Y the bank had loose the current obligations then afterwards bank maintained the ratio more than 2 times, which is higher safety margin.

4.1.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance consist of cash on hand, foreign exchange in hand, cheques and other cash items, balance with domestic banks. These ratio measures the availability of bank's highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. This ratio is calculated as:

Cash and Bank Balance to Total Deposit Ratio = $\frac{\text{Cash \& } Bank\ Balance}{\text{Total Deposit}}$

As high ratio indicates the greater ability to meet there deposits and vice - versa. The following table shows the cash and bank balance to total deposit ratio of RBB.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio (Times)

F/Y	Cash and Bank Balance	Total Deposit	Ratio	%change Ratio
2007/08	5553	43016	0.13	
2008/09	5229	46195	0.11	-15.38
2009/10	5934	57971	0.10	-9.09
2010/11	9269	68096	0.13	30
2011/12	8714	75255	0.12	-7.6
Mean			**0.12**	
S.D.			**0.0013**	
C.V. (%)			**10.87%**	

(Source: Appendix -1)

Above table shows that the comparative cash and bank balance to total deposit ratio, which is in fluctuating trend. The higher ratio is 0.13 times in F/Y 2007/08 and lowest ratio is 0.10 times in F/Y 2009/10. The mean ratio is 0.12 times. The coefficient of variation is 10.87%..

The above analysis help to concludes that the cash and bank balance of RBB is good condition because of average figure is 0.12 times.

The high ratio of non earning cash and bank balance may be unfit which indicates the banks inability to invest its funds in income generation area. The bank may invest in more productive sectors like short term marketable securities, treasury bills etc. insuring enough liquidity which will help the bank to improve its profitability.

4.1.1.1.3 Cash and Bank Balance to Current Assets Ratio

This ratio shows the banks liquidity capacity on the basis of each and bank balance that is the most liquid asset. High ratio indicates the bank's ability to meet the daily cash requirement of their customer deposit and vice versa. But high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash & bank balance to current asset ratio in such a manner that it should have the adequate cash for the customers demand against deposit when required, and less interest is required to be paid against the cash deposit.

We have,

Cash & Bank Balance to Current Assets Ratio = $\frac{\text{Cash \& } Bank\ Balances}{\text{Current Assets}}$

Table 4.3

Cash & Bank Balance to Current Assets Ratio (Times)

F/Y	Cash and Bank Balance	Current Assets	Ratio	%Change in Ratio
2007/08	5553	19128	0.29	
2008/09	5229	29630	0.18	-37.93
2009/10	5934	33579	0.18	0
2010/11	9269	46388	0.20	11.11
2011/12	8714	54465	0.16	-20
Mean			**0.20**	
S.D.			**0.058**	
C.V. (%)			**29.28**	

(Source: Appendix -1)

From the above table it is clear that ca from the above table it is clear that cash & bank balance to current asset ratios of RBB has a fluctuating trend. The bank has higher ratio in F/Y 2007/08 i.e, 0.29 and lower ratio is in F/Y 2011/12, i.e, 0.16 times.

The average ratio is 0.20 and c.v. is 29.28 %. The percentage change ratio is more fluctuation between negative and positive ratio.

In conclusion the bank maintained the cash balance which is daily requirement to make the payment on customer on customer's deposit. Bank may be has to invest their fund in more productive area.

4.1.1.1.4 Investment on Government Securities to Current Assets Ratio

This ratio examine that portion of commercial banks current assets, which invested on different bank is interest to invest their collected fund on different types of securities issued by government in different times to utilize their excess funds and have for other purpose. Though government securities are not so liquid as cash balance of a commercial bank, they can be easily sold in the market or they can be converted into cash in other ways.

This ratio shows that out of total current assets, how much percentage f it has been occupied by the investment on government securities. This ratio is computed by dividing investment on GOVT. presents in the following table.

Investment on Gov Securities to Current Assets Ratio = $\frac{\text{Investment on Gov Securities}}{\text{Current Assets}}$

Table 4.4

Investment in Government Securities to Current Assets Ratio (Times)

F/Y	Investment on Gov Securities	Current Assets	Ratio	% Change in Ratio
2007/08	8416	19128	0.44	
2008/09	11555	29630	0.39	-11.4
2009/10	14543	33579	0.43	10.3
2010/11	15643	46388	0.34	-21
2011/12	16801	54465	0.31	-8.8
Mean			**0.38**	
S.D.			**0.56**	
C.V. (%)			**14.82%**	

(Source: Appendix -1)

The information of table shows the ratio is more fluctuation trend. The highest ratio is in F/Y 2007/08 i.e. 0.44 times & lowest ratio is in F/Y 2011/12 i.e. 0.31 times. The average

ratio is 0.38 and S.D is 0.56 times. The coefficient of variance is 14.82%. The percentage change ratio is more fluctuation.

In conclusion, the bank invests 38% of current assets invest on the government securities, which is risk free investment. It is also short term investment. In financial term higher the risk higher the profit vice versa.

Above information shows that RBB higher part of investment on government securities because of government bank or the management team followed higher liquidity position for daily requirement of depositors or customers.

4.1.1.2 Asset Management Ratio

Asset management ratio measure the efficiency of the bank to manager its asset in profitable and satisfactory manner. A commercial bank must manager its asset properly earn high profit. Under these chapters following ratios are studied.

1. Loan and advance to total deposit ratio.
2. Total investment to total deposit ratio.
3. Loan and advance to total working fund ratio.
4. Investment on government securities on total working fund ratio.

4.1.1.2.1 Loan and Advances to Total Deposit Ratio

This ratio actually measures the bank success to mobilize the deposit loan and advances for the purpose of profit generation.

A high ratio indicates better mobilization of collected deposit and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. This ratio is calculated dividing loan and advance by total deposits.

The following table shows the loan and advance to total deposit ratio of RBB throughout the study period.

Table 4.5

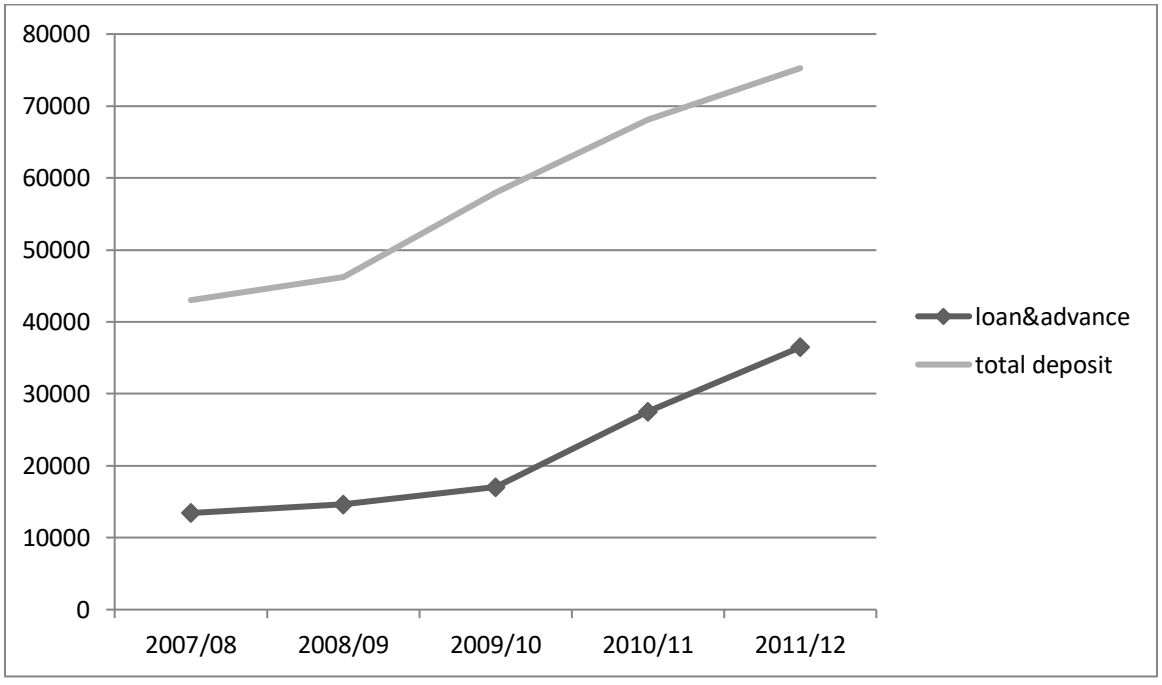
Loan & Advance to Total Deposit Ratio (Times)

F/Y	Loan &Advance	Total Deposit	Ratio	%change in ratio
2007/08	13431	43016	0.31	
2008/09	14634	46195	0.32	3.23
2009/10	17006	57971	0.34	6.25
2010/11	27525	68096	0.47	38.23
2011/12	36463	75255	0.49	4.26
Mean			**0.39**	
S.D.			**0.0867**	
C.V. (%)			**22.25%**	

(Source: Appendix-2)

Figure B

Analysis of Loan & Advance to Total Deposit Ratio.



The table list shows that, the ratio is fluctuation trend. It has highest ratio is in F/Y 2011/12 i.e. 0.49 times and lowest ratio is in F/Y 2007/08 i.e. 0.31 times. In other hand average ratio of loan and advance of RBB is 0.39 times .It means the bank seems to be

strong to mobilize its total deposit as loan & advance in only. The co-efficient of variance is 22.25%.

From the above information it can concluded the RBB is success to mobilize its total deposit as loan and advance acquiring high profit. Whereas, high ratio is not better from the point of view of liquidity as the loan advances is not as liquid as cash and bank balance. When grand loan and advances of bank, so many factors are to be considered, such as risk analysis, diversification, social responsibility, bank credit policy and limits of lending policy etc.

4.1.1.2.2 Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial or non- financial companies. Now efforts has been made to measure the extent to which the bank are successful in mobilizing the total deposit on investment.

In the process of portfolio management of bank various factors such as availability of fund, liquidity requirements, central bank norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

This ratio is calculated by :-

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

Table 4.6

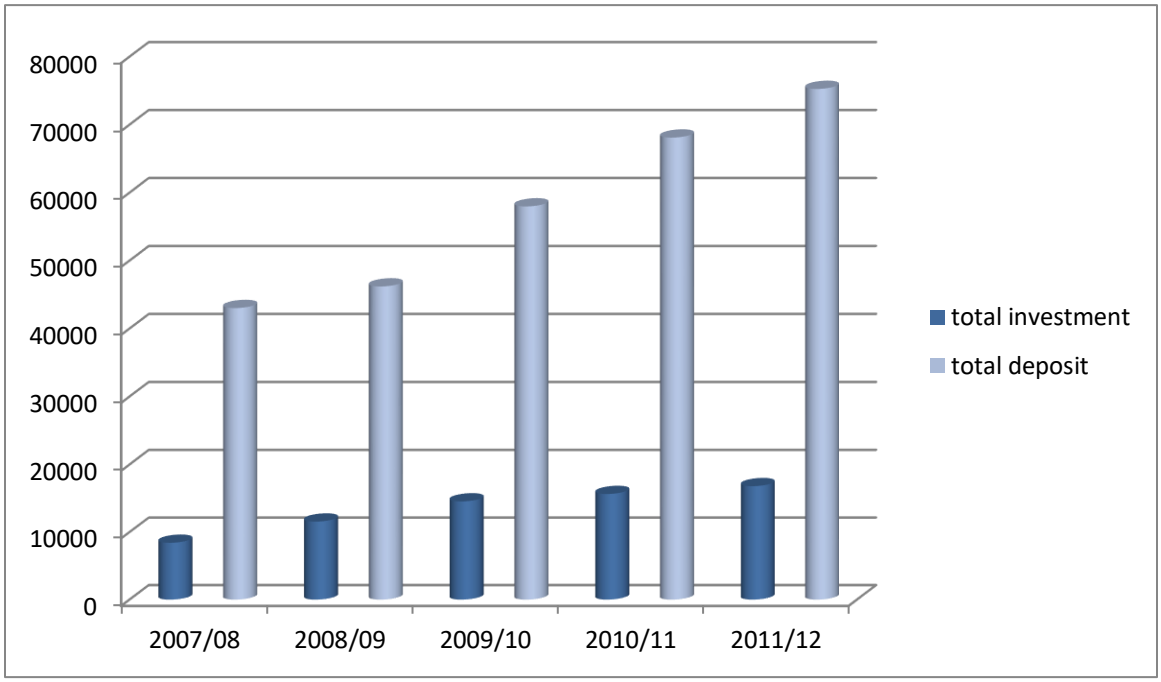
Total Investment to Total Deposit Ratio (%)

F/Y	Total Investment	Total Deposit	Ratio	%Change in Ratio
2007/08	8416	43016	0.20	
2008/09	11555	46195	0.25	25
2009/10	14543	57971	0.25	0
2010/11	15643	68096	0.23	-8
2011/12	16801	75255	0.22	-4.3
Mean			**.23**	
S.D.			**0.021**	
C.V. (%)			**9.13**	

(Source: Appendix-2)

Figure C

Analysis of total investment and total deposit into ratio.



The above table reveals that RBB's total investment to total deposit ratio is less fluctuation during the study period. In F/Y 2008/09 it has highest ratio i.e. .25 and in F/Y

2007/08 it has lower ratio. Average means 0.23 and S.D 0.021. The coefficient of variance is 9.13%.

The percentage change ratio is more fluctuation, which is positive 25 to negative 8.

In conclusion, the banks follow the investment policy more than 60% from total deposit and borrowings. Remaining 40% amounts are use on Loan and advance and cash balance. This is to be maintaining the daily requirement of customer. The high level of investment on government securities and other securities of total amount of borrowing and deposit. The financial term the government securities are risk free investment. Higher the risk higher the profit VS. RBB is government bank so that, high level of deposit is invested on risk free sectors.

4.1.1.2.3 Loan and Advances to Total Working Fund Ratio

A commercials bank's working fund should play very significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates a better mobilization of fund as loan and advances and vice- versa.

Loan and Advance to Total Working Fund Ratio = $\frac{\text{Loan \& } Advance}{\text{Total Working Fund}}$

Total 4.7

Loan & Advances to Total Working Fund Ratio (%)

F/Y	Loan & Advance	Total Working Fund	Ratio	%change Ratio
2007/08	13431	45056	0.30	-
2008/09	14634	56822	0.26	-13.33
2009/10	17006	39880	0.43	65.38
2010/11	27525	60164	0.46	6.98
2011/12	36463	75043	0.49	6.52
Mean			**0.388**	
S.D.			**0.102**	
C.V. (%)			**56.25**	

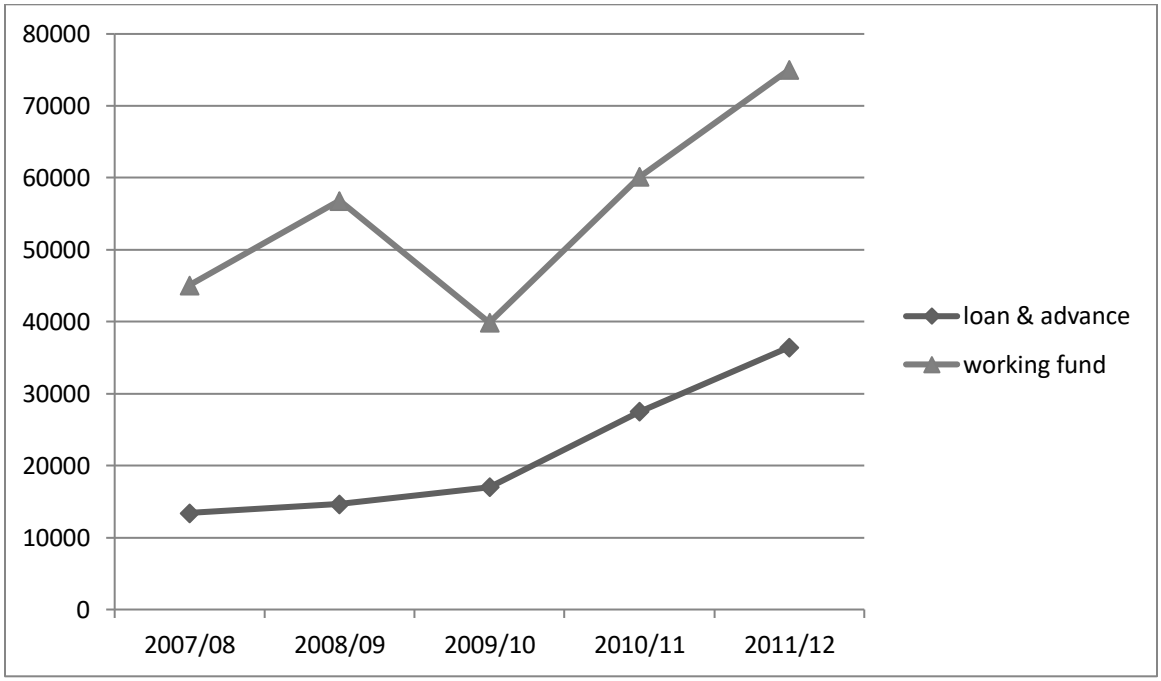
(Source: Appendix-2)

Table list shows that the RBBL has fluctuation trend. The highest ratio in F/Y 2009/10 i.e. 65.38% and lowest ration in F/Y 2011/12 i.e. 6.52%. The average ratio is good ratio position which is 38.8% and SD 10.2%. The coefficient of variance is 56.25%. The percentage change ratio is fluctuation between negative values of 13.33 to positive value of 65.38.

The investment on loan and advance ratio is in average 38.8%. It is good condition but RBB could be increase the value of loan and advance from total working fund for invest on profitable sectors. So that bank, we will be expected that bank increase the value of loan and advance in coming year. We can see as a figure:

Figure D

Analysis of loan & advance with total working fund.



4.1.1.2.4 Investment on Government Securities to Total Working Fund Ratio

This ratio reveals that the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. The bank should not utilize its all deposits in loan and advances and other form of credit, from securities and liquidity point of view. Therefore commercial banks seem to be interested to utilize their deposit by purchasing Govt. securities. A high ratio indicates better mobilization of fund as investment on government securities and vice-versa.

This ratio is calculated as dividing investment on Govt. securities and by total working fund. The following table shows the ratios of RBB.

Table 4.8

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

F/Y	Investment on Gov Securities	Total Working Fund	Ratio	% Change in Ratio
2007/08	8416	45056	0.18	
2008/09	11555	56822	0.20	11.11
2009/10	14543	39880	0.36	80
2010/11	15643	60164	0.26	-27.78
2011/12	16801	75043	0.22	-15.38
Mean			**0.244**	
S.D.			**0.0712**	
C.V. (%)			**29.21**	

(Source: Appendix-2)

Above information of table shows that the value of investment increase according to the value of total working fund. The ratio also increasing and decreasing trend. The highest ratio is in F/Y 2009/10 i.e.36% and lowest is in F/Y 2007/08 i.e. 18%.

The average ratio is 19.14% & S.D 7.12%. The coefficient of variance is 29.21%. The percentage change ratio is more fluctuation. The higher ratio is 80 and lowest 27.78%.

In conclusion, it is marketable securities which have more liquidity position. The bank invests on government security as a short term investment with no risk. It is also converted into cash if daily requirement is not fulfill by cash and bank balance.

4.1.1.2.5 Total Investment to Total Assets Ratio

The investment is the part of total assets. Total investment known as investment on government securities, non government securities and loan and advance. The bank earns the profit from the total investment.

The higher ratio shows that higher fund is used on the revenue generated sectors from the total assets. There are two types of assets one revenue generated and other capital revenue generated assets. In financial institution always be hold their invest on the revenue generated area which is more profitable according to the time.

The ratio is calculated as dividing total investment and by total assets. The following table shows the ratio of RBB.

Table 4.9

Total Investment to Total Assets Ratio (%)

F/Y	Investment	Total Assets	Ratio	%Change in Ratio
2007/08	8416	70391	0.20	
2008/09	11555	48492	0.24	20
2009/10	14543	60164	0.25	4.17
201011	15643	75043	0.21	-16
2011/12	16801	83944	0.20	-4.76
Mean			**0.22**	
S.D.			**0.0235**	
C.V. (%)			**10.66**	

(Source: Appendix-2)

The above information shows that the ratio is more fluctuation. The higher ratio is in F/Y 2009/10 i.e.25% & lower ratio is in F/Y 2007/08 i.e. 20% .The average ratio is 22% and S.D 2.35%. The coefficient of variance is 10.66% .

The percentage change ratio is more fluctuation. The negative value is in F/Y 2010/11, 2011/12, 16, 4.76% respectively.

In conclusion, Bank invests on government securities and loan and advances more than 22% of total assets. This is good position of the bank. It shows the fixed assets and other assets are less than 50% .Which is the part of capital generated sectors.

The RBBL could be maximum utilized of fixed assets to generate the capital revenue for profit and wealth maximization.

4.1.1.3 Profitability Ratio

The main objective of a commercial bank is to earn profit by providing different types of banking services to its customers. To meet various objective like, maintains good liquidity position, meet fixed internal obligations, overcome the future contingencies, grab hidden investment opportunities, expand banking transaction in different places, and finance government in need of development funds etc, a commercial bank have to earn sufficient profit.

Of course, the profitability ratios are the vest indicators of overall efficiency. Here, mainly those major ratios are presented and analyzed through with the effort has been made to measure the profit earning capacity of RBB.

4.1.1.3.1 Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank through its mobilized fund as loan and advances. A high ratio indicates greater success to mobilized fund as loan and a high ratio indicates greater success to mobilized fund as loan and advances and vice-versa.

The ratio is calculated by dividing interest earn by loan and advances and investment. The following table shows that return on loan and advances ratio of RBBL .

Table 4.10

Return on Loan and Advances (%)

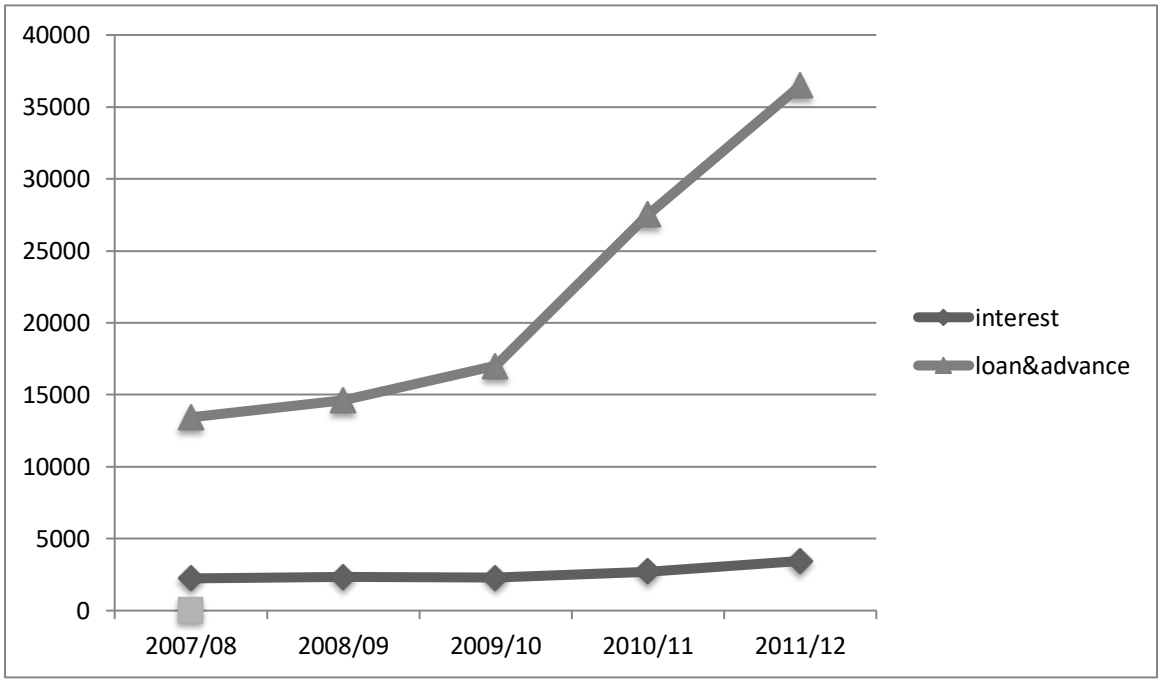
F/Y	Total Interest Earn	Loan & Advance	Ratio	%change in ratio
2007/08	2329	13431	0.17	-
2008/09	2283	14634	0.15	-11.76
2009/10	2703	17006	0.16	6.67
2010/11	3448	27525	0.13	-18.75
2011/12	3985	36463	0.11	-15.38
Mean			**0.144**	
S.D.			**0.0089**	
C.V. (%)			**6.18**	

(Source: Appendix-3)

The above table proves that the ratio of interest earns to loan and advances of RBBL is less fluctuating. The trend shows that the position of ratio is slowly decrease in down ward. The highest ratio is in F/Y 2007/08 i.e. 17% and lowest ratio is in F/Y 2011/12 i.e. 11%. The average or mean ratio is 14.4% and S.D 0.0089%. The coefficient of variance is 6.18%.

Figure E

Analysis of total interest income with loan and advance.



4.1.1.3.2 Return on Total Working Fund Ratio

Return on working fund ratio is a measuring rod of the profitability with respect to each financial resource investment of bank's assets. If the bank's total working fund is well managed and efficiency utilized, return such assets will be higher and vice-versa. The ratio or return on total working fund is calculated by dividing net profit by total working fund assets.

The following table shows that profitability position with respect to total working fund of RBB.

Table 4.11

Return on Total Working Fund Ratio (%)

F/Y	Net Profit	Total Working Fund	Ratio	%change in ratio
2007/08	1040	45056	0.024	-
2008/09	1323	56822	0.023	-4.17
2009/10	1591	39880	0.039	69.56
2010/11	1697	60164	0.028	-25.64
2011/12	1771	75043	0.024	-14.28
Mean			**0.0276**	
S.D.			**0.067**	
C.V. (%)			**23.92**	

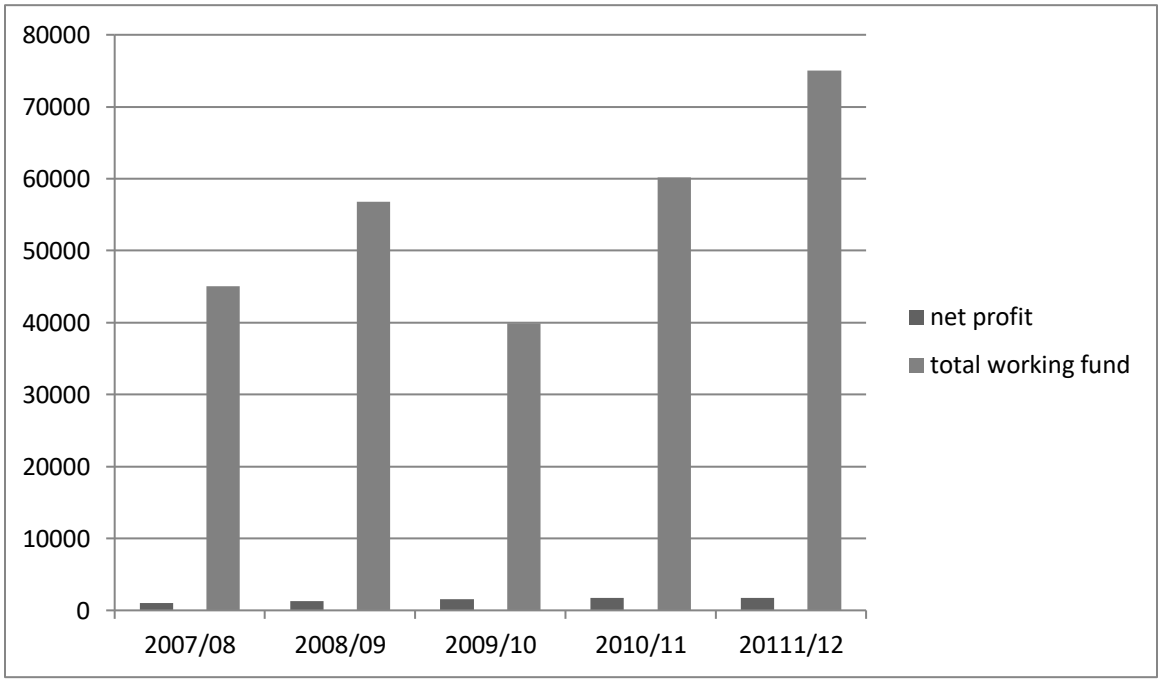
(Source: Appendix-3)

Above data form table shows that the ratio is slightly fluctuation trend. The highest ratio is F/Y2009/10 i.e. 3.99% and lowest ratio is in F/Y2008/09 i.e. 2.31%.The average return on total working fund or mean ratio is 2.76% and S.D.0.67% . The coefficient of variance is 23.92%.

The percentage change ratio is more fluctuation which is negative 25.64 to positive 69.56%. the table can show the following multiple bar diagram:

Figure F

Analysis of net profit to total working fund.



Above the analysis shows that the bank could not be follow the best efficiency of working fund management planning. The government bank has no so many restrictions by government like other privet commercial banks. The bank has so many opportunities to earn the profit. The all infrastructure are developed by government and bank only transaction of service provide. In F/Y 2008/09 the value of total working fund is RS 56822 and profit RS 1323. In this year but earning is increase according to the working fund but in F/Y 2009/10 the earnings ratio is highest because of lowest total working fund.

We can say that, the bank has more efficiency to maximize the profit but they cannot utilize the resources for wealth maximized.

4.1.1.3.3 Total Interest Earned to Total Working Fund Ratio

To represent the earning capacity of a commercial bank in its total working fund (total assets), total interest earned to total working fund ratio is very helpful in other words, this ratio reflects the extent to which the banks are successful in mobilizing their assets to generate high income. A high ratio is an indicator of high earning power of the bank on its total working fund and VS.

This ratio is computed by dividing total interest earned by total working fund i.e. total assets. The following table shows total interest earned to total working fund ratio of RBBL.

Table 4.12

Total Interest Earned to Total Working Fund (%)

F/Y	Total Interest Earned	Total Working Fund	Ratio	%Change in Ratio
2007/08	2329	45056	0.052	-
2008/09	2283	56822	0.040	-23.08
2009/10	2703	39880	0.068	70
2010/11	3448	60164	0.057	-16.18
2011/12	3985	75043	0.053	-7.02
Mean			**0.054**	
S.D.			**0.01**	
C.V. (%)			**18.52**	

(Source: Appendex-3)

The above information shows that, the ratio is slightly fluctuation trend. The highest ratio is in F/Y 2009/10 i.e. 6.8% and lowest ratio in F/Y 2008/09 i.e. 4.0%. The interest value is RS 2329 and RS 2283 in F/Y 2007/08, 2008/09 respectively.

The average or mean ratio is 5.4 percent which is good condition of earning on total working fund. Standard deviation is 1.0 percent and coefficient of variance 18.52 percent.

The percentage change ratio is more fluctuation. Only one year the ratio is negative 23.08 percent in F/Y 2008/09.

In conclusion, the interest earning ratio is good condition. In F/Y 2009/10, there is total working capital RS 39880 (million) and profit RS 2703 (million) . It means the lowest amount of working fund could be earning high ratio of interest earnings. On that time, bank is utilized full efforts to maximize the profit and shareholders wealth. We may be expecting that bank will be utilizing full efforts to earning more profit in coming year.

4.1.1.3.4 Total Interest Earn to Operating Income Ratio

Total operating income consists of interest, income, commission and discount, dividend income, foreign exchange income, non-interest income etc. Interest earned to total operating income ratio shows the magnitude of interest income in total income. It also indicates how efficiently the bank has mobilized its fund in interest bearing assets i.e. loan and advances, investment in government securities.

This ratio is calculated by dividing total interest by net operating income. The following table exhibits the ratio of interest earns to total operating income of RBB during the five years study period.

Table 4.13

Total Interest Earned to Total Operating Income Ratio (%)

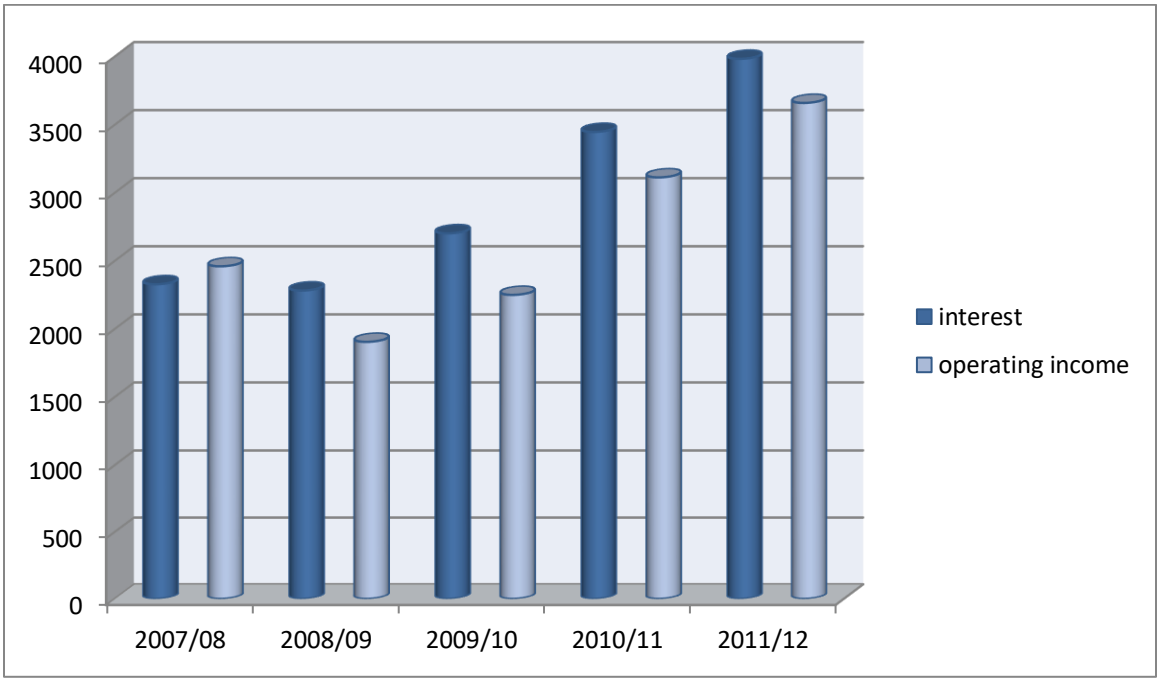
F/Y	Total Interest Earned	Total Operating Income	Ratio	%Change in Ratio
2007/08	2329	2461	0.94	-
2008/09	2283	1906	1.2	-9.52
2009/10	2703	2251	1.2	24.21
2010/11	3448	3114	1.1	1.69
2011/12	3985	3661	1.1	-7.5
Mean			**1.1**	
S.D.			**0.102**	
C.V. (%)			**9.2**	

(Source: Appendex-3)

The above information shows, the higher ratio is in F/Y 2009/10 i.e.1.20percent and lowest ratio in F/Y 2007/08 i.e. 0.94 .The value of difference between total interestearned and total operating income is the interest paid on deposit holder and burrowed amount.

Figure G

Analysis of total interest earned and total operating income.



The percentage change ratio is more fluctuation trend. The negative value is in F/Y 2008/09, 2011/12 i.e. 9.52 & 7.5 percent respectively. The high percentage change ratio seems that the earning of interest is more than value of interest paid in current year than previous year.

The average or mean ratio is 1.1 percent and S.D.0.102 percent. The coefficient of variance is 9.2 % which is more consistent between mean and standard deviation.

In conclusion, the RBB has paid higher amount as interest form total operating income. This is covered 98% of total operating income. It is more risky situation. If RBB is privet bank, It could not be operating today. The figure shows that lower performance of efficiency.

4.1.1.3.5 Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentages of total interest expenses against total working fund. A high indicates higher interest expenses on total working fund and vice-versa.

This ratio is calculated by dividing total interest paid by total working fund. The following table shows the total interest paid to total working fund ratio of RBB different five years of the study period.

Table 4.14

Total Interest Paid to Total Working Fund Ratio (%)

F/Y	Interest paid	Working Fund	Ratio	%Change in Ratio
2007/08	1004	45056	0.022	-
2008/09	850	56822	0.015	-31.8
2009/10	1019	39880	0.026	73.33
2010/11	1068	60164	0.018	-30.77
2011/12	1491	75043	0.020	11.11
Mean			**0.02**	
S.D.			**0.004**	
C.V. (%)			**19.17%**	

(Source: Appendix-3)

The above information shows that, the ratio is more fluctuation. The highest ratio is in F/Y2009/10 i.e.2.6% and lowest in F/Y 2008/09. The average ratio is 2.0% and S.D 0..004. The coefficient of variance is 19.17%. The percentage change ratio is in negative value in F/Y 2008/09, 2011/12, i.e. 31.8 and 30.7 percent respectively. It shows the good condition of interest paid from total working fund.

In conclusion, the interest paid ratio is less than interest earned ratio. The figure shows that the higher value of working fund has lower ratio and vice versa. So that bank followed the higher working fund mobilize to decrease the payment of interest.

4.1.1.3.6 Gross profit to Net Profit Ratio

The bank is service providing business. It produces services like prime functions (deposit, credit) and auxiliary functions (letter of credit l/c guarantee, remittance, agency social

banking, merchant banking, treasury operation, government transaction). The bank paid interest to deposit holder or lender and interest received from providing credit facilities. Income from core function and auxiliary function known as gross profit and all the operating and non –operating expensed reduced from gross profit known as net profit. The higher ratio shows the high performance of efficiency vice versa.

This ratio is calculated by dividing net profit by gross profit. The following table shows the net profit to gross profit margin of RBB different five years of the study period.

Table 4.15

Gross Profit to Net Profit Ratio (%)

F/Y	Net Profit	Gross Profit	Ratio	% change in ratio
2007/08	1040	2123	0.49	-
2008/09	1323	2461	0.54	10.2
2009/10	1591	1906	0.83	53.70
2010/11	1697	2250	0.76	-8.4
2011/12	1771	3114	0.57	-25
Mean			**0.638**	
S.D.			**0.152**	
C.V. (%)			**23.77**	

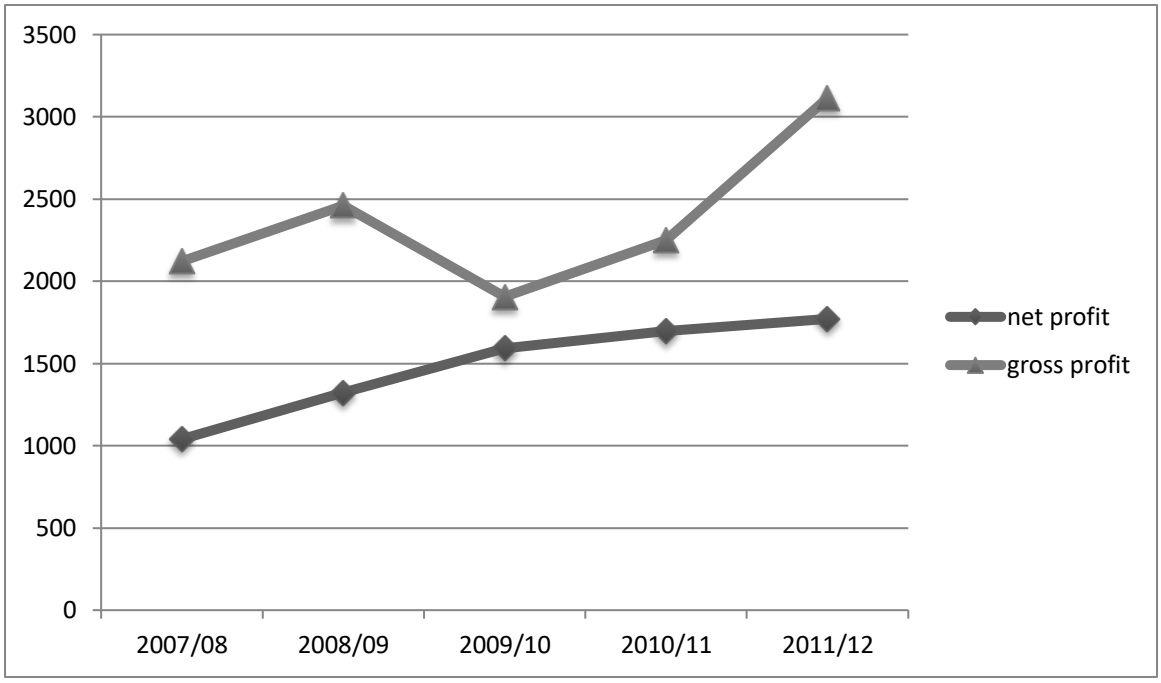
(Source: Appendix-3)

Above information of table shows, the ratio is more fluctuation. The highest ratio is in F/Y 2009/10 i.e.83 percent and lowest ratio is in F/Y 2007/08 i.e. 49 percent. The average ratio is 63 percent which is good condition. The standard deviation is 15.2 percent. The coefficient of variance is 23.77 percent.

The percentage change is more fluctuation trend. The higher percentage change in F/Y 2009/010i.e. 53.70%. The negative percentage change ratio is in F/Y 2010/11&2011/12 i.e. 8.4,and25 percent respectively. We can see as a figure:

Figure H

Analysis of net profit and gross profit.



In conclusion, the high value of operating and other non-operating expenses are reduced the value of net profit. On this situation the ratio is lower percentage. Low percentage of ratio indicated the low performance of efficiency vice versa.

4.1.1.4 Performing Ratio

Performing analysis is the main part of financial statement of analysis of commercial banks. The entire bank wants to invest on maximum profitable sectors. But in financial term say that higher the risk higher the profit. When the loan holder is not paying the amount on time it creates the situation of provision of loan loss or Non –performing loans. It is the dark part of total loan and advance or known as lost of bank. Higher ratio shows the lower efficiency or vice versa.

The lending efficiency in terms of quality and turnover is measured by this ratio .Here different ratios are used to analyze the lending efficiency of the bank. For this purpose, the relationship of different variables of balance sheet and profit and loss account has been established. These are the ratio related to the performing analysis

i. Loan loss provision to total loan & advance
ii. Non – performing Loans to total loan and advance
iii. Provision on Non-performing loan& advance to Non – performing loans and advance

4.1.1.4.1 Loan Loss Provision to Total Loan and Advance

Loan loss provision is the fund created for secured future banking transaction at present value of profit. It is also known as nonpayment of loan and advance installment at time. The block amount on outside of bank which is invested as a loan and advance.

The bad loan holder created this situation. The higher loan loss provision shows the bad situation and weak performance of the bank. This condition is created when the bank holder neglect to follow the rule and regulation for investment the loan and advance to right person, in right place and at right time. The higher ratio shows the lower or weak performance of efficiency vice versa.

The central bank makes a rule and regulation for all commercial bank manage the loan loss provision as follow:

Table 4.16

Loan Loss Provision Requirement (%)

Classification of Loan and Avances	Maturity time	Percentage of loan loss provision management
1.Pass loan and advance	0 to 3 months non performing loan and advance from maturity period.	1%
2.Substandard loan and advance	3to 6 months non performing loan and advance from maturity period.	25%
3.Doubtful loan and advance	6months to 1 year non performing loan and advance from maturity period.	50%
4.Bad loan	More than 1 year non performing loan and advance from maturity period.	100%

(Source: Unified Directives, NRB)

This ratio is calculated by dividing loan loss provision to total loan and advance. The following table exhibits the ratio of loan loss provision from total loan and advance of RBBL during the five years study period.

Table 4.17

Loan Loss Provision to Total Loan and Advance Ratio (%)

F/Y	Loan Loss Provision	Total Loan and Advance	Ratio	% Change Ratio
2007/08	13269	13431	0.98	-
2008/09	8612	14634	0.59	-39.8
2009/10	7864	17006	0.46	-22.03
2010/11	7709	27525	0.28	-39.13
2011/12	6532	36463	0.18	-35.71
Mean			**0.154**	
S.D.			**0.031**	
C.V. (%)			**20.51**	

(Source: Appendix-4)

Above information shows the position of loan loss provision is decreasing trend. The higher ratio is in F/ Y 2007/08 i.e. 98% and lowest ratio is in F/Y 2011/12 i.e. 18%. The

average or mean ratio is 15.4 percent and S.D.0.031 percent. The coefficient of variance is 20.51 percent.

The percentage change ratio is more negatively fluctuation trend. It good condition for the bank. It shows the more improving position of loan loss provision at current year than previous year

In conclusion, the condition is not good. Bank must be follow the rule and regulation to invest of loan and advance to right person in right place at right time. The figure shows that bank has more doubtful loan holder who delay to pay the loan and advance 6 months to 1 year from maturity period. So that bank should be managing the 50% amount of loan loss provision from profit and loss account.

4.1.1.4.2 Non Performing Loans and Advance to Total Loan and Advance

The cumulative loan loss provision (Pass loan, substandard loan, Doubtful loan and Bad loan) is known as non- performing loans and advance. The financial report shows that the non-performing loan and advance covered 30% of total amount of loan and advance of whole commercial banks. It is the great challenge for all commercial banks to minimize which is growing on daily.

The higher non-performing loan and advance shows the higher risk bank to operating daily transactions and vice versa. So that bank follows the guide line of central banks and making strong loan strategies on credit services.

This ratio is calculated by dividing non-performing loan and advance by total loan and advance. The following table shows the non performing loan and advance to loan and advance ratio RBB different five years of the study period.

Table 4.18

Non-Performing Loan and Advance to Total Loan and Advance Ratio (%)

F/Y	Non-performing Loan &Advance	Loan and Advance	Ratio	% Change in Ratio
2007/08	13380	13431	0.99	-
2008/09	13770	14634	0.94	-5.05
2009/10	8601	17006	0.51	-45.74
2010/11	6964	27525	0.25	-50.98
2011/12	6055	36463	0.17	-32
Mean			**0.572**	
S.D.			**0.380**	
C.V. (%)			**66.43**	

(Source: Appendix-4)

The entire table figure shows that, the ratio is decreasing trend. The highest ratio is in F/Y 2007/08 i.e 99% and lowest ratio is in F/Y 2011/12 i.e. 17%. The average ratio is 57% and S.D 38%. The coefficient of variance is 66.43 percent. .The percentage change ratio is negatively decreasing trend. It is good position of bank because of bank is improving the position of loan providing efficiency.

In conclusion, in average the RBB has more than 30 percent of non-performing loan and advance from total loan and advance. It is weak or poor performance of efficiency of loan lending and weak strategies on credit services. In other words, we can say that bank is not follow the guide line of central bank provided to all commercial banks.

The central bank make the plan to manage the higher position of non- performing loan advance by re-structuring program with the help of foreign banking higher technologist. The program has been stating for minimize the non-performing loan and advance and to increase the positive performance of human resource of RBB from 21st Dec. 2000 . The figure shows that the positive impact of program on the non-performing loan and advance which is decreasing yearly wise. The central bank point out higher efficiency of asset management on that time when the non- performing loan and advance is below the 10% of total loan and advance. The RBB is not maintaining the standard of higher efficiency of asset management which is given by central bank.

4.1.1.4.3 Loan Loss Provision to Non Performing Loan and Advance Ratio

The loan loss provision is the fund created by the commercial bank from profit and loss account for secured future. The non-performing loan and advance is total loss of the bank or non- active loan and advance or sleeping loan .The bank is forecasted loan loss provision in yearly wise. But actually, non-performing loan and advance is total loss in practical. We discuss about loan loss provision and non –performing loan and advance in previous chapter.

The higher ratio shows that bank is reserving the more amounts on the fund of loan loss provision from p/L account and high ratio indicating that low amount incurred the non-performing loan and advance vice versa.

This ratio is calculated by dividing loan loss provision by non-performing loan and advance. The following table shows the loan loss provision to non-performing loan and advance ratio RBBL different five years of the study period.

Table 4.19

Loan loss Provision to Non-Performing Loan and Advance Ratio (%)

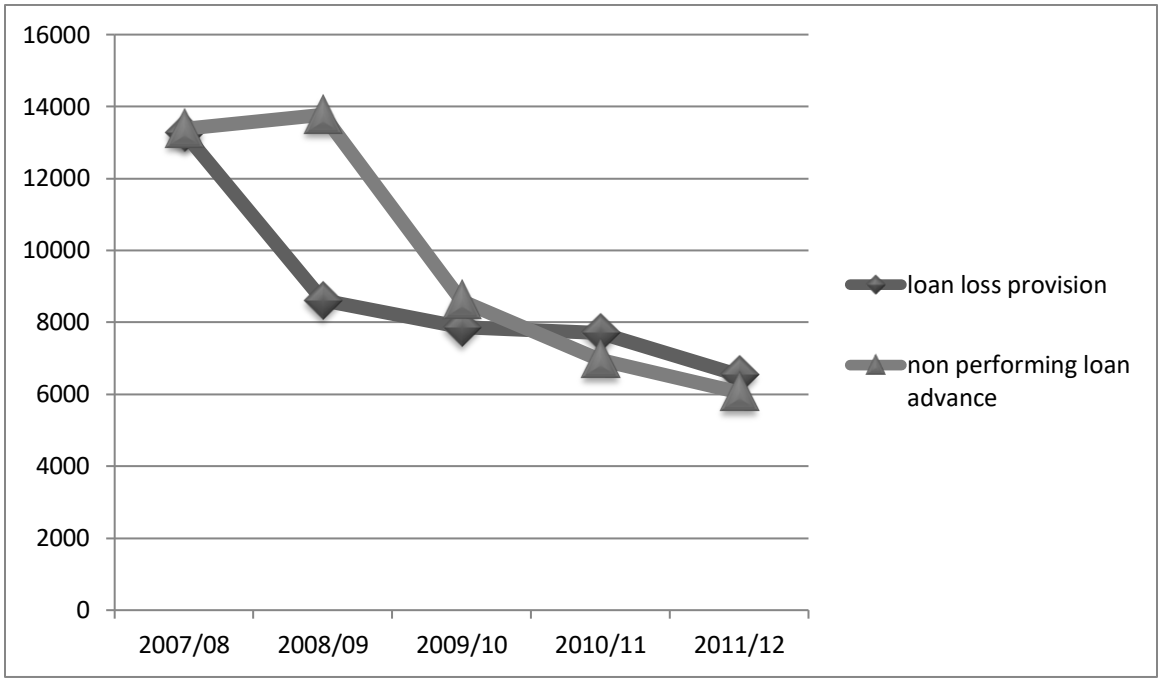
F/Y	Loan Loss Provision	Non-performing Loan &Advance	Ratio	%Change in Ratio
2007/08	13269	13380	0.99	-
2008/09	8612	13770	0.62	-37.37
2009/10	7864	8601	0.91	46.77
2010/11	7709	6964	1.1	20.88
2011/12	6532	6055	1.0	-9.09
Mean			**0.924**	
S.D.			**0.204**	
C.V. (%)			**22.17**	

(Source: Appendix-4)

The table shows the ratio is increasing trend. The highest ratio is in F/Y 2010/11 i.e. 1.1 percent and lowest in F/y 2008/09 i.e. 0.62 percent. The average ratio is 0.924 percent and standard deviation 20%. The coefficient of variance is 22.17 percent.

Figure I

Analysis of loan loss provision to nonperforming loan & advance.



The percentage change ratio is positively increasing trend. The position is good because of higher positive change ratio. It shows the lower amount of non-performing loan and advance.

In conclusion, the figure shows that the RBBL is not maintaining the non performing loan and advance in F/Y 2007/08,2008/0,2009/10.In this year the ratio is less than 100 percent. The bank is improving their position in coming years.

It is directly shows that bank is not strongly follow the rule and regulation of loan and advance providing. The main factors of analyzing before providing the loan and advances are given below:

a. First of all analysis the loan forms about the loan holder character, capacity, capital, collateral or conditions of loan.

b. Analyze the proposal, marketing probability and technical support and condition of cash flow.
c. Analyze the track record of loan holder.
d. Analyze the condition, position, quality and valuation of collateral.

All these things are strongly followed by bank, it should be minimize the non-performing loan and advance.

4.1.1.5 Risk Ratio

Risk is always sticks with return. If there is return, risk will definitely be there. Higher the risk, higher will be the return. Risk is very closely associated with investment.

A bank has to take high risk if it expects high return on its investment. Therefore bank has to accept and manage high risk to get high profit. Risk had made the job of investment a very challenging job.

Though, following ratios, effort has been made to measure the level of risk essential in the RBBL.

4.1.1.5.1 Liquidity Risk Ratio

Liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is the indicator of bank liquidity needed.

The risk is low if funds are kept idle as cash and bank balance. But this reduces profitability. When bank flow loan, its profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank and less profitable bank and vise-versa. This ratio is calculated by dividing cash and bank balance to total deposit. The following table shows the liquidity risk ratio in RBB.

Table 4.20

Liquidity Risk Ratio (%)

F/Y	Cash &bank balance	Total deposit	Ratio	% change ratio
2007/08	5553	43016	0.13	-
2008/09	5229	46195	0.11	-0.15
2009/10	5934	57971	0.10	-9.1
2010/11	9269	68096	0.14	40
2011/12	8714	75255	0.12	-14.29
Mean			**0.12**	
S.D.			**0.015**	
C.V. (%)			**12.5**	

(Source: Appendix-5)

The table listed shows that RBB has in fluctuation trend of ratio. The highest ratio is in F/Y 2010/11 i.e. 40 percent and lowest ratio in F/Y 2011/12 i.e. 14 percent. The average or mean ratio is 12 percent and S.D 0.015. The coefficient of variance is 12.5 percent .However; lower coefficient of variance indicates that RBB has maintained consistency on ratio of liquidation position.

The percentage change ratio is negative value in F/Y 2008/09, 2009/10 and 2011/12 i.e. 0.15, 9.1 and 14.29 percent respectevly.

From the above analysis, it can be said that RBB has maintained higher liquidity, which means it operates with lower risk, which decreases profitability.

4.1.1.5.2 Credit Risk Ratio

Bank utilizes its collected fund in providing credit to different sectors. There is risk of default or non-repayment to loan. While making investment, the bank examines credit risk involved in the project. This ratio is computed by dividing total loan and advances to total assets. The following table shows the credit risk ratio of RBB.

Table 4.21

Credit Risk Ratio (%)

F/Y	Loan & Advance	Total Assets	Ratio	% Change in Ratio
2007/08	13431	70391	0.19	-
2008/09	14634	48492	0.30	57.8
2009/10	17006	60164	0.28	-6.7
2010/11	27525	75043	0.37	32.14
2011/12	36463	83944	0.43	16.22
Mean			**0.314**	
S.D.			**0.091**	
C.V. (%)			**29**	

(Source: Appendix-5)

The above table shows that RBB has fluctuating trend. Its higher is recorded of 57.8% in F/Y 2008/09 and lowest of 6.7%in F/Y 2009/10. On the basis of mean ratio is 31.4 percent and S.D 9.1 percent. The coefficient of variance is 29 percent.

From the above analysis, thus it can be concluded that RBB has lower level of credit risk. The bank invests on loan and advance in average 41% of total assets which is one by 2.5th part of total assets and balance amounts are in current assets, fixed and non fixed assets.

4.1.2 Statistical Tools

In this chapter some statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of deposit, loan & advances, Investment and net profit are used to achieve the objective of the study.

4.1.2.1 Co-Efficient of Correlation Analysis

Under this topic, Karl Pearson's coefficient of correlation has been used to find out the relationship between deposit and loan & advances, deposit and total investment, outside and net profit.

4.1.2.1.1 Co-efficient of Correlation between Deposit and Loan & Advances:

Co- efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. Here, the purpose of computing co-efficient of correlation is to justify whether deposits are significantly used as loan & advances in proper way or not, we are computing 'r' between these two variables.

The following table shows the values of r, r^2**,** P. Er. and 6 P. Er. of RBB .

Table 4.22

Correlation between Deposit and Loan & Advances

Name	Evaluation Criterions				
	r	**r^2**	**P.Er.**	**6 P. Er.**	**Result**
RBB	0.9558	0.9135	0.0237	1.421	Nothing can be concluded

(Source: Appendix 5)

The above table shows that coefficient of correlation between deposit and loan & advances of RBB is 0.9558, it means there is high degree of positive correlation between these two variables, Moreover, we evaluate the value of coefficient of determination (r^2), which is 0.9135, it means 91.35% of variation in loan & advances has been explained by the deposit and vice versa. Similarly considering the value of 'r' i.e. 0.9558 and comparing it with six times of probable error i.e.1.421 . We can say that the value of r is more than 6 P.Er. Which show that there is not significant relationship between deposit and loan & advances in case of RBB.

From the above analysis we can conclude that both RBBL has normal relationship between deposit and loan & advances. The relationship isnot significant in case of RBB and the value of r^2 shows high percentage of dependency. It indicates unsuccessful to mobilize their deposit in proper way as loan & advances.

4.1.2.1.2 Co-efficient of Co- relation between Deposit and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between their two variables. The purpose of computing coefficient of

correlation is to justify whether the deposit are significantly used in proper way or not and whether there is any relationship between these two variables or not. To find out the correlation (r), various calculations are done.

The following table shows the coefficient of correlation between deposit and total investment i.e. r, P, Er, 6 P.Er and co-efficient of determination (r^2) of RBB.

Table 4.23

Correlation between Deposit and Total Investment

Name	Evaluation Criterions				
	r	**r^2**	**P.Er.**	**6 P. Er.**	**Result**
RBB	0.704	0.4956	0.1517	0.91	Significant

(Source: Appendix 6)

From the above table we find that co-efficient of correlation between deposit and that total investment value 'r' is 0.704 in case of RBB. It shows positive relationship between two variables. Similarly, the coefficient of determination in the dependent variable r^2 is 0.4956 it means 49 % of the determination in total investment has been explained by deposit. Moreover, considering the probable error, since the value of 'r' is less than 6 P. Er. i.e. 0.704< 0.91. We can say that there is nothing can be concluded in deposit and total investment.

Since, the value of 'r' is greater than the P.Er. And lower then 6P.Er. Nothing can be concluded regarding the relationship between deposit and total investment.

4.1.2.1.3 Coefficient of Correlation between Current Assets & Current Liabilities

The coefficient of correlation between current assets and current liabilities measures the degree of relationship between their two variables. The purpose of computing coefficient of correlation is to justify whether the current assets are significantly used in proper way or not and whether there is any relationship between these two variables or not. To find out the correlation (r), various calculations are done.

The following tables show that the related variables RBB during the five years study period.

Table 4.24

Correlation between Current Assets and Current Liabilities

Name	Evaluation Criterions				
	R	**r^2**	**P.Er.**	**6 P. Er.**	**Result**
RBB	-0.3046	0.093	0.2732	1.63	Nothing can be concluded

(Source: Appendix 7)

From the above table, it has been found that the co-efficient of correlation between current assets and current liabilities is -0.3046 in case of RBB, which indicates negative relationship between these two variables. Similarly, while considering the values of coefficient of determination r^2 i.e. 0.093, it indicates that 9.3 % of the variation in the current liabilities has been explained by current assets and vice versa.

As the absolute value 'r' lies between the probable error and 6 PEr. nothing can be decided on the relationship between current assets and current liabilities.

In conclusion, in case of RBB the value of r is insignificant. There is no relationship between increase or decrease of current assets with current liabilities.

4.2 Major Findings of the Study

On the basis of the data analysis, both by statistical tools and financial tools, the following major findings have been drawn;

Liquidity Ratio

- The current ratio of the mean value 2:1 is best for the obligation. In starting F/Y those the bank had loose the current obligation which is 0.64 later on the bank maintained the appropriate ratio.
- The cash and bank balance of RBB is good condition because of average figure is 0.12 times. The bank follows the 0.10 times in all the study period.

- The RBB has the cash balance less than 1 in total current ratio. The bank maintains the cash balance which is daily requirement to make the payment on customer from their deposit.
- The bank more than 30% of current assets invests on the government securities. In the list of NRB the RBB is the first commercial bank for purchasing the government securities.

Assets Management Ratio

- The ratio actually measures the bank success to mobilize the deposit as a loan and advance for the purpose of revenue generation.
- The loan and advance to total deposit ratio is in average 39%. Which is lower ratio of the deposit because of loan and advance is one of the ways to earn higher revenue.
- Investment on government securities , share of organized intuitions, debenture &Bonds of organized institutions, local banks and foreign banks which is 38% of average ratio and S.D .o.56 The coefficient of variance is 14.82%.
- In average RBB has 20% investment policy from the total deposit & borrowings. Which is the equal ratio of commercial banks follows the higher ratio of deposit & borrowings. Other borrowings are invested on the loan and advance for revenue generate.
- Investment on loan and advance ratio is in average 48%. It is good condition but RBB could be increase the value of loan and advance from total working fund for invest on profitable sector.
- Investment on government securities to total working fund ratio which is marketable securities and more liquidity position. The bank invests on government securities as a short term investment which has on risk. It is also converted into cash if daily requirements are not fulfill by cash and bank balance.
- Bank invests on government securities and loan and advance in average 38% of total assets. This is good position of the bank. The RBB could be maximum utilized of fixed assets to generate the capital revenue for profit and wealth maximization.

Profitability Ratio

- The main objective of commercial bank is to earn profit by providing different types of bank services to its customers. To meet various objectives like maintains good liquidity position, meet fixed interest obligations, overcome the future contingencies, grab hidden investment opportunities, expand banking transaction in different places, and finance government in need of development funds etc a commercial bank has to earn sufficient profit.
- The bank is to be maintaining stable situation of earning ratio. It is not so bad condition. Bank improves their position in yearly wise in respectively. The bank paid interest on deposit 3%. The interest average earning ratio is 14.4%. It shows the efficiency of earning power of investment on loan and advance.
- The average return is 3%. Above the analysis are shows that the bank is not follow the effective of working fund management planning. The government bank has no many restrictions by NRB like other privet commercial banks. The bank has so many opportunities to earn the profit because of all infrastructures are developed by government. In F/Y 2007/08 the earnings ratio is higher on the lower total working fund.
- The interest earn ratio is good condition. In F/Y 2007/08 total working capital is lower value and earning amount is higher. This figure shows that the lower working capital could be earn higher revenue when the management utilized the full efficiency to mobilized fund.
- The average or mean ratio is 1.1 percent, S.D is 0.102 and coefficient of variance is 9.2%. The RBB has paid higher amount as interest from total operating income. This is converted into 98 percent of total operating income. It is more risky situation. If the situation held on other commercial banks these bank could not be run today.
- The RBB is continuously the interest paid ratio from total working fund. The interest paid ratio is less than interest earned ratio. Higher the gap between the earning and paid of interest bank may be earn more net profit.

- The gross profit and net profit is higher difference when the higher amount of operating and non operating expenses is held on the financial year. The higher percentage on the F/Y 2009/10 i.e.83 percent. The high ratio shows the lower total cost.

Performing Ratio

- Loan loss provision to total loan and advance average ratio is 15.4%.
- Revenue from 60% loan and advance is not covering the whole operating expenses. So that every year bank bear the loss.
- The RBB continuously reducing the loan loss provision in yearly wise.
- The NRB gives the standard for all the commercial banks to maintain the non performing loan and advance 10% below.
- The average non performing loan and advance is 57.2% which is more than standard of NRB.
- The RBB continuously reducing the non performing loan and advance in yearly wise.
- After the restructuring program the bank has non performing loan and advance is more than 30%. This is very poor situation for government commercial bank.
- The average ratio of loan loss provision and non performing loan and advance is 4.9%.
- Actually the RBB has higher level of nonperforming loan and advance.

Risk Ratio

- The average liquidity ratio is 12%. The bank has maintained the liquidity position. The NRB make the provision for the standard of liquidity position for all commercial banks 20% of total deposit.
- The RBB has 31.4% of credit risk ratio. Which indicates that RBB takes low risk for lend on loan and advance? The loan and advance generates the higher revenue than other sectors.

Statistical Analysis

Coefficient of Correlation

- The RBB has higher positive relationship between deposit and loan and advance.
- The increasing in the amount of loan and advance according to the increasing in the amount of loan and advance. The positive relationship between deposit and total investment.
- The degree of total investment is increase according to the increase of degree of deposit.
- The negative relationship between total current assets and current liabilities and it is insignificant relationship.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This last chapter deals with the summary, conclusion and the recommendation on the basis of the main finding derived from the study. This chapter mainly contains three parts; summary, conclusion and recommendation.

5.1 Summary

Banks are necessary for the economic development of a nation. It helps speedy economic growth through mobilization of cash and saving. Normally, government owned commercial banks help to implementation of government plan. It has a responsibility to provide the services in rural areas and some time in less profitable areas too with the motive of services.

Privet Banks are equally important for the economic development of the countries. However and established with profit motive, it is natural that they have to work for profit. NRB has made provision of compulsory establishment of one branch out side of the valley to open the branch in Katmandu. We can see large number of bank branches is closer to Katmandu and not remote area.

Government commercial banks are also important in channeling government budget and funds in rural districts. Government bands are also contributing to the nation through employment generation. They also needed to provide support in implementation of government objectives and plans. Still many Nepali people have trust and confidence only in government owned bank. Recently NRB has conducted a survey among the people working in New Delhi and most of them have preference for either NBL or RBB branches to channel their earnings to Nepal as inward remittance. So the necessities and significance of government owned commercial bank can't be undermined for till few more years.

Government ownership provides both advantages and disadvantages. One of the big advantages of government ownership is the public confidence over the bank operation. For example RBB's deposit collection is rapidly increasing although the bank has negative net- worth. General people feel safe in the government ownership of the bank. As being government owned bank is getting different authorities and strong support from government wings like security and judicial organization.

But on other side, there are many disadvantage of government ownership. With multiple stake holders, it has to serve to multiple people. People have more expectation from government owned bank. The loan holder feels that as if it is their right to get more facilities from RBB since it is the government owned bank and they demand facility and undue services from the bank which can't be provided to them as per the bank rule. Sometimes the Bank has to confront with political pressure too.

After reform programmed was started in the bank to strengthen overall position of the bank. If not high sounding, miraculous change has been taken place in RBB during the period of its five year management contract. Most of the activities of bank have been stream lined and the bank has witnessed turnaround improvement turnaround improvement in many other sectors like structural, procedural and attitudinal aspects and this trend is continuous. Most apparent is the change in its financial health which has been quite improved.

In study period and contract period is same. The current ratio is to be maintaining 2:1 which is the best ratio for liquidity position. In average 23% of total deposit is invested as government securities which are secured lending policy. The RBB follow the investment and loan and advance is equal percentage from the total deposit which is 50% portfolio management .It is good for bank because of the public take government banking services is free for public and they have full right to utilized and not to be follow the rule so they denied and delay to back the loan and advance and interest on borrowed amount in time.

Non –performing loan and advance is decreasing trend since the restructuring program has been started the bank follow the for technique to minimize the non-performing loan

and advance (i) Interest rebate (ii) Publish the black list name of loan holder (iii) collateral accepted (iv) legal provision and action of court for loan recover. The bank follows the low portfolio management for investing activities. The credit risk ratio is only 31.4% which is low risk. The bank has positive relationship with deposit and loan and advance, also positive relationship with investment and deposit but negative relationship with current assets and current liabilities which is insignificant.

5.2 Conclusion

a. The government commercial bank maintain the current obligation with higher amount invest on the government securities which is secured for landing.
b. In conclusion, The RBB has average invest on loan and advance is 39% from total deposit and average ratio is 23% on investment from deposit. According to this figure total average landing is only 50% from total deposit. The bank has extra 50% deposit on hand which cannot be maximum utilized by bank so bank bear the lower interest earning efficiency.
c. In conclusion, The RBB has no best earnings ratio which is not far distance between interest paid and interest earn. Which is directly affected by lending policy of bank? The RBB has more non –performing loan and advance so that bank follow the higher amount invest on secured sector which is government securities and other investment. The higher the risk, higher the return vs.
d. The RBB has higher level of non- performing loan and advance. Yearly wise bank maintain the higher amount of profit as a provision for non – performing loan and advance. It must be maintain because of bank has higher level of loan loss. The loan loss provision is 41 % from total deposit and non –performing loan and advance is 39% which is bad or serious condition for commercial bank. Mostly people believe on the government commercial bank service but they have bad intention is that they have a right to utilized the government money and they have no response to back the loan on time like a privet bank. In other hand staff and market maker also have bad initiation for landing they are not observe position of the collateral , proposal of customer and capacity , ability of borrower. The banks loose the legal action for those customers who had bad initiation. The employees are not motivated for

recovering non performing loan and advance because of lower motivated factors; insured job and customer are supported by the political parties and political presser.

e. The RBB has lower liquidity position. The bank takes lower credit risk. The average credit risk is 31.4%. It shows that bank follows the secured lending policy because of reduce on the non – performing loan and advance. The high positive relation between loan and advance and total deposit. The positive relation between investment and total deposit. Both are also significant. The relation between current assets and current liabilities has negative relation which is insignificant.

5.3 Recommendations

After going over the analysis and findings, following recommendations are made in order to overcome the weakness and inefficiency and make better policy on utilization and investment.

- A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community; however, external as well as internal factors affect the liquidity position of banks. So RBB should increase in cash and bank balance to make the immediate payment to the depositor. RBB have to increase the investment in government securities.

- Profitability is the key indicator of the financial performance of business organization. In this study, profitability ratio is good from the angle of return but it is seen that RBB cannot earn higher interest through the outside assets and working fund. So RBB is recommended to increase its interest earned in outside assets and working fund by investing more & more funds in loan & advances and different types of securities. Because higher interest earning capacity of the bank implies better performance of the bank.

- The RBB should be develop the environment for loan and advance which is win process between borrowers and bank. The borrowers gets money from bank at right time

For gapes the opportunity at the market and bank gets more interest from lending amount at fixed time.

- Co-efficient of correlation analysis interprets the relationship between two or more variables, co-efficient of correlation between outside assets and net profit of RBB is positive and highly significant relationship, it shows that there is positive relationship between these two variables. It reveals that RBB is capable to earn net profit by mobilizing its total outside assets. In future also RBB should innovate new strategy and changing its current policy for more and more utilizing its outside assets to earn more profit.

- Most of the branches of RBB are found operating mainly in city and town areas, as there are many other private banks concentrated in the urban area, the government run bank RBB should extend its branches mainly on rural areas to provide services to the rural people who are deprived of banking services.

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APPENDICES

Appendix – 1

A. Liquidity Ratio:

Calculation Mean, S.D. & Coefficient of variance

Particular	Fiscal Year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Total
i. Current Assets to Current Liability						
Ratio (x)	0.64	3.68	3.08	3.05	3.17	13.62
x^2	0.41	13.54	9.4864	9.3025	10.05	42.79
ii.cash& Bank Balance to Total Deposit						
Ratio (x)	0.13	0.11	0.10	0.13	0.12	0.59
x^2	0.0169	0.0121	0.01	0.0169	0.0144	0.0703
iii.Cash & Bank Balance to Current Assets						
Ratio (x)	0.29	0.18	0.18	0.20	0.13	0.98
x^2	0.0841	0.0324	0.0324	0.04	0.0169	0.2058
iv.Investment to current assets						
Ratio (x)	0.44	0.39	0.43	0.34	0.31	1.91
x^2	0.1936	0.1521	0.1849	0.1156	0.1156	0.7423

Details	Mean	S.D.	C.V
Formula	$\Sigma x/n$	$\sqrt{1/n-1[\Sigma x^2-(\Sigma x)^2/n]}$	$\frac{\sigma}{x} \times 100\%$
i. Current Assets to Current Liability	2.72	1.19	43.81%
ii.Cash& Bank Balance to Total Deposit	0.12	0.013	10.87%
iii.Cash & Bank Balance to Current Assets	0.20	0.058	29.28%
iv.Investment to Current Assets	0.38	0.56	14.82%

Appendix – 2

B. Assets Management Ratio:

Calculation Mean, S.D. & Coefficient of Variance

Particular	Fiscal Year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Total
i. Loan and Advance to Total Deposit						
Ratio (x)	0.31	0.32	0.34	0.47	0.49	1.93
x^2	0.0961	0.1024	0.1156	0.2209	0.2401	0.7751
ii. Total Investment to Total Deposit						
Ratio (x)	0.20	0.25	0.25	0.23	0.22	1.15
x^2	0.04	0.0625	0.0625	0.0529	0.0484	0.2663
iii. Loan and Advance to Total Working Fund						
Ratio (x)	0.3	0.26	0.43	0.46	0.49	1.94
x^2	0.09	0.0676	0.1849	0.2116	0.2401	0.7942
iv.Investment to Total Working Fund						
Ratio (x)	0.18	0.2	0.36	0.26	0.22	1.22
x^2	0.0324	0.04	0.1296	0.0676	0.0484	0.318
v. Total Investment to Total Asset						
Ratio (x)	0.2	0.24	0.25	0.21	0.2	1.1
x^2	0.04	0.0576	0.0625	0.0441	0.04	0.2442

Details	Mean	S.D.	C.V
Formula	$\Sigma x/n$	$\sqrt{1/n-1[\Sigma x^2-(\Sigma x)^2/n]}$	$\frac{\sigma}{x} \times 100\%$
i. Loan and Advance to Total Deposit	0.39	0.0867	22.25%
ii. Total Investment to Total Deposit	0.23	0.021	9.13%
iii. Loan and Advance to Total Working Fund	0.388	0.102	26.25%
iv.Investment to Total Working Fund	0.244	0.0712	29.21%
v. Total Investment to Total Asset	0.22	0.0235	10.66%

Appendix – 3

C. Profitability Ratio:

Calculation Mean, S.D. & Coefficient of Variance

Particular	Fiscal Year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Total
i. Return on Loan and Advance						
Ratio (x)	0.17	0.15	0.16	0.13	0.1	0.72
x^2	0.0289	0.0225	0.0256	0.0169	0.01	0.104
ii. Return on working fund						
Ratio (x) %	0.024	0.023	0.039	0.028	0.024	0.138
x^2	0.00058	0.00053	0.0015	0.00078	0.00058	0.004
iii. Interest earned to total working fund						
Ratio (x) %	0.052	0.040	0.068	0.057	0.053	0.27
x^2	0.0027	0.0016	0.0046	0.0032	0.0028	0.015
iv.Return on total assets						
Ratio (x) %	1.75	1.88	2.28	2.82	2.36	11.09
x^2	3.06	3.53	5.20	7.95	5.57	25.31
v. Net profit to gross profit						
Ratio (x) %	0.49	0.54	0.83	0.76	0.57	3.19
x^2	0.24	0.292	0.689	0.58	0.325	2.126
vi. Interest Paid to Total Working Fund						
Ratio (x) %	0.022	0.015	0.026	0.018	0.02	0.101
x^2	0.0005	0.00022	0.00068	0.00032	0.0004	0.0021
vii. Interest Earned to Total Operating Fund						
Ratio (x) %	0.94	1.2	1.2	1.1	1.1	5.54
x^2	0.88	1.44	1.44	1.21	1.21	6.18
viii. Interest Expenses to Deposit and Borrowings						
Ratio (x) %	3.65	2.12	1.68	1.68	1.48	10.61
x^2	13.32	4.49	2.82	2.82	2.19	25.64
ix.Interest Earned to Total Loan and Advance						
Ratio (x) %	7.92	6.58	6.56	6.86	7.30	35.22
x^2	62.73	43.30	43.03	47.06	53.29	

Details	Mean	S.D.	C.V
Formula	**$\Sigma x/n$**	$\sqrt{1/n-1[\Sigma x^2-(\Sigma x)^2/n]}$	$\frac{\sigma}{x} \times 100\%$
i. Return on Loan and Advance	0.144	0.0089	6.18%
ii. Return on Total Assets	0.028	0.0067	23.92%
iii. Interest Earned to Total Working Fund	0.054	0.01	18.52%
iv. Return on Total Assets	2.22	0.36	16.22%
v. Net profit to Gross Profit	0.638	0.152	23.77%

vi. Interest Paid to Total Working Fund	0.020	0.0039	19.17%
vii. Interest Earn to Total Operating Income	1.108	0.102	9.2%
iii. Interest Expenses to Total Deposit & Borrowings	2.12	0.80	38%
ix. Interest Earned to total Loan & advance	7.04	0.5310	7. 54%

Appendix – 4

D. Risk Ratio:

Calculation mean, S.D. & Coefficient of variance

Particular	**Fiscal Year**					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Total**
i. loan loss provision to total loan & advance						
Ratio (x) %	0.98	0.59	0.46	0.28	0.18	2.49
x^2	0.9604	0.3481	0.2116	0.0784	0.0324	1.63
ii. nonperforming loan advance to total loan & advance						
Ratio (x) %	0.99	0.94	0.51	0.25	0.17	2.86
x^2	0.9801	0.8836	0.2601	0.0625	0.0289	2.2152
iii.loan loss provision to to total non loan advance						
Ratio(x)	0.99	0.62	0.91	1.1	1.0	4.6
x^2	0.9801	0.3844	0.8281	1.21	1	4.4

Details	**Mean**	**S.D.**	**C.V**
Formula	$\Sigma x/n$	$\sqrt{1/n-1[\Sigma x^2-(\Sigma x)^2/n]}$	$\frac{\sigma}{x} \times 100\%$
i.loan loss provision to total loan & advance	0.154	0.0316	20.51%
ii. nonperforming loan & advance to total loan and advance	0.572	0.380	66.43%
iii.loan loss provision to nonperforming loan & advance	0.92	0.204	22.17

Appendix - 5
Correlation between Total Deposit and Loan and Advance

Rs (in billions)

F/Y	Deposit (X)	Dx $X-\bar{X}$	dx^2	Loan and advance (Y)	Dy (Y-y)	dy^2	dx.dy
2007/08	43	-15	225	13	-8.4	70.56	126
2008/09	46	-12	144	14	-7.4	54.76	88.8
2009/10	58	0	0	17	-4.4	19.36	0
2010/11	68	10	100	27	5.6	31.36	56
2011/12	75	17	289	36	14.6	213.1	248.2
Total	290	0	758	107	0	389.2	519

$\sum X = 290$ $x = \frac{290}{5}$ $\sum Y = 107$ $y = \frac{107}{5}$

n=5 n=5

x= 58 y= 21.4

Now, we have

N = 5

$\sum dx = 0$ $\sum dx^2 = 758$

$\sum dy = 0$ $\sum dy^2 = 389.2$

$\sum dx\ dy = 519$

Correlation of coefficient can be calculated by using following formula,

$$\mathbf{r} = \frac{N\Sigma dxdy - (\Sigma dx)(\Sigma dy)}{\sqrt{\left[N\Sigma dx^2 - (\Sigma dx)^2\right]\left[N\Sigma dy^2 - (\Sigma dy)^2\right]}} = \frac{5(519) - (0)(0)}{\sqrt{\left[5(758) - (0)^2\right]\left[5(389.2) - (0)^2\right]}}$$

$$= \frac{2595}{2715} = 0.9558$$

Calculation of probable error,

$$\text{P.Er.} = 0.6745 * \frac{1 - r^2}{\sqrt{N}} = 0.6745 * \frac{1 - (0.9598)^2}{\sqrt{5}} = 0.0237$$

6 P.Er = 6*0.0237 = 1.421

Appendix - 6

Correlation between Total Deposit and Total Investment

(Rs in billions)

F/Y	Deposit (X)	Dx $X-\bar{X}$	dx^2	Total Investment (Y)	dy (Y-y)	dy^2	dx.dy
2007/08	43	-15	225	8	-4.8	23.04	72
2008/09	46	-12	144	11	-1.8	3.24	-21.6
2009/10	58	0	0	14	1.2	1.44	0
2010/11	68	10	100	15	2.2	4.84	22
2011/12	75	17	289	16	3.2	10.24	54.4
Total	290	0	758	64	0	42.8	126.8

$\sum X = 290$ $x = \frac{290}{5}$ $\sum Y = 64$ $y = \frac{64}{5}$

n=5 n =5

x = 58 y= 12.8

Now, We have

N = 5

$\sum dx = 0$ $\sum dx^2 = 758$

$\sum dy = 0$ $\sum dy^2 = 42.8$

$\sum dx\ dy = 126.8$

Correlation of coefficient can be calculated by using following formula,

$$\mathbf{r} = \frac{N\Sigma dxdy - (\Sigma dx)(\Sigma dy)}{\sqrt{\left[N\Sigma dx^2 - (\Sigma dx)^2\right]\left[N\Sigma dy^2 - (\Sigma dy)^2\right]}} = \frac{5(126.8) - (0)(0)}{\sqrt{\left[5(758) - (0)^2\right]\left[5(42.8) - (0)^2\right]}}$$

$$= \frac{634}{900.5} = 0.704$$

Calculation of probable error,

$$\text{P.Er.} = 0.6745 * \frac{1 - r^2}{\sqrt{N}} = 0.6745 * \frac{1 - (0.704)^2}{\sqrt{5}} = 0.1517$$

6 P.Er = 6*0.1517= 0.91

Appendix - 7

Correlation between Total Current Assets and Total Current Liabilities

(Rs in billions)

F/Y	Total Current Assets (X)	Dx X- $\bar{X}$	dx^2	Total Current liabilities (Y)	dy (Y-y)	dy^2	dx.dy
2007/08	19	-17.2	295.84	29	13.2	174.24	-227.04
2008/09	29	-7.2	51.84	8	-7.8	60.84	56.16
2009/10	33	-3.2	10.24	10	-5.8	33.64	18.56
2010/11	46	9.8	96.04	15	-0.8	0.64	-7.84
2011/12	54	17.8	316.84	17	1.2	1.44	21.36
Total	181	0	770.8	79	0	270.8	-138.8

$\sum X = 181$ $x = \frac{181}{5}$ $\sum Y = 79$ $y = \frac{79}{5}$

n=5 n =5

x = 36.2 y= 15.8

Now, We have

N = 5

$\sum dx = 0$ $\sum dx^2 = 770.8$

$\sum dy = 0$ $\sum dy^2 = 270.8$

$\sum dx\ dy = -138.8$

Correlation of coefficient can be calculated by using following formula,

$$\mathbf{r} = \frac{N\Sigma dxdy - (\Sigma dx)(\Sigma dy)}{\sqrt{\left[N\Sigma dx^2 - (\Sigma dx)^2\right]\left[N\Sigma dy^2 - (\Sigma dy)^2\right]}} = \frac{5(-138.8) - (0)(0)}{\sqrt{\left[5(770.8) - (0)^2\right]\left[5(270.8) - (0)^2\right]}}$$

$$= \frac{-694}{2278.02} = \mathbf{-0.3046}$$

Calculation of Probable Error,

$$\text{P.Er.} = 0.6745 * \frac{1 - r^2}{\sqrt{N}} = 0.6745 * \frac{1 - (-0.3046)^2}{\sqrt{5}} = 0.2732$$

6 P.Er = 6*0.2732 = 1.63