INVESTMENT POLICY ANALYSIS OF COMMERCIAL BANKS IN NEPAL

(A Comparative Study of NABIL Bank Limited and Nepal Investment Bank Limited)

Submitted By:
SHIVA KUMAR CHITRAKAR
Nuwakot Adarsh Multiple Campus
T.U. Reg. No: 29955-91
2nd Year Exam Symbol No.: 2460012

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the degree of Master of Business Studies (MBS)

Nuwakot, Nepal
April, 2014

RECOMMENDATION

This is to certify that the thesis

Submitted by:

SHIVA KUMAR CHITRAKAR

Entitled:

INVESTMENT POLICY ANALYSIS
OF COMMERCIAL BANKS IN NEPAL
(A Comparative Study of NABIL Bank
Limited and Nepal Investment Bank Limited)

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

………………………………	………………………………	………………………………
Jitendra Aryal	**Jitendra Aryal**	**Narayan Man Dangol**
(Thesis Supervisor)	**(Head, Research Department)**	**(Campus Chief)**

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

Entitled:

INVESTMENT POLICY ANALYSIS OF COMMERCIAL BANKS IN NEPAL

(A Comparative Study of NABIL Bank Limited and Nepal Investment Bank Limited)

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

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department ……

Member (Thesis Supervisor) ……

Member (Thesis Supervisor) ……

Member (External Expert) ……

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Investment Policy Analysis of Commercial Banks in Nepal (a Comparative Study of Nabil Bank Limited and Nepal Investment Bank Limited)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Jitendra Aryal** of Nuwakot Adarsha Multiple campus.

SHIVA KUMAR CHITRAKAR
Nuwakot Adarsh Multiple Campus
T.U. Reg. No: 29955-91
2nd Year Exam Symbol No.: 2460012

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER-I
INTRODUCTION

1.10 1.1 Background of the Study

Nepalese economy is underdeveloped compared to the huge and rapidly progressive economics of two neighbors. But Nepal is online developing country in the world and slowly has also increasing the trend of the economic condition. The developing of a country is always measured by its economic indices. Therefore every country has given emphasis on uplift of its economy. Now days the financial institution are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. Every well-organized financial institution including financial intermediaries play pivotal role in the development and advancement of the financial sectors of the country. They collect scattered financial resources from the mass and invest them among those who are social activities of the country. This will provide fuel to the development process. The economic activities of the country assistance of the financial institution. They are actually indispensable part of the development process. It is the fact that the unorganized financial system leads the country nowhere. Therefore the central bank (Nepal Rastra Bank) Continuous to play major role in development and advancement of the financial sectors of the country.

Bank is the most important financial institution, which is engaged in monetary transactions. It is an institution, which deals with money by accepting various types of deposit from the depositors under various deposit schemes there by allowing interest on them & also rendering loans on mortgage to deficit unit for productive use by charging interest. Bank accepts various kinds of deposit from the public, which are repayable on demand or on the short notice. Thus, it helps in mobilization of cash from saver groups to user groups.
Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed making loans is the principal economic function of banks to fund consumption and investment spending by businesses, individual, and units of government. How well a bank performs its lending function has a great deal to do with economic health of its region, because bank loans support the growth of new business and jobs within the bank's trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the market place about a borrower's credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources.

For most banks, loans account half or more of their total assets and about half to two thirds of their revenues. Moreover, risk in banking tends to be concentrated in the loan portfolio. When a bank gets into serious trouble, its problems usually springs from loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies, or an unexpected economic downturn. A detailed analysis of the documentation and collateral for the largest loan, a review of a sample of small loans and an evaluation of the bank's loan policy should be properly monitored to ensure that it is sound and prudent in order to protect the public's funds.

Thus it becomes necessary that the funds of the bank, which has been granted as loans, into various sectors be thoroughly inspected to guarantee the protection of the bank against unforeseen risks.

In the present context, the role of money in the economy has become very important. Proper and well-planned management of money – directs, determines and enhances the health and productivity of total financial sector and performance of financial sector affects the growth of the economy. Bank collects, disperses and controls the flow of money. Banks collect the funds from public who has savings and it disperses the fund to the people who are in need of it. This way, whole infrastructure of national development, direction of economy, rate of progress and even the habit of people is being the function of the banking system. Therefore, the existence of bank is for the change in every aspect of human beings and its presence is for the enrichment of the people.

The issue of development always rests upon the mobilization of resources. Bank's function of lending ensures required volume of capital to resources mobilization. Thus, the foundation of resources mobilization is pillared on the bank's function of lending. The primary issue of economic development is to increase the investment in productive sector. The increase in investment affects positively in every sector of economy such as employment, production, income, government revenue, international trade etc. What roles can a bank play to assist the economic development is the main issue that the banking sector in Nepal and sectors around the world is facing today. The liberalization of economy has posed more responsibility and challenges to commercial banks. This has created new areas of probabilities and posed high degree of competition risks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development .The liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry.

The Banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions, such as merchant banking, credit card business, documentary credit, traveler check business etc. Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early day of this business. The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments, and the techniques used in performing these functions.

Lending is not only the most important function of a bank; it also determines the future of banking institutions. The quality of loan, quality of borrower and quality of securities determines the health of any bank. The efficiency of bank lies in how it multiplies the deposits of depositors. Hence, lending should be accompanies by some basic principle and practices. Lending policy is a study in determining the importance of the bank's lending policy towards National economic development because it ensure efficient allocation of funds to achieve the material and economic well being of the society as a whole.

Investment policy is a study in determining the importance of the bank's investment policy towards National Economic Development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regards loan disbursement pattern has been a major catalyst in achieving priority of industries in the context of Nepal's economic development.

All Commercial Banks in Nepal have their own investment policy apart from government policy and Central Bank's rules. Timely evaluation and reform of investment policy is utmost important for strengthening the position of banks.

Talking about the history of bank, an institutional banking system came into existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 30th of Kartik 1994. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank has to look the economic condition of country. Only one Nepal Bank Limited was not sufficient to look all the sector of country. So in 2013 B.S. another bank named "Nepal Rastra Bank" was established as the central bank. Similarly the 2nd commercial bank RastriyaBanijya Bank was established as the second commercial bank of Nepal in Magh 10, 2022 B.S., under RastriyaBanijya Bank Act 2021. This act is now revised as Commercial Bank Act 2031. B.S. "Accepting deposits, granting loan and performing commercial banking functions are the main motto of commercial bank" (Commercial Bank Act, 2031**)**. For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation Act 2016. For the development of agricultural section, Agricultural Development Bank was established on Magh 7th 2024 B.S., under the Agricultural Bank Act 2024 B.S.

The government of Nepal observed the necessities of rapid development of the country for which it has adopted "liberalized economic policy, laissez fair economy and encouraged foreign investment". "The government formed Foreign Investment & Technology Act 1981 A.D. which was later revised as Act 1992 A.D. by new elected democratic government"(Foreign Investment and Technology Act ,1992). The joint venture bank was introduced in Nepal in 2041 B.S. with the establishment of "Nepal Arab Bank Limited". It was established with joint venture of U.A.E bank, financial institution of Nepal.

Among them majority of banks are established in joint venture banks. "A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment, production or trade." *(Gupta, 1984: 15)*

Banking plays a significant role in the development of nations. Bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions. Therefore it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word 'Bank' in different ways. "A commercial bank is dealer in money and it substitutes for money such as cheque or bills of exchange, it also provides a variety of financial service."*(Britannica, 1985:600)*

Commercial banks are major financial institution, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

In the study the word investment conceptualized the investment of income, savings or other collected fund. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate saving. If all the incomes and savings are consumed to solve the problem of hand to mouth and to the other basic needs. Then there is no existence of investment. Therefore, both saving and investment are interrelated. Investment policy is an important ingredient of overall national economy development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In this regards, joint venture bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development.

This study is mainly focused to explore the lending strengths of Nepal Investment Bank Limited and NABIL Bank Limited. Brief profiles of these two banks are given below:

NABIL Bank Limited

NABIL Bank Ltd. is the first joint venture commercial bank in Nepal which has in corporate in Ashadh 29, 2041(1984 A.D.) Dubai Bank Ltd. was the initial foreign joint venture partner with 50% equity investment. The share owned Dubai Bank Ltd, were transferred to Emanates Bank International Ltd. (EBIL) Dubai by north of its annexation with the later on EBIL Dubai sold its entire 50% equity to national Bank Ltd.

Share subscription and capital structure:

Subscription	% Holding
NB (International) Limited	50%
Nepal Industrial Development Corporation	10%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange	0.33%
General Public	30%

Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on

April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

NIBL is managed by a team of experienced bankers and professionals havingproven track record.

1.11 1.2 Statement of the Problem

In developing countries, the contribution on industrial sector is also very low in the output and the employment. In Nepal the commercial bank has played a catalytic role in the economic growth. Its investment range from small-scale cottage industries to large industries making investment in loans and government securities one may always wonder which investment is better. It can be hypothesized that bank portfolio variables like loans, investment, cash reserve, deposit and borrowing affects the national income and Government policy affects these variables. Such as the effect of an interest rate on the bank portfolio variables is of great concern, therefore when monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behavior. Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore the implementation of policy is not in an effective way.

Thus the present study will make a modest attempt to analyze investment policy of NABIL Bank Ltd. and Nepal Investment Bank Ltd. In this study, NABIL Bank investment policy is analyzed comparing it with Nepal Investment bank. Following are the major problems that have been identified for the purpose of this study.

- Do the NABIL Bank and Nepal Investment Bank utilize their available fund?
- Whether these commercial banks are able to meet obligations?
- Is NABIL Bank fund mobilization and investment policy more effective and efficient than Nepal Investment Bank?
- Are they maintaining sufficient liquidity position?

1.3 Objective of Study

Main objective of this study is to examine investment policy of NABIL Bank and Nepal Investment Bank. The specific objectives of the study are as follows:

To assess the liquidity, efficiency and profitability and risk position.

To examine fund mobilization and investment policy of NABIL Bank and Nepal Investment Bank.

To indentify the relationship between net profit and investment, investment and total deposit and deposit and loan and advance.

To analyze the trends of deposits, investment, loans and advances and net profit.

1.12 1.4 Significance of the Study

This study is to find out the existing situation as well as future prospectus of marketing and financial returns. The collected fund is utilized in a good manner as investment then only good return and sustainability or possible. Return on investment first sustains the institution and provides handful income to the investors. The better the investment policy, the more valuable the company, the higher return to shareholders etc. and vice versa. Since the different parties, shareholders, general public and government are directly affected by the investment policy of the financial institutions. The researcher feels the needs to study this policy effects on following stated parties.

- Management of banks
- Financial institution
- Share holder
- General public (customer, depositors and creditors)
- Related parties

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly depend upon the instructions and guidelines of NRB. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way. Thus the present study will make a modest attempt to analyze investment policy of Nepal Investment Bank and NABIL Bank Ltd. This study will provide a useful feedback for academic institution, bank employees, trainees, investors, for financial person, policy making bodies and other concerned people with bank.

1.13 1.5 Limitation of the Study

The followings are limitation of the study:

Most of the data used in the research are of secondary-nature; therefore there might be reporting errors.

This study covers only a five year period i.e. from 2008/09 to 2012/13.

Data which are related to find mobilization as loan & advance investment on government securities and other financial institutions are considered.

This study is based on secondary data from the banks' annual report, different publication, website and journals.

Only two banks Nepal Investment Bank and NABIL Bank are taken as joint venture banks for this study.

1.14 1.6 Organization of the Study

The study has been divided into five chapters:

1.14.1.1 Chapter One: Introduction

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

1.14.1.2 Chapter Two: Review of Literature

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

1.14.1.3 Chapter Three: Research Methodology

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

1.14.1.4 Chapter Four: Data Presentation and Analysis

This chapter deals with analysis and interpretation of the data using financial and statistical tools described in chapter three. This deals with the presentation and analysis of data through a definite course of research methodology. This chapter deals with different statistical tools and financial tools mainly consists of ratio analysis, which involves the liquidity ratio, asset management ratio, profitability ratio, risk ratio and growth ratio. Statistical tools involves test of hypothesis, co-relation analysis and trend analysis have been used to present the data and analyze them which are related to the investment policy and fund mobilization of selected two banks. Similarly this chapter also includes the major finding of the study.

1.14.1.5

1.14.1.6 Chapter Five: Summary, Conclusion and Recommendations

This chapter provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks. Similarly, at the beginning part of the study recommendation, viva-voice sheet, declaration, acknowledgements,

table of content, list of tables, list of figures, and abbreviations are presented and bibliography and appendix are also included at the end.

CHAPTER-II

REVIEW OF LITERATURE

The past on historical know ledge parody the base: therefore the literature is based on the previous knowledge. The effort has been to cover as much literature, articles, thesis and research paper as possible to make the study in informative & broad. This chapter has been divided into two main sections: The four sector of the chapter implores with the can capital frame work of study. Second sectored implores the implores the review of previous studies.

2.1 Conceptual Framework

Investment

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

Investment usually involves putting money into abet, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other tend speculation is usually a shorter than phenomena. Speculators tend to buy assets with expecting of a profit that can be earned from subsequent price change & sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future. Investment is made in assets. Assets in all are of two types' real assets (land, building, factures etc.) and financial assets. These two investments are not competitive but complementary. Highly developed institutions for financial greatly facilitate real investment (Bhattarai, 2005).

Investment is nothing but deploying our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income. The term investment covers a possible where there are a devour saving. If all

the income & saving are consumed to solve the problems of hand to month and to other basis needs then there is non existence of in investment are interrelated.

2.1.1 Sound Lending and Investment Policy Features

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

In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of the money in the hands of others for their use, in return for proper instruments entitling the holders to fixed income payments or the participation in expected profits. But for manufacturing and trading firms, the term investment will be those long-term expenditures that aim at increasing plant, capacity of efficiency or at building up goodwill, thereby producing an increased return over a period. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment (Charles, 1988).

Higher the credit higher will be the profitability. The income and profits of the bank depends upon its lending procedures, lending policy and investment of its funds in different securities. Sound Lending and investment policy is not only prerequisite for banks profitability but also crucially significant for the promotion of commercial savings of a backward country like Nepal. Investment and investment problem will resolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Management of surplus resources is a way as to make it work for providing benefit to the supplier of the funds by letting third party to use such resources. However, the investment needs to be a procedural task. It must follow a definite investment process, which definitely begins for the formulation of proper investment policy. Sound lending and investment policies which must be considered by commercial banks have been studied and presented as follows.

Safety and Security

Bank should never invest funds on those securities, which are subjected to too much for volatility (Depreciation and Fluctuation) because a little alternate 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 minute also. Only durable, marketable and high market valued securities should be accepted.

Profitability

Profit of Commercial Bank depends upon the interest rates, volume of loan, its time period and nature of investment in different securities. It is a fact that maximizes the volume of wealth through the maximization of the return on their investment and lending. So banks must invest funds where they gain maximum profit. Ambition of profit to commercial bank seem reasonable as bank has to cover all the expenses and make payment in the form of dividend to the shareholder who contribute to build up the bank’s capital and interest to

the depositors. For this the bank calculates the cost of funds and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead of investment. A good bank is one who invests most of its funds in different earning assets standing safety from the problem of liquidity i.e., keeping cash reserve to meet day-to-day requirement of the depositors. We know very well that liquidity is maintained at the cost of profitability and vice versa. For a bank, liquidity and profitability are likely two wheels of carts. In the absence of any one of them, the bank cannot forge ahead. A bank is set up to maximize profitability. The profit is excess of incomes over expenses. Banks have to meet following obligation.

- Interest on deposits and borrowings
- Personal expenses
- Operating expenses
- Provision of possible losses
- Reserves

In order to meet aforesaid obligation and to pay maximum dividends to shareholders, the bank is required to make incomes in excess of aforesaid expenses / obligation.

Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Inadequate liquidity damages credit- standing of those organizations. But if banks fail to repay the deposits on demand, the trust of public in the bank fades away. This leads to the "runs" in the bank and bankruptcy thereof. Liquidity is the ability of the firm to satisfy its short-term obligation as they came due. Generally people use to deposits their earning in the different account of the bank, having confidence that the bank will repay their money whenever it is needed. In order to maintain the confidence to the depositors, the bank must

always be ready to meet current or short-term obligation when they become due for repayment. Liquidity is important for motives cited as under:

1. **Transaction Motive**
   a. Withdrawal of deposits
   b. Loan disbursement
   c. Personnel expenses
2. **Speculative Motive**
   a. Foreign exchange holding
   b. Unforeseen opportunities
   c. Potential investments
3. **Precautionary Motive**
   a. To meet contingencies like fines, errors, tax, guarantee invocation etc.

Banks maintain liquidity in the form of:

- Cash and bank balance (first line of defense)
- Placement / money at call or short notice (second line of defense)
- Investment in government securities and other securities readily convertible into cash (third line of defense)

Purpose of Loan

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

Marketability

The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily

realized. The bank must make sure that the securities, in which he invests his funds, are easily saleable without appreciable loss.

Tangibility

A commercial bank should proper tangible security to an intangible one. Thought it may be considered that tangible property does not yield an income apart from intangible securities, which have lost their value due to price level inflation.

Legality

A commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. hiegal secretes will bring out any problems to investors (Bhalla, 1983).

Types of Investment

A particular investor normally determines the investment types after having formulated the investment decision, which is termed as capital budgeting in financial lexicon. With the proliferation of financial markets there are more options for investment types. According to the financial terminology investment means the following:

- Purchasing Securities in Money or Capital Markets
- Buying Monetary or Paper Financial Assets in Money or Capital Markets
- Investing in Liquid Assets like Gold, Real Estate and Collectibles

Investors assume that these forms of investment would furnish them with some revenue by way of positive cash flow. These assets can also affect the particular investor positively or negatively depending on the alterations in their respective values. *(Questa, 1999: 13)*

A) Share Market Investment

Shares are purchased and sold on the primary and secondary share markets. To invest in the share market, investors acquire a call option, which is the right to buy a share, or a put option, which is the right to sell a share. In general, investors buy put options if they expect prices to rise, and call options if they expect prices to fall. For currency rate exchanges, investors may buy a swap option.

The value of a derivative depends on the value of the underlying asset. The various classifications of derivatives relevant to share market investment are:

- Swap
- Futures Contract
- Forward Contract
- Option Contract

Before a share is chosen for investment, a technical analysis of the share is performed. The price and volume of a share over a period of time are tracked and then a business plan is constructed. A fundamental analysis involves a close study of the company associated with the share, and its performance over time. The fundamental analysis is important for the share market investor.

B) Land Investment

Land as investment is a long-term investment and as the price of land all over the world has taken an upswing, this form of investment can be termed as a safe bet. Big development companies, wealthy individuals and well-off farmers have involved themselves in land investment. However, a system for efficient development of land must be in place. With the increase in land prices, investment in land can be very lucrative as capital gains are easily realized. Besides, land is a tangible asset and the investors can use it in their best interests.

Land investment forms a major part of real estate investment. The attachments to lands and buildings are not an essential requirement of land investment and it is the main point of difference between land investment and real estate investment. Land can be termed as the most basic form of asset. The land developer is entrusted with the duty of developing the land. Land appreciates in value with establishment of buildings and other proper amenities on it. *(Pattillo, 1998: 530-531)*

C) Capital Investment

Capital investment is defined as the expenditure that may be incurred by a business organization in order to purchase machineries and other fixed assets. This expenditure is normally beneficial as it lays the foundation for future investments of similar kind. Capital spending is normally performed for categories that are expected to last for more than a single year. The value of the assets being bought with capital spending is supposed to be important as far as the preparation of the cash flow statement is concerned.

As per the capital investment plans, the companies spend primarily on buying new plants or equipments that may be related to their field of work. Nowadays, the number of investors willing to opt for the medium of capital investment is on the rise. The phenomenon of working capital is relevant in the context of capital investment as well as determining a company's operational status. The efficacy of operations of a company is normally inversely proportional to the building up of working capital. Methods like Net Present Value and Internal Rate of Return are employed when the proposals for venture capital investments are judged. *(Hull, 2002: 35-36)*

D) Financial Market Investment

When investing in the financial market, traders are provided with the opportunity to deal in financial securities, commodities and other freely interchangeable goods at affordable rates of transaction. The prices of these are

reflective of effective market speculation. It has been observed that there has been noticeable evolution and an increase in the various financial markets. These markets are making the best of efforts to enhance the factor of liquidity. The different financial markets that are available at the present time are:

- Real Estate Market
- Bond Market
- Commodities Market
- Stock or Equities Market
- Spot or Cash Market
- Forex Market
- Over-the-counter Market
- Derivatives Market *(Gould, 1968: 50)*

There is an existence of general, as well as specialized financial markets in today's world. General markets are where a diverse group of commodities are traded, whereas specialized ones are those, which specialize in dealing with only one kind of commodity or good.

The financial markets of today bring buyers with different interests onto the same platform. This process enables them to locate prospective customers and enhances the efficiency of the market operations as a whole.

E) Stock Investment

The process of stock investment enables the stock traders or investors to trade in securities. Investors can operate individually or under the guidance of investment management companies. The system of stock investment is not devoid of prices and the process involves a considerable amount of risk and uncertainty. The ones who are most likely to be affected by the harsh nature of the stock investment are the new investors and those who are not wise in their decision making process. *(Hull, 2002: 41)*

It could be assumed safely that stock market investment is definitely not the right option if an investor is interested in making quick money. While investing in the stock market it is usual for the investors and the traders to be confronted with expenses like the following:

- Commissions
- Fees to be Paid for Brokerage and other Services
- Taxes

F) Retirement Investment

Retirement investment planning ensures financial security in the post retirement period. The resulting retirement benefits prove to be of great use for retirees. A considerable amount of money should be invested in retirement investment plans. Money must not be withdrawn indiscriminately from retirement accounts. An individual's various retirement investments must be monitored regularly. Both social security and investment in stocks may contribute to an individual's retirement.

The first step to success in retirement investing is to develop the habit of saving early in life. Next, a sound investment strategy is necessary, one which allows for an amount of risk but also enhances the average annual returns on investment. Investment in short-term government bonds and government treasury bills are two examples of areas for retirement investment. *(Questa, 1999: 28)*

G) Real Estate Investment

Real estate can broadly be defined as immovable property. Land and things attached to it in permanence, such as buildings, come under the category of real estate. Investment in real estate has its fair share of risks. But one advantage of real estate is that it gives the owner the right to transfer the title to the land.

Real estate investors often own more than one unit of real estate. The investor uses one unit as his or her residence and accrues rental income from the others. Investment in real estate also involves value appreciation of property over time, which leads to capital gains. The whole program of real estate investment is a long-term process. *(Pattillo, 1998: 535)*

H) Gold Investment

Gold investment is a long-term investment scheme involving low risks. People willing to invest in gold have a natural advantage because the demand for gold is much more than its actual supply. The price of gold is generally in a continual rise. However, investors should not invest all their funds in one kind of gold investment. The gold industry is huge and has many facets, and a savvy investor can exploit this. Money can be invested directly in gold mines, for example, which can be more lucrative than investing in physical gold. *(Lucas, 1967: 81)*

Gold investors prefer to buy gold in its cheapest forms such as krugerrands, sovereigns and bars. Gold bars are the cheapest while gold sovereigns, because of their smaller size, are worth paying an extra premium for.

I) Portfolio Investment

Portfolio investment refers to the passive holdings of the financial securities such as foreign stocks, foreign bonds and other foreign financial assets, which are not under the control of the investors.

Unlike foreign direct investment, the issuers of securities do not control the portfolio investment. The foreign direct investment involves the investors to make investment to acquire the lasting interest in the enterprises that are operational outside the domestic economy. A typical foreign direct investment relationship allows the parent enterprise and a foreign affiliate to form together a transnational corporation.

The portfolio investments are primarily connected with the portfolio diversification process and the examples of portfolio investment are:

- Purchasing of shares in a foreign company
- Purchasing of bonds that is issued by a foreign government
- Acquisition of the assets in a foreign country. *(Cox and Ross, 1976: 148)*

The developing countries use the portfolio investment as a growing tool in the economy and take some measures to encourage the use of portfolio investment. While going for liberalization and economic reforms in order to bring about the substantial and rapid economic growth, the government takes up some policies and instruments. The portfolio investment is one of the most famous financial instruments that are taken up by government to enhance the economic growth. The foreign direct investments are also encouraged by the developing countries while going for the economic reforms. *(Lucas, 1967: 84)*

J) Business Investment

Business investment can give investors a chance to invest in different kinds of businesses. Business investment can be a good option for the investors to manage their own portfolios.

A number of business investment opportunities exist. Investors may choose from different business investment plans depending on the market conditions and trends. Business investment typically means purchasing an asset in the form of stocks or bonds with a hope of getting returns and interest in the future. Companies also release their shares and bonds in the capital market in order to collect money for some financial purpose. The assets that are purchased may be physical, intangible, or financial depending on the nature of the asset. *(Jarrow and Turnbull, 1999: 102-103).*

Business finance, on the other hand, refers to the business finance loan, which is one of the easiest ways to acquire funds for a company. Considering the cutthroat competition of the business world, having financial support seems to be crucial. Finance is the most important aspect for an entrepreneur both in order to start a new business and to expanding an existing business.

K) Equity Investment

Equity investment refers to the trading of stocks and bonds in the share market. It is also referred to as the acquisition of equity or ownership participation in the company.

An equity investment is typically an ownership investment, where the investor owns an asset of the company. In this kind of investment there is always a risk of the investor not earning a specific amount of money. Equity investment can also be termed as payment to a firm in return for partial ownership of that firm. An equity investor, in some cases, may assume some management control of the firm and may also share in future profits. *(Eisner and Strotz, 1963: 35-36)*

In order to understand equity investment properly, it is necessary to see the technical and fundamental analysis. The technical analysis of equity investment is primarily the study of price history of the shares and stock market. A fundamental analysis of equity investment involves the study of all available information that is relevant to the share market in order to predict the future trends of the stock market. The annual reports, industry data and study of the economic and financial environment are also included in the fundamental information of equity investment.

2.1.2 Some Important Terms

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

Deposits

It means the amounts deposited in different accounts such as fixed account, current account and saving account of a bank or any financial institution. Deposits are the important source of liquidity for commercial banks. It is also the main source of fund that the bank generally uses for the generation of profit. Therefore, the efficiency of deposits depends on its ability to attract deposits. Deposits are being the borrowed amount from the depositors or from the general public or any institution. Depending upon the nature of deposit, interest rate is determined. There are also the deposits for which the interest is not offered, bank keeps them safely and repays on demand. Personal customers can have savings, current, fixed and recurring deposits account with the bank while business customers are normally not authorized to have savings and recurring deposits account. Deposits constitute the liability of bank. Bank deposits are the amount that it owes to the customers. Deposits are the lifeblood of the banks. Though bank has bulk of bank liabilities, success of bank depends upon the extent they may attract more and more deposits. There are many factors, which affect the deposits, which are as follows.

- Types of customer
- Physical facilities of bank
- Management and accessibility of customer
- Range of the services provided by the bank
- Interest rate paid on deposits

Further economic condition influence on the amount of deposits the bank receives. The three headings of deposits are as follows.

- Current account
- Fixed account
- Saving account

Loan and Advances

Loan, advances and overdraft are the main source of income for a bank. Bank deposit can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. Banks give loans to the needy customers for productive purposes. Loans are given to the business customers to meet their working capital and long-term requirement. Personal customers take loans against their fixed deposit and for consumer credit. Small loans for productive purpose are also given to personal customer. In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan and other purpose. In mobilization of commercial bank funds, loans, advances and overdrafts have occupied a large portion. They are the main source of income. Deposits can be crossed beyond a desired level but loans, advances and overdrafts will never cross it. These facilities provide services, which enjoy the customer of the bank. The funds borrowed from banks are much cheaper than the money borrowed from unorganized moneylenders. Increase in economic and business activities with the lower interest rate increases the demand for loan. Due to the limited resources with the growing demand there is fear that Commercial banks and other Financial Institutions take more preferential collateral while granting loans bothering the customers. There is an undesirable effect of too low interest rate.

Investment on Government Securities, Shares and Debentures

Bank invests to earn interest and dividend in these government securities and debentures, which are the secondary source of income. A commercial bank extends credit purchasing on Government securities, shares and debentures for some reasons, which are as follows.

- It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by depositors or large loans demand of the customers.
- It may wish to have high grade marketable securities to liquidate, if its primary source of reserves becomes inadequate.

- It may also be forced to invest because the demand for loan has decreased or it is not sufficient to absorb its excess reserve. However, investment portfolio of Commercial bank is established and maintained with a view to the nature banks liability. This is because depositors may demand funds in great volume without previous notice to the banks. The investment must be a type that can be marketed quickly with little or no shrinkage in value.

Investment on other companies share and debentures

Due to excess fund but least opportunity of the profitable investment and also to meet the requirement of NRB directives commercial bank utilizes funds to purchase shares and debentures of other companies (Financial and non Financial). Like most commercial banks purchase shares of regional development banks, NIDC and other development banks.

Off-balance Sheet Activities

Off-balance sheet activities involve contracts for future purchase sale of assets and all these activities are contingent obligations. These are not recognized, as assets are liabilities on balance sheet. Some good examples of these items are letter of credit (L/C), letter of guarantee, bins of collection etc. Now days, some economist and finance specialists to expand the modern, transaction of a bank stressfully Highlight sub activities. (Feorge, 1996).

2.2 Review of NRB Directives

Nepal Rastra Bank is the central monitoring body of the financial institutions of Nepal. For the smooth and effective operations of FI, the bank provides circulars in regular time interval. The circular related to the investment are as follows;

a) Provision for Investment in Deprived Sector

Commercial banks are compulsorily required to extend their credit and investment in the deprived sector such as co-operative institutions and the rural banks that are licensed through NRB. The new provision obligates the commercial banks to invest 4.0 % of the total loan and advances to the deprived sector.

b) Provision for Investment in Productive Sector

Nepal, being a developing country needs to develop infrastructure and other primary productive sectors like agriculture, industry etc. For this, NRB has directed commercial banks to extend at least 40% of their credit to the productive sectors like agriculture sector and industrial sectors.

c) Investment in Stocks and Securities

Commercial banks are also required to minimize exposures to risk involved in investing the deposits of the saver and other financial resources at their disposal in earning assets. Commercial banks are required to compile and submit their financial reports keeping in view:

- Nepal Rasta Bank Act
- Commercial Bank Act
- International Accounting System
- Nature and type of their respective transaction
- Directives of the Nepal Rastra Bank
- Monetary and Financial Statistics Manual of IMF

d) Investment Management Regulation

A commercial bank formulating a written policy may decide to invest in shares and securities of an organized institution. However, such investment is restricted to 10% of paid up capital of the organization. However, the cumulative amount of such investment in all the companies in which the bank has financial interest shall be limited to 20% of the paid up capital of the bank. But the total amount of investment in share and securities of the organized institution is restricted to 30% of the paid up capital of the bank.

Likewise, Commercial Banks are not allowed to invest in any shares, securities, and hybrid investment issued by any banks and financial institutions licensed by NRB. Where such investment exists prior to issuances of this directive, such investment brought within the restrictive limitation by the FY 2003/04. However, investments on rural microfinance development banks' share are free from such restriction. (NRB Directives, 2013)

2.2.1 Review of Unpublished Dissertation

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

Shrestha, (2007) conducted a study on *"A Comparative Analysis on Investment performance of commercial banks in Nepal"* with the following objectives:

- To analyze the investment activities and fund mobilization with respect to fund based on-balance sheet transactions and fee based off-balance sheet transactions
- To study the asset utilization system, profitability and risk position of commercial banks under study
- To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit
- To appraise the suggestion on the basis of findings for further growth of the banks under study

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The liquidity position of NIBL was Stronger than NABIL and HBL. At the same time, liquidity position of NIBL was highly fluctuating, which showed

that NIBL bore higher risk than other two banks. NIBL had the least investment in Government Securities, which considered the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets. From the trend analysis study, it was found that all banks were mobilizing their total deposits into loans and advances in increasing trend which was the indication of efficient mobilization.

Maharjan R. (2007), "*Investment Policy Analysis of Joint Venture Banks in Nepal*" a comparative study of HBL bank with Nepal SBI bank and Nepal Bangladesh Bank. The objectives of the study were;

- To examine the current profitability trend of the selected banks.
- To evaluate the investment policy of the banks.
- To analyse the impact of investment policy on the performance of the sample banks.

The major findings were;

- HBL is one of the successful commercial banks of Nepal whereas Nepal SBI and Nepal Bangladesh are in increasing developing period.
- HBL has made a great achievement within last 10 years period and also said that only joint venture commercial banks are running in profit. And HBL is one of the successful commercial banks of Nepal. Nepal SBI is still in developing period. Nepal Bangladesh is also increasing its developing period. HBL has made a great achievement within last 10 years period. It has also invested in different sectors. These commercial banks should take favorable step for the development of rural parts of the country.

Joshi J. (2008), "*Investment Policy of Commercial Bank of Nepal" a comparative study of EBL with NABIL Bank and BOK"*. The objectives of the study were;

- To find out the capital position and their profit trend for the upcoming years.
- To analyze the investment policy of the sample banks.
- To evaluate the deposit position and loan and advances and different types of loans.

The major findings were;

- EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.
- Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque scheme, house building deposit scheme, recurring deposit scheme, deposited linked life insurance scheme, monthly interest scheme, direct finance housing scheme, education loan and scheme, vehicle loan scheme, and many others.

- It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. EBL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal.
- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said "all eggs should not be kept in the same basket".
- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund. So it is recommended that the bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositor's.
- The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle. Rather, before taking any of the risk as stated above, EBL should carefully study it so as to achieve higher returns from the above risk.

Ojha L.P. (2009), "*Lending Practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd."* with the objectives of;

- To determine the liquidity position, the impact of deposit in liquidity and its effect on; lending practices.
- To measure the bank's lending strength.
- To analyze the portfolio behaviour of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.

- To measure the lending performances in quality, efficiency and its contribution in total income.

The research findings of the study are:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- The loan and advances and investment to deposit ratio has shown that NABIL Bank Ltd. has developed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose.

Thapa D. (2011), *"Investment Policy of Nepal Bangladesh Bank Limited and Other Joint Venture Banks".* The main objectives were as follows;

- To analyze the relationship between loan and advance and total investment with other financial variable of NB bank and compare them with NABIL and NGBL.
- To evaluate the liquidity, asset management efficiency, profitability and risk position of NB bank in comparison to NABIL and NGBL.
- To study the various risks in investment of NB bank in comparison to NABIL and NGBL.

The major findings were as follows;

- NB Bank has good deposit collections, it has better liquidity postion, it has made enough loan and advances but has made the negligible amount of investment in government securities.
- The credit risk ratio, interest risk ratio, capital risk ratio, and profitability position of NB bank is comparatively worse than that of NABIL and NGBL.
- Also there is significant relationship between deposit and loan and advances, outside assets and net profit of NB bank. But there is no significant relationship between deposit and Investment of NB bank and the position of NB bank in regard to utilization of fund to earn profit is not better in comparison to NABIL and NGBL.

Khatiwada M. (2011), "*Investment Analysis of Commercial Banks in Nepal*" a comparative study of NEB, NSBIBL, BOK, HBL & NIBL. The major objectives were;

- To analyze the investment policy of sample banks.
- To examine the investment trend of sample banks.
- To analyze investment sector of sample banks.
- To examine the effect of investment policy on performance.

The major findings of the study were;

- Mean ratio of HBL investment to total commercial banks investment is 10.64% which is extremely higher than other banks. The portion of HBL investment is increasing every year. The ratios of NSBIBL and BOK is 3.61% which is less than other banks.
- NSBIBL had invested most of its fund in government securities than other banks. Likewise, EBL, BOK, HBL, and NIBL had started to invest in other sector from FY 2062. All these banks have invested fewer funds in share and capital of other companies. The commercial banks mostly

invests on government securities, NRB bond and share and debentures of other company.

- The mean ratio of Investment of Total deposit of HBL is 31.60% which is higher than other banks. Likewise NIBL, BOKL, EBL and NSBIL. Loan and advances is also another type of Investment of Commercial bank. The mean ratio of Investment plus loan and advances to deposit ratio of NSBIBL is 107.63% which is higher than other banks, HBL has less than other banks. It shows that the bank uses most of its fund from deposit on Investment and loan and advances. The mean ratio of total investment to total assets ratio of HBL is 26.88% which is greater than other banks. Similarly EBL has fewer ratios than other banks. The mean ratio of investment on government securities to total assets ratio of NSBIBL is 20.80% which is higher than other banks and NIBL has 11.44% which is less ratio than other banks. The mean ratio of investment on share and debenture to total asset ratio of BOKL is 2.31% which is higher than other banks. BOKL has use its more fund on share and debenture of other companies than other banks. EBL has 0.11% which is less ratio of investment on share and debenture of other companies than other banks. It means EBL less invest its fund on share and debenture.

2.3 Research Gap

All of the previous studies made are concerned with comparing the total investment with the total flow of loan and advances, and do not enlightens on each component of the investment. This research is comparatively different from other researches, which I followed while preparing it. The other researches of investment policy are mainly based on comparison of two banks i.e. commercial bank NABIL Bank Limited and Standard Chartered Bank Nepal Limited. Therefore three commercial banks have taken as sample bank for research, which makes this research different with others. Tracing this defect, the present study is conducted to analyze

the investment priority given by the banks in each component of the investment, such as treasury bond, development bonds, corporate securities and debentures, interbank lending and so on.

CHAPTER-III
RESEARCH METHODOLOGY

Research Methodology, describes the methods and process applied in the entire aspects of study. Every research should be outlined in a systematic manner and for that reason Research Methodology is one of the most important parts of every research. In fact, Research Methodology is a way to systematically solve the research problems.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and proves applied in the entire aspect of the study. This study helps to conclude the real position of Nepal Investment Bank and NABIL Bank Ltd. The study will seek the conclusion to the point that what position NABIL and has got in whole commercial banks of Nepal and recommend the useful and meaningful points so that all concerned can achieve something from this study. To accomplish the global, the study follows the research methodology described in this chapter.

1.15 3.1 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the over-all operational pattern or framework of the project that stipulates what information is to be collected from which source by what procedures.

Descriptive as well as analytical approaches have been adopted in this study. This is a comparative study of two commercial banks. This study mainly has been based on secondary data of NIBL and NABIL Bank Ltd. The data relating to the investment, deposit, loan and advance and profit directly obtained from the balance sheet and profit and loss account. The main source of data assessed under the study includes, concerned banks i.e. NIBL and NABIL bank. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, ministry of finance, Central library, and department library.

Various data and information are collected from the economic, journals, periodicals, magazines and publications etc. Regression analysis of microeconomic variables both bank, significance test of correlation via hypothesis t- testing and trend analysis are used in this study.

3.2 Sources of Data

The data upon which this study is made are basically secondary in nature. The secondary data have been collected from financial statements, annual reports, and other published and unpublished official records of concerned companies. All the collected data and information have been properly arranged, synthesized, tabulated and calculated to arrive at the realistic analytical steps.

1.16 3.3 Population and Sample

There are 31 commercial banks in Nepal. Whose shares are traded actively in stock market, hence it is not possible to study all of them because the research is going to be conduct in a limited period of time as well as resources play a vital role.

The sum of different commercial bank in Nepal is taken as total Population. In this study, two joint venture banks NABIL and NIBL have been taken into account for research purposes as samples to compare their investment policy. The population is as follows:

1.17 3.4 Analysis and Presentation of Data

The analysis of data will be done according to the pattern of data available. To achieve the objective of the study various financing, accounting and statistical tools have been used to achieve the objective of study. This studies some financial and statistical tools to accomplish the objectives of this study.

1.17.1

1.17.23.4.1 Financial Tools

Financial tools help to show the mathematical relationship between two accounting items or figure. Ratio analysis is the only tools that can collect the financial performance and status of a firm with the other firms. Ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Only ratio has been covered in this study, which is related to investment policy of banks. This study contains following ratios;

A. Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short terms liabilities that are likely to mature in the short period. Such insights can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of advertise it is the measurement of speed with which a bank's assets can be converted into cash to meet deposit with drawl and other current obligations. Under liquidity ratio are evaluated as below;

1.17.2.1 I. Current ratio

Ability for payment of current debt from current assets is current ratio. It refers to the relationship between current assets and a current liability 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 notice, loans and advance, overdraft bill purchased and discounted, investment on govt. securities and other interest receivables and misc. current assets. Similarly, current liabilities involve deposit and other short term loans, tax provision, dividend payable, bills payable, staffs bonus and sundry liabilities. Current ratio is calculated by diving current assets by current liabilities. It can measured as,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilitie s}}$$

2:1 standard of current ratio is acceptable.

II. 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. Cash and banks balance includes cash in hand, foreign cash and banks. This ratio computed by diving cash and bank balance by total deposit. This can be presented as:

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current Assets}}$$

Higher ratio shows the higher capacity of firms to meet the cash demand.

III. Investment on govt. securities to Current Assets Ratio

Investment on government securities includes treasury bills, development bonds; saving bonds etc. This ratio is used to find the percentage of current assets invested on govt. securities, treasury bills and development bonds. This ratio can be computed by diving investment on govt. securities by current assets. This can be stated as:

$$\text{Investment on govt. securities to Current Assets} = \frac{\text{Investment on govt. securities}}{\text{Total Current Assets}}$$

IV. Loan and advance to Current Assets Ratio

Loan and advance includes loans, advances, cash credit, loan and foreign bills purchase and discounted. This ratio can be computed by dividing loan and advances by current assets. This can be stated as:

$$\text{Loan and advance to current assets ratio} = \frac{\text{Loan and advance}}{\text{Current assets}}$$

V. Cash Reserve Ratio

For the security of the deposit holders, NRB has made provision of making the cash reserve in NRB from the total deposit. The existing cash reserve requirement is 5.5%, while that till in previous year was 5.0%. Nonetheless, the reason for behind such requirement is to ensure good liquidity in bank.

$$\text{CAR} = \frac{\text{Cash balance at NRB}}{\text{Total Local Deposit}}$$

B. Assets Management Ratio

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following ratios are used under this assets management ratio.

I. Loan and advance to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total deposit on loans and advances for profit generating purpose of earning profit. This can be stated as:

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

Where, greater ratio shows the better utilization of total deposits.

II. Loan and advances to total working fund ratio

This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Total working fund includes total amount of assets given in balance sheet which refers to current assets, net assets, total

loans and advance other sundry assets expect off balance sheet items i.e. letter of credit, letter of guarantee etc. This ratio can be stated as;

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

III. Total investment to total deposit ratio

Investment is one of the major credits created to earn income. This implies the utilization of firm's deposit on investment in govt. securities and share debentures of other companies and banks. This ratio can be obtained by diving total investment by total deposit. This can be mentioned as;

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

IV. Investment on government securities to total working funds ratio

This ratio shows that banks' investment on government securities in comparison to total working funds. This ratio is calculated by dividing investment on govt. securities by total working fund. This is presented as;

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

V. Investment on shares and debenture to total working fund ratio

Investment on share and debentures 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. Where, total investment includes investment on govt. securities, investment on debenture and bonds, shares of other companies. That can be calculated as:

Investment on shares and debenture to total working fund ratio

$$= \frac{\text{Investment on shares and debenture}}{\text{Total working fund}}$$

1.17.2.1.1.1

1.17.2.1.1.2 C. Profitability Ratio

Profitability ratios are very helpful to measure the measure the overall efficiency of operations of a firm. It is a true indicator of the financial performance of any institution. For better financial performance, profitability ratios of firms should be higher. It position of the firms can be presented through the following different ways:

I. Interest earned to total operating income ratio

It 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 it can be stated as:

$$\text{Interest earned to total operating income ratio} = \frac{\text{Total interest earned}}{\text{Operating income}}$$

II. Return on total assets

Return on assets ratio measures the profitability position of the selected banks and finance companies in comparison with total assets of those selected firms. This ratio is calculated by dividing net profit by total assets (working fund). This can be stated as:

$$\text{Return on total assets (working fund)} = \frac{\text{Net profit}}{\text{Total working fund}}$$

This numerator indicates the portion of income, which is left to the internal equities after deducting all costs, charges and expenses.

III. Return on loan and advance ratio

Return on loan and advances ratio shows how efficiently the banks and the finance companies have utilized their resources to earn good return from provided loan and advances. This can be mentioned as:

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

IV. Total interest earned to total working fund ratio

This ratio find out the percentage of interest earned to total assets. Higher ratio indicates the better performance on financial institutions in the firm of interest earning on its working fund. This is mentioned as:

$$\text{Total interest earned to total working fund ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

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 others deposits. This ratio can be calculated by dividing total interest paid by total working fund. This can be stated as:

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

D. Risk Ratio

Risk taking is the prime business of bank's investment management. When a firms bear risk and uncertainty, profitability and effectiveness of the firm increases. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the bank investment policy. In this study, following risk ratios are used to analyze and interpret the financial data and investment policy.

I. Credit risk ratio

Credit risk ratio helps to check the profitability of loan non-repayment or the possibility of loan to go into default. It risk ratio is expressed as the percentage on non-performing loan to total loan and advances. Here, dividing total loan and advances by total assets derives this ratio. This can be stated as:

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

II. 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 is profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank. This can be stated as:

Liquidity risk ratio = $\frac{\text{cash and bank balance}}{\text{Total deposit}}$

1.17.3

1.17.43.4.2 Statistical Tools

To analyze the data, we take various statistical tools are used. Therefore every researcher has chosen the most important and suitable tools to reach the financial decision.

i) Arithmetic Mean

ii) Standard Deviation

iii) Coefficient of Variation (C.V.)

iv) Correlation Coefficient (r)

v) Coefficient of Determination (r^2)

vi) Probable Error of Correlation

vii) Trend Analysis

A. Arithmetic Mean

Arithmetic Mean of a given set of observations is the sum of he observation divided by the number of observations. In such as case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis

We have,

$$\text{Mean } (\overline{X}) = \frac{\Sigma x}{n}$$

Where $\sum x$ = sum of all values of the observations

n = Number of observation

x = Value of variables

B. Standard Deviation

The standard deviation usually denoted by the letters (σ). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis.

We have,

Standard Deviation = $\sqrt{\frac{\Sigma(x-\bar{x})}{n}}$

C. Coefficient of Variation (C.V.)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 time coefficient of standard deviation is called coefficient of variation. It is denote by C.V. Thus,

C.V. = $\frac{\sigma}{\bar{x}} x100\%$

Where σ = Standard Deviation

$\overline{X}$ = Mean Value of Variables

The distribution having less C.V. is said to be less variable or more consistent. A distribution having greater C.V. is said to be more variable or less consistent.

D. Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by '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 = no of observation in series X and Y
$\sum X$ = Sum of observation in series X
$\sum Y$ = Sum of observation in series Y
$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y
$\sum XY$ = Sum of the product of observation in series X and Y

E. Coefficient of Determination (r^2)

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

F. Probable Error of Correlation

The probable error of the co-coefficient of correlation helps in interpreting its value; it is obtained the following formula.

$$P.E. = 0.6745\frac{1 - r^2}{\sqrt{n}}$$

It is used in interpretation whether calculated value of 'r' is significant or not.

1. If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.
2. If r > P.E., it is significant.
3. In other cases nothing can be concluded.

G. Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. The linear trend values from a series in arithmetic progression.

Mathematically,

$$Y = a + bX$$

Where,

Y = Value of dependent variable
a = Y- intercept
b = slope of trend line
X = value of the dependent variable i. e. time

Normal equation of the above are

$$\sum Y = Na + \sum X$$
$$\sum XY = a\sum X + \sum X^2$$

CHAPTER-IV
PRESENTATION AND ANALYSIS OF DATA

In this chapter secondary data are collected, analyzed and evaluated those major financial items, which are mainly related to the comparison of investment management and fund mobilization of NIBL and NABIL. The calculated ratios are statistically analyzed.

1.18 4.1 Financial Tools

Financial analysis is the process of identifying strength and weakness of the organization presenting the relationship between the items of balance sheet. Financial ratio related to the investment management and the fund mobilization are presented and discusses to evaluate analyze the performance of two commercial banks; NIBL and NABIL. All these calculations are based on financial statements of concerned banks.

1.18.14.1.1 Liquidity Ratio

This ratio measures the firm's ability to meet its maturing short term obligations. Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Commercial banks collect the fund from community of commitment of return their money when 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. The following ratios are evaluated and interpreted under liquidity ratio. Liquidity position of NIBL and NABIL are comparatively studies through following ratios.

1.18.1.1 4.1.1.1 Current Ratio

This ratio is computed dividing current assets by current liabilities; indicates the extent to which the claims of short-term creditors are covered by asset expected to cover for cash in the near future. This ratio shows the relationship between cash and other current assets to its current liabilities. The current ratio standard deviation and coefficient of variation of NIBL and NABIL are given in the following tables.

Table 4.1

Current Ratio

(*Rs. In Thousands*)

Bank	NABIL			NIBL		
Fiscal Year	Current Assets	Current Liabilities	Ratio (Times)	Current Assets	Current Liabilities	Ratio (Times)
2008/09	17337623	14469856	1.20	44095727	42449147	1.04
2009/10	29576256	25527562	1.16	46211873	42053175	1.10
2010/11	35980683	31621871	1.14	46260199	43888429	1.05
2011/12	41395550	31910554	1.30	53835129	48658874	1.11
2012/13	47586194	30284953	1.57	58974811	53217208	1.11

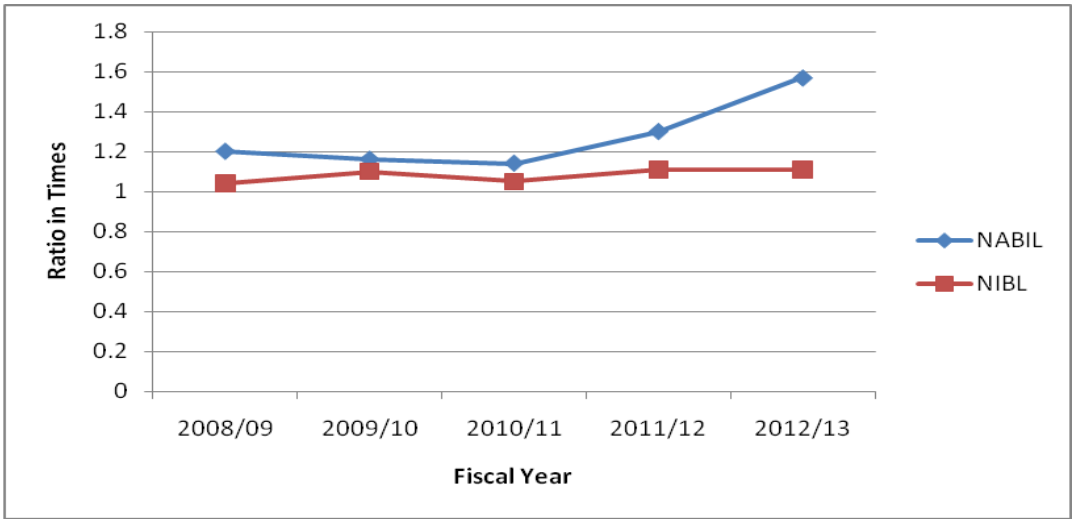
Mean			1.27			1.08
S.D.			0.18			0.03
C.V.			13.97			3.00

Source: Appendix I

From the table 4.1 it is clear that the current assets of NIBL and NABIL are sometime more than current liabilities in all fiscal year. It indicates that both banks sound ability to meet there payable in short term obligations due to more current assets than current liabilities. The table shows that the current ratios of both of the banks are in fluctuating trends. The current ratio in NABIL is ranged from 1.14 times in fiscal year 2010/11 to 1.57 times in fiscal year 2012/13. Similarly, the ratio is ranged from 1.04 times in fiscal year 2008/09 to 1.11 times in fiscal year 2012/13.

In average, the current ratio of NABIL (1.27 times) is higher than that of NIBL (1.08 times). It shows that the liquidity position of NABIL is better than that of NIBL. The co-efficient of variation of variation of NABIL is greater than NIBL i.e. 13.97% > 3.00%. It can be said that current ratio of NIBL is more consistent then of NABIL.

Figure 4.1
Current Ratio



1.18.1.2 4.1.1.2 Cash and Bank Balance to Current Assets Ratio

This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the bank to make the quick payment of its customer's deposits. A high ratio indicates the sound ability to meet their daily cash requirement of their customer's deposit. But high ratio is not preferred, as the bank has to pay more interest on deposit and will increases the cost of fund. Bank should be maintained sufficient and appropriate cash reserve properly for the customers demand against deposit when required and less interest is required to be paid against the cash deposit.

Table 4.2
Cash and Bank Balance to Current Assets Ratio

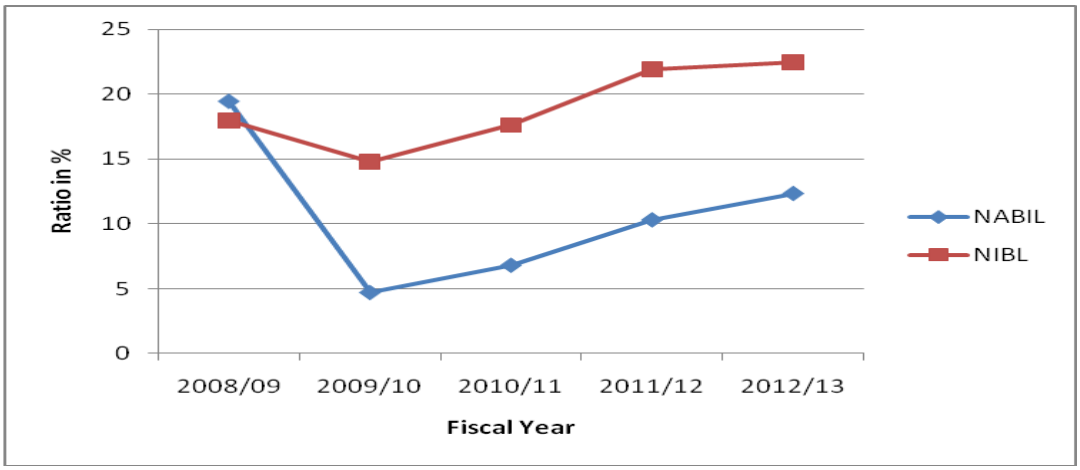
(*Rs. In Thousands*)

Bank	NABIL			NIBL		
Fiscal Year	**CBB**	**Current Assets**	**Ratio (%)**	**CBB**	**Current Assets**	**Ratio (%)**
2008/09	3372512	17337623	19.45	7918003	44095727	17.96
2009/10	1400097	29576256	4.73	6815890	46211873	14.75
2010/11	2458549	35980683	6.83	8140371	46260199	17.60
2011/12	4275821	41395550	10.33	11803751	53835129	21.93
2012/13	5882568	47586194	12.36	13252088	58974811	22.47
Mean			10.74			18.94
S.D.			5.70			3.23
C.V.			53.08			17.05

Source: Appendix I

The table 4.2 shows the cash and bank balance to current ratio of NABIL and NIBL. The table shows that banks ratios are in fluctuating trend. The cash and bank balance to current ratio of NABIL has maximum ratio is 19.45% in fiscal year 2008/09 and minimum of 4.73% in fiscal year 2009/10. Likewise, NIBL has also maximum ratio in fiscal year 2012/13 as 22.47% and minimum of 14.75% in fiscal year 2008/09. Observing the same ratio, they are also not maintain their in the same level through the study period. The comparative tables listed above shows that the mean ratio of NABIL lower than that of NIBL i.e. 10.74% < 18.94%. It supports the conclusion that NABIL has been not successful to maintain its higher cash and bank balance to current assets ratio in comparison. However co-efficient of variation of NABIL is 53.08% which is comparatively higher than NIBL bank i.e. 17.05%. Thus it can be conclude that NIBL is high capable for maintained cash and bank balance in comparison to NABIL.

Figure 4.2
Cash and Bank Balance to Current Assets Ratio



1.18.1.3 4.1.1.3 Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of commercial banks current banks current assets, which invested on different government securities. More or less, each commercial bank is interested to invest their collected fund on different types of securities issued by govt. in different times to utilize their excess funds and have for other purpose. Though govt. securities are not as 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.

Table 4.3
Investment on Government Securities to Current Assets Ratio

(*Rs. In Thousands*)

Bank	NABIL			NIBL		
Fiscal Year	Investment on Govt. Sec.	Current Assets	Ratio (%)	Investment on Govt. Sec.	Current Assets	Ratio (%)
2008/09	3706102	17337623	21.38	2531300	44095727	5.74
2009/10	7973664	29576256	26.96	3621850	46211873	7.84
2010/11	8745230	35980683	24.31	4294600	46260199	9.28
2011/12	7993093	41395550	19.31	6169485	53835129	11.46
2012/13	7914002	47586194	16.63	5985490	58974811	10.15
Mean			21.72			8.89
S.D.			4.06			2.20
C.V.			18.70			24.74

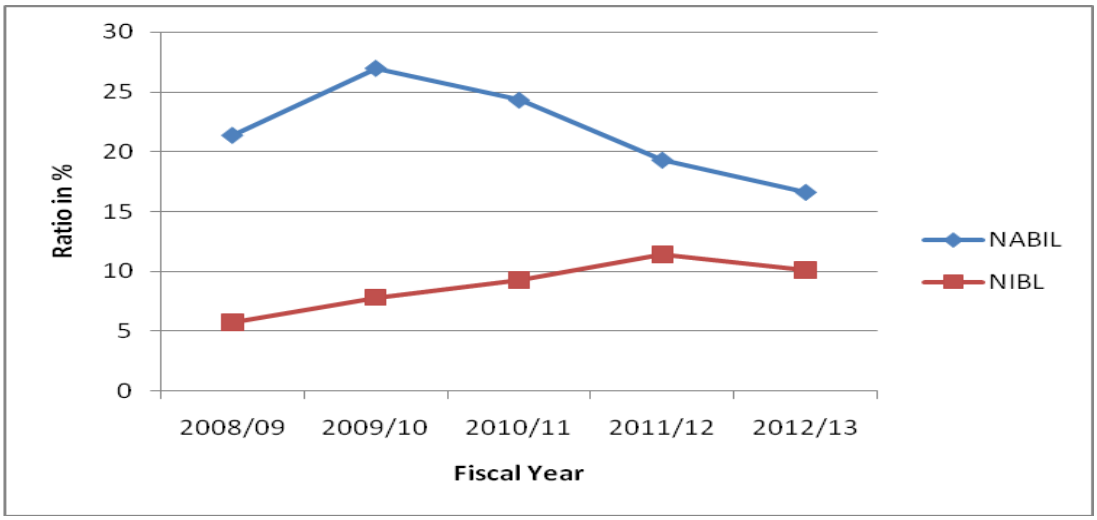
Source: Appendix I

The table 4.3 shows the ratio of investment on government securities to current ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. The table shows the ratios of NABIL is in fluctuating trends whereas the ratio in noble is in increasing trend except in fiscal year 2012/13. NABIL has more investment on government securities in fiscal year 2009/10 and minimum in fiscal year 2012/13 and NIBL has more investment on government securities in fiscal year 2011/12 and minimum in

fiscal year 2008/09. It shows the mean of government securities to current ratio of NABIL is higher than the NIBL i.e. 21.72% > 8.89%. It means NABIL has invested much portion of current assets than NIBL bank. On the other hand, co-efficient of variation of NABIL is less than NIBL i.e. 18.70% < 24.74%. Which means that the variability's of ratios of NABIL is more consistent and homogenous than of NIBL.

Figure 4.3

Investment on Government Securities to Current Assets Ratio



1.18.1.4 4.1.1.4 Loan and Advances to Current Assets Ratio

A commercial bank should be invested as loan and advance to the customers to make more profit by mobilizing its fund in the best way. It should pay interest on those unutilized deposit funds and may lose some earning if a bank cannot be granted sufficient loan and advances. Loan and advances are also included in the current assets of a commercial bank because generally it provides short-term loan, advance, overdrafts and cash credit. The table below shows that ratio of loan and advance to current to current assets ratio of NIBL and NABIL.

Table 4.4

Loan and Advances to Current Assets Ratio

(*Rs. In Thousands*)

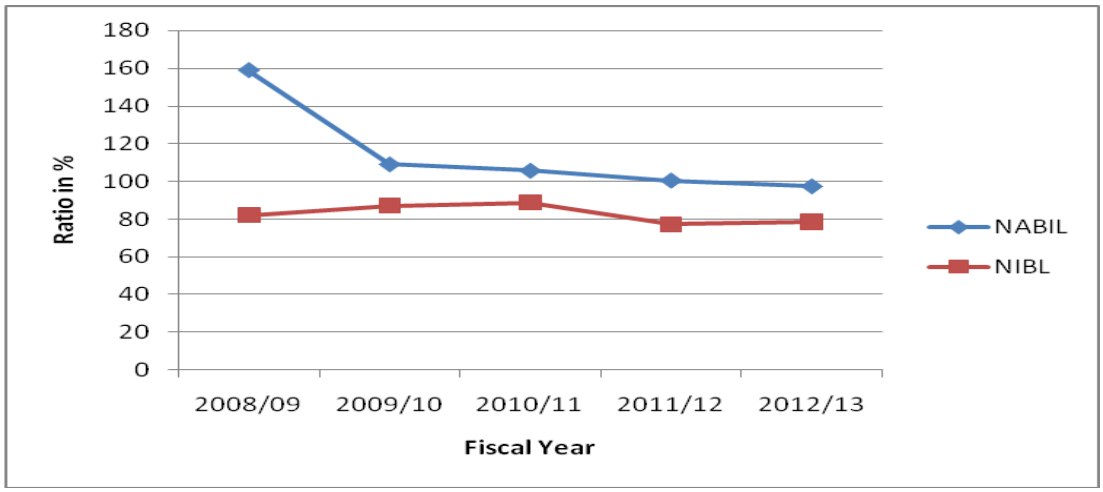
Bank	**NABIL**			**NIBL**		
Fiscal Year	**Loan and Advance**	**Current Assets**	**Ratio (%)**	**Loan and Advance**	**Current Assets**	**Ratio (%)**
2008/09	27589933	17337623	159.13	36241207	44095727	82.19
2009/10	32268873	29576256	109.10	40318308	46211873	87.25
2010/11	38034097	35980683	105.71	41095514	46260199	88.84
2011/12	41605683	41395550	100.51	41636999	53835129	77.34
2012/13	46369835	47586194	97.44	46400054	58974811	78.68
Mean			114.38			82.86
S.D.			25.42			5.08
C.V.			22.23			6.13

Source: Appendix I

The above table 4.4 shows the loan and advance to current assets ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. The above table shows that NABIL has decreasing trend of loan and advance to current assets ratio and NIBL has fluctuated trend on their loan and advance to current assets ratio. The ratio in NABIL is ranged from 97.44% in fiscal year 2012/13 to 159.13% in fiscal year 2008/09. In case of NIBL it has ranged from 77.34% in fiscal year 2011/12 to 88.84% in fiscal year 2010/11.

While examining the mean ratio, NABIL has maintained 114.38% which is higher than NIBL i.e. 82.86% and co-efficient of variation ratio is greater in NABIL than NIBL In this case, NIBL is poor its fund as loan and advances with respect to current assets in comparison to NABIL. The mean reveals that NIBL loan advances to current are satisfactory level but overall liquidity position of NIBL is not satisfactory than of NABIL.

Figure 4.4
Loan and Advances to Current Assets Ratio



4.1.1.5 Cash Reserve Ratio (CRR)

To ensure adequate liquidity in the commercial banks in order to meet the depositors demand, NRB has put the directives to maintain certain percent of total deposit in NRB by the commercial banks, which is known as cash reserve ratio. The CRR maintained by NABIL and NIBL are presented in the below table.

Table 4.5
Cash Reserve Ratio

(Ratio in %)

Year	NRB Requirement	NABIL	NIBL
2008/09	5.5	9.03	10.32
2009/10	5.5	3.02	7.77
2010/11	5.5	4.9	7.67
2011/12	5	8.6	13.60
2012/13	6	9.3	16.00
Mean		6.97	11.07
S.D.		2.84	3.66
C.V.		40.72	33.10

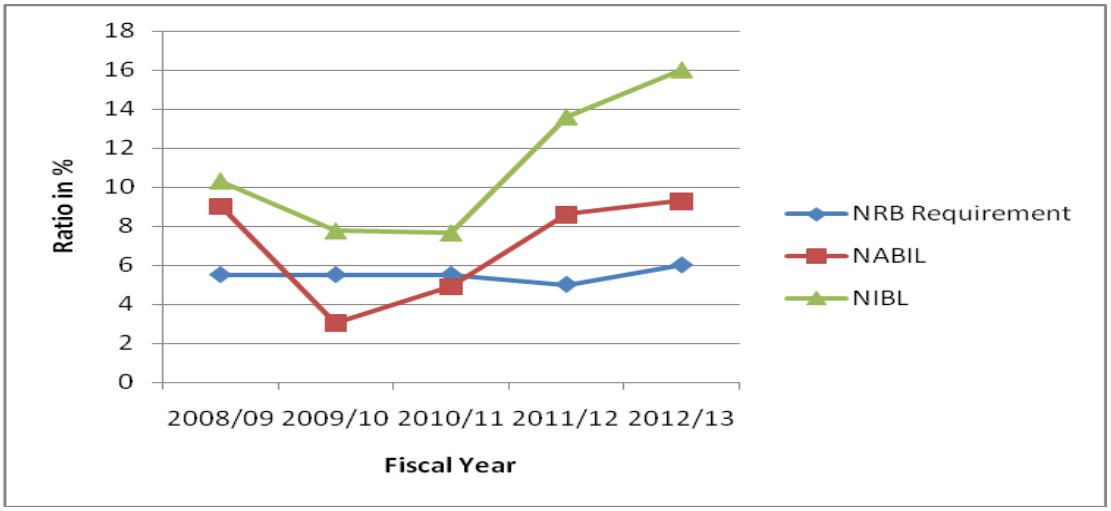
Source: Appendix I

The above table 4.5 shows the cash reserve ratio of NABIL and NIBL during the study period 2008/09 to 2012/13. The table has shown that the ratio in NABIL fluctuated during the five years period. The ratio is 9.03% in the fiscal year 2008/09, which decreased to 3.02% in the fiscal year 2009/10 and then increased to 9.30% in the fiscal year 2012/12. NABIL has failed to keep cash reserve ratio in compliance with NRB requirement for the fiscal year 2009/10 and 2010/11. In average, NABIL has maintained 6.97% as cash reserve ratio.

However, NIBL has kept the cash reserve ratio in compliance with the NRB's minimum requirement during the study period. The cash reserve ratio maintained by NIBL is 10.32%, 7.77%, 7.67%, 13.60% and 16% in fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, NIBL maintained 11.07% as cash reserve ratio.

Comparing two banks on the basis of cash reserve ratio, it can be considered the liquidity position of NIBL is better than that of NABIL.

Figure 4.5
Cash Reserve Ratio



1.18.24.1.2 Asset Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manages the resources its commands. The following ratios measured the assets management ability of the NIBL and NABIL in comparison.

1.18.2.1 4.1.2.1 Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan advances. The table below shows the ratio of loan and advances to total deposit ratio of NIBL and NABIL.

Table 4.6
Loan and Advance to Total Deposit Ratio

(*Rs. In Thousands*)

Bank	**NABIL**			**NIBL**		
Fiscal Year	**Loan and Advance**	**Total Deposit**	**Ratio (%)**	**Loan and Advance**	**Total Deposit**	**Ratio (%)**
2008/09	27589933	37348256	73.87	36241207	46698100	77.61
2009/10	32268873	46410700	69.53	40318308	50094725	80.48
2010/11	38034097	49696113	76.53	41095514	50138122	81.96
2011/12	41605683	55023695	75.61	41636999	57010604	73.03
2012/13	46369835	63609809	72.90	46400054	62428845	74.32
Mean			73.69			77.48
S.D.			2.73			3.84
C.V.			3.70			4.95

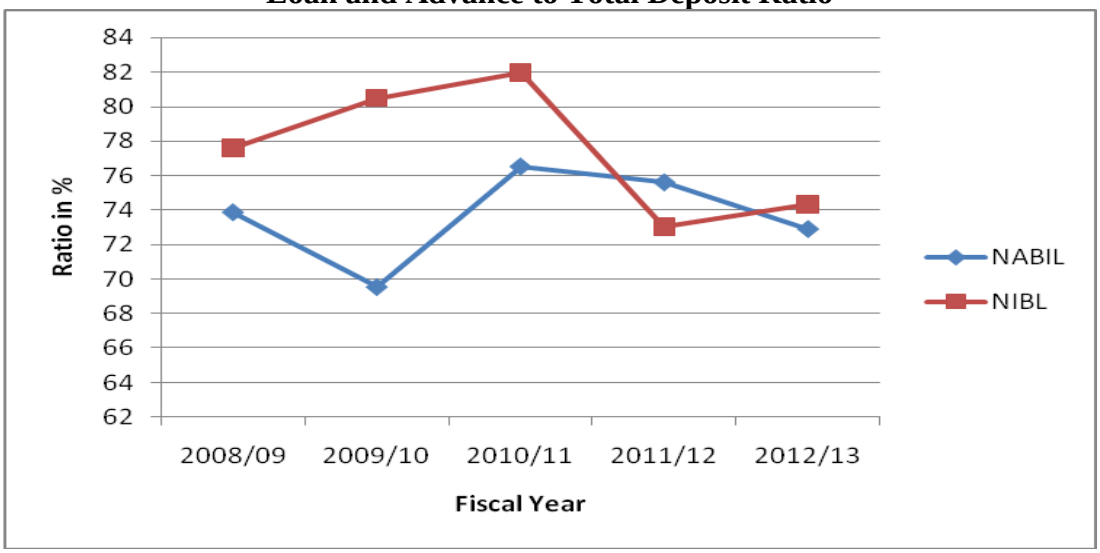
Source: Appendix I

The above table 4.6 shows the loan and advance to total deposit ratio of NABIL and NIBL. The table shows that NABIL have maintained fluctuated trend on their loan and advance to total deposit ratio. The loan and advance to total deposit ratio of NABIL is ranged from 69.53% in fiscal year 2009/10 to 76.53% in fiscal year 2010/11. In an average 73.69% of the total deposit fund has been mobilized by NABIL in providing loan and advance.

Likewise, the loans and advances to total deposit of NIBL are also in fluctuating trends and the ratio are 77.61%, 80.48%, 81.96%, 73.03% and 74.32% in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, 77.48 % of the total deposit fund has been mobilized by NIBL in providing loans and advances. The coefficient of variation on the ratio is only 4.95%, which has indicated higher consistency in the variability ratio.

In average, the mean ratio of NIBL has maintained i.e. 77.48% which is higher than NABIL i.e. 73.69% so it can be concluded that NIBL is aggressive NABIL in mobilizing the total deposit in loans and advances. And co-efficient of variation ratio is greater than NABIL i.e. 3.70% is lower than NIBL i.e. 4.95% it indicates the variability in the ratio is more consistent in NABIL than in NIBL.

Figure 4.6
Loan and Advance to Total Deposit Ratio



1.18.2.2 4.1.2.2 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 an effort has been made to measure the extent to which the bank are successful in mobilizing the total deposit on investment. Total investment includes government securities, share, debenture and other. Below table exhibits this ratio of the NIBL and NABIL.

Table 4.7

Total Investment to Total Deposit Ratio

(*Rs. In Thousands*)

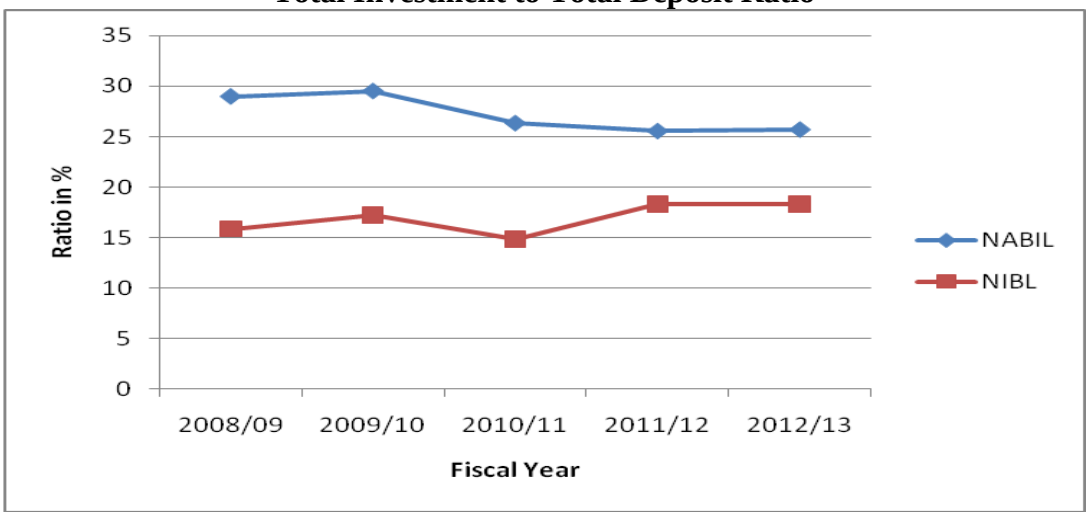
Bank	**NABIL**			**NIBL**		
Fiscal Year	**Total Investment**	**Total Deposit**	**Ratio (%)**	**Total Investment**	**Total Deposit**	**Ratio (%)**
2008/09	10826379	37348256	28.99	7399812	46698100	15.85
2009/10	13703024	46410700	29.53	8635530	50094725	17.24
2010/11	13081205	49696113	26.32	7423106	50138122	14.81
2011/12	14048966	55023695	25.53	10438487	57010604	18.31
2012/13	16332043	63609809	25.68	11435268	62428845	18.32
Mean			27.21			16.90
S.D.			1.90			1.55
C.V.			6.99			9.17

Source: Appendix I

The above table 4.7 shows the investment to total deposit ratio of NABIL and NIBL. From table above NABIL have fluctuating trend regarding the ratios. During the study period NABIL has highest ratio in fiscal year 2009/10 i.e. 29.53% and lowest ratio in fiscal year 2011/12 i.e. 25.53%. Similarly, the investment to total deposit ratio of NIBL also is in fluctuating trends and ranged from 14.81% in fiscal year 2010/11 to 18.32% in fiscal year 2012/13.

The mean investment to total deposit ratio of NABIL is greater than NIBL i.e. 27.21% > 16.90% so be concluded that NABIL is most efficient in utilizing the total deposit than NIBL and co-efficient of variation less in NABIL (6.99%) than in NIBL (9.17%) which shows that the ratio is more consistent in NABIL than in NIBL.

Figure 4.7
Total Investment to Total Deposit Ratio



1.18.2.3 4.1.2.3 Loan and Advance to Total Working Fund Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances. Total working fund includes current assets, fixed assets and other assets which are a must to run an organization successfully. The table 4.8 exhibits this ratio of the NIBL and NABIL.

Table 4.8
Loan and Advance to Total Working Fund Ratio

(*Rs. In Thousands*)

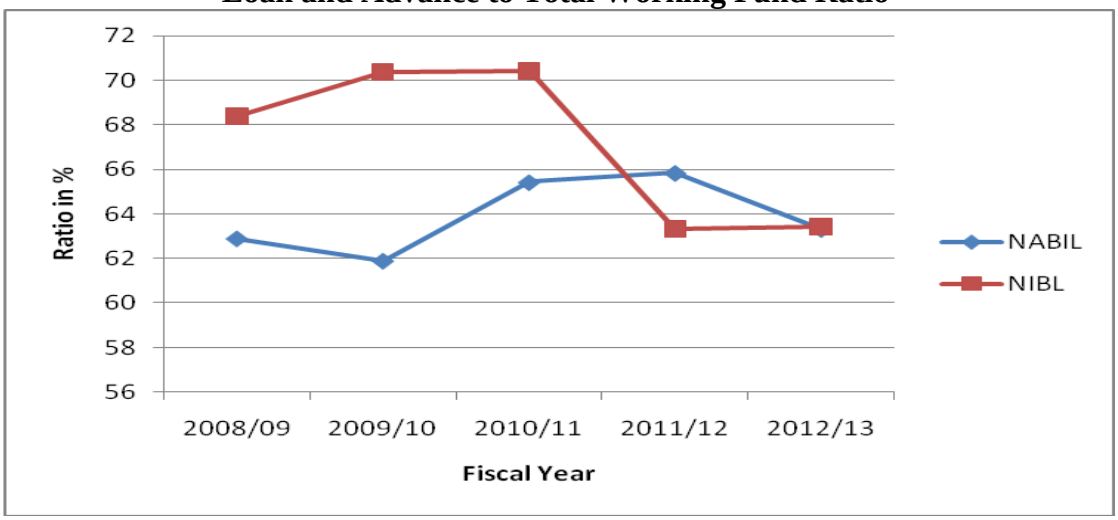
Bank	NABIL			NIBL		
Fiscal Year	**Loan and Advance**	**Total Working Fund**	**Ratio (%)**	**Loan and Advance**	**Total Working Fund**	**Ratio (%)**
2008/09	27589933	43867398	62.89	36241207	53010803	68.37
2009/10	32268873	52151683	61.88	40318308	57305413	70.36
2010/11	38034097	58141437	65.42	41095514	58356827	70.42
2011/12	41605683	63193414	65.84	41636999	65756232	63.32
2012/13	46369835	73241259	63.31	46400054	73152155	63.43
Mean			63.87			67.18
S.D.			1.70			3.57
C.V.			2.66			5.31

Source: Appendix I

The table 4.8 shows the loan and advance to total working fund ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. The loan and advance to total working fund ratio of NABIL is in fluctuating trends and ranged from 61.88% in fiscal year 2009/10 to 65.84% in fiscal year 2011/12. Likewise, NABIL has also in fluctuating trend of loan and advance to total working fund ratio. The highest ratio is 70.42% in fiscal year 2010/11 and lowest ratio is 63.32% in fiscal year 2011/12.

On the basis of mean ratio of loan and advance to total working fund NIBL is greater than NABIL i.e. 67.18% > 63.87% from this it can say that NIBL is strong condition to mobilize its total working fund as loan and advance than NABIL. Co-efficient of variation of NIBL is greater than NABIL i.e. 5.31% > 2.66% from this it can say that NIBL is less consists than NABIL.

Figure 4.8
Loan and Advance to Total Working Fund Ratio



1.18.2.4

1.18.2.5 **4.1.2.4 Investment on Government Securities to Total Working Fund**

Government securities are not risky therefore any investor gives first priority to invest in this secured sector and so does a bank. This ratio reveals that the banks are successful in mobilizing their total working fund on different types of govt. 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 government securities. A high ratio indicates better mobilization of fund as investment on government securities. The table below shows the ratio of investment on govt. securities to total working fund of NIBL and NABIL.

Table 4.9

Investment on Government Securities to Total Working Fund

(*Rs. In Thousands*)

Bank	NABIL			NIBL		
Fiscal Year	Investment on Govt. Sec.	Total Working Fund	Ratio (%)	Investment on Govt. Sec.	Total Working Fund	Ratio (%)
2008/09	3706102	43867398	8.45	2531300	53010803	4.78
2009/10	7973664	52151683	15.29	3621850	57305413	6.32
2010/11	8745230	58141437	15.04	4294600	58356827	7.36
2011/12	7993093	63193414	12.65	6169485	65756232	9.38
2012/13	7914002	73241259	10.81	5985490	73152155	8.18

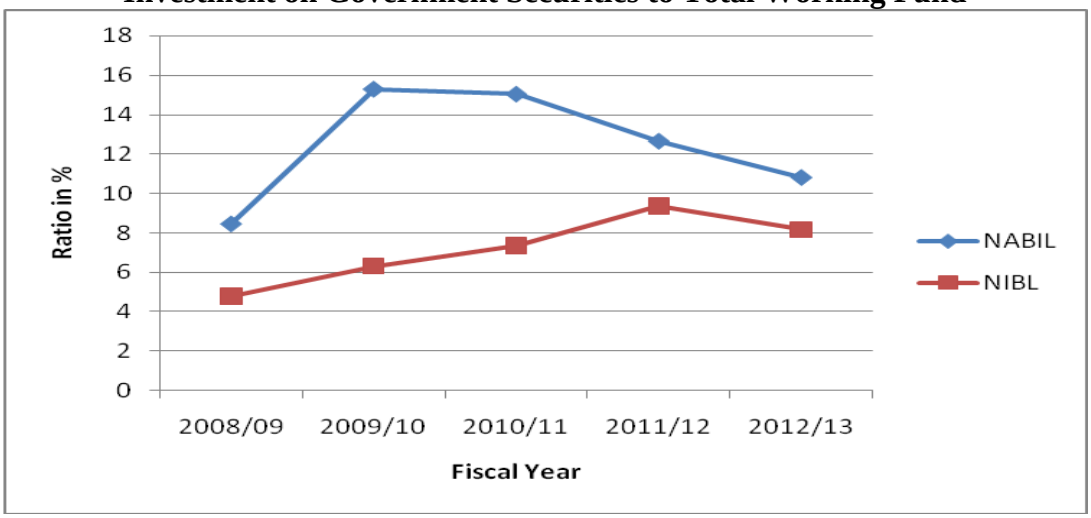
Mean			12.45			7.20
S.D.			3.17			1.93
C.V.			25.48			26.83

Source: Appendix I

The table 4.9 shows the investment on government securities to total working fund ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. From the table 4.9 it is clearly seen that investment on government securities to working fund ratio of NABIL has fluctuated trend. The ratio of NABIL is ranged from 8.45% in fiscal year 2008/09 to 15.29% in fiscal year 200910. Similarly the investment on government securities to total working fund ratio of NIBL is in increasing trends except in fiscal year 2012/13. NIBL has highest ratio is 9.38% in fiscal year 2011/12 and lowest ratio is 4.78% in fiscal year 208/09.

Comparing the mean ratio of investment on government securities to total working fund NIBL seems too weak to mobilize its working fund as investment in government securities than NABIL i.e. 7.20% < 12.45%. Co-efficient of variation of NIBL (26.83%) during study is higher than NABIL (25.48%) that means NIBL is less consistence than NABIL. So from this analysis, it can be conclude that the NIBL has invested less portion of working fund on government securities than NABIL and also NIBL is less homogeneous than NABIL.

Figure 4.9
Investment on Government Securities to Total Working Fund



1.18.2.6 4.1.2.5 Investment on Share and Debenture to Total Working Fund Ratio

Investment on share means to purchase shares of other companies and firms that are issued to operate business. And the share-holder may hold either voting right or be a member of board of directors. And the investment on debentures means being a debt holder with fixed interest income but do not hold the voting right generally. Investment on shares and debentures to total working fund ratio reflects the extent to which the banks are successful to mobilize their total working fund on purchase of share and debentures of other companies to generate income and utilize excess fund.

A high ratio indicates more portion of investment on share and debenture out to total working fund.

Table 4.10
Investment on Share and Debenture to Total Working Fund Ratio

(*Rs. In Thousands*)

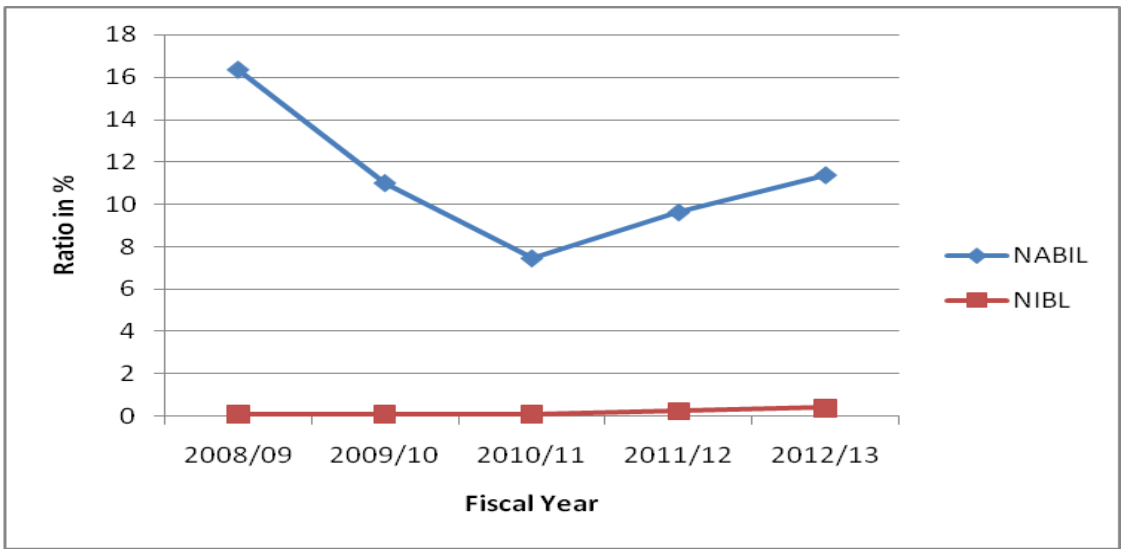
Bank	NABIL			NIBL		
Fiscal Year	**Investment on Share & Debenture**	**Total Working Fund**	**Ratio (%)**	**Investment on Share & Debenture**	**Total Working Fund**	**Ratio (%)**
2008/09	7165659	43867398	0.62	64270	53010803	0.12
2009/10	5738010	52151683	0.31	66645	57305413	0.12
2010/11	4337640	58141437	0.33	72911	58356827	0.12
2011/12	6080673	63193414	0.32	174412	65756232	0.27
2012/13	8327290	73241259	0.29	305346	73152155	0.42
Mean			0.37			0.21
S.D.			0.14			0.13
C.V.			37.48			63.27

Source: Appendix I

The above table 4.10 shows the investment on share and debenture to total working fund ratio of NABIL and NIBL during the study period 2008/09 to 2012/13. From the table 4.10 shows that the both bank have invested nominal percentage of total working fund into shares and debentures of other companies, in all fiscal year the ratio percentage is less than 1%. However in comparing NABIL has invested slightly higher amount on share and debentures of other companies in the study period.

On the basis of mean investment on share and debenture to total working fund ratio, it can be stated that NABIL has invested higher amount in share and debentures in comparison to NIBL i.e. 0.37% > 0.21%. Moreover co-efficient of variation of NABIL ratio is lower than that of NIBL i.e. 37.78% < 63.27%. It means investment ratio of NABIL is more consistent than that of NIBL. From the above analysis, it is clear that NABIL has invested higher percentage of its total assets on shares and debentures of other companies in comparison to NIBL.

Figure 4.10
Investment on Share and Debenture to Total Working Fund Ratio



1.18.3

1.18.44.1.3 Profitability Ratios

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, and grab hidden investment opportunities, expand banking transaction in different places, finance govt. in need of development funds etc, a commercial bank have to earn sufficient profit. Here, mainly those major ratios are presented and analyzed through with the effort has been made to measure the profit earning capacity of NIBL and NABIL comparatively.

1.18.4.1 4.1.3.1 Return on Total Assets Ratio

Return on assets ratio measures the profitability with respect to each financial resources investment of the bank assets if the bank's working fund is well managed and efficiency utilized, return on such assets will be higher. Minimizing taxes within the legal options available will also improved the return. The following table shows that profitability position with respect to total assets.

Table 4.11

Return on Total Assets Ratio

(*Rs. In Thousands*)

Bank	NABIL			NIBL		
Fiscal Year	NPAT	Total Assets	Ratio (%)	NPAT	Total Assets	Ratio (%)
2008/09	1031053	43867398	2.35	900619	53010803	1.70
2009/10	1141051	52151683	2.19	1265949	57305413	2.21
2010/11	1337745	58141437	2.30	1176641	58356827	2.02
2011/12	1689392	63193414	2.67	1039276	65756232	1.58
2012/13	2218762	73241259	3.03	1915028	73152155	2.62

Mean			2.51			2.02
S.D.			0.34			0.42
C.V.			13.66			20.51

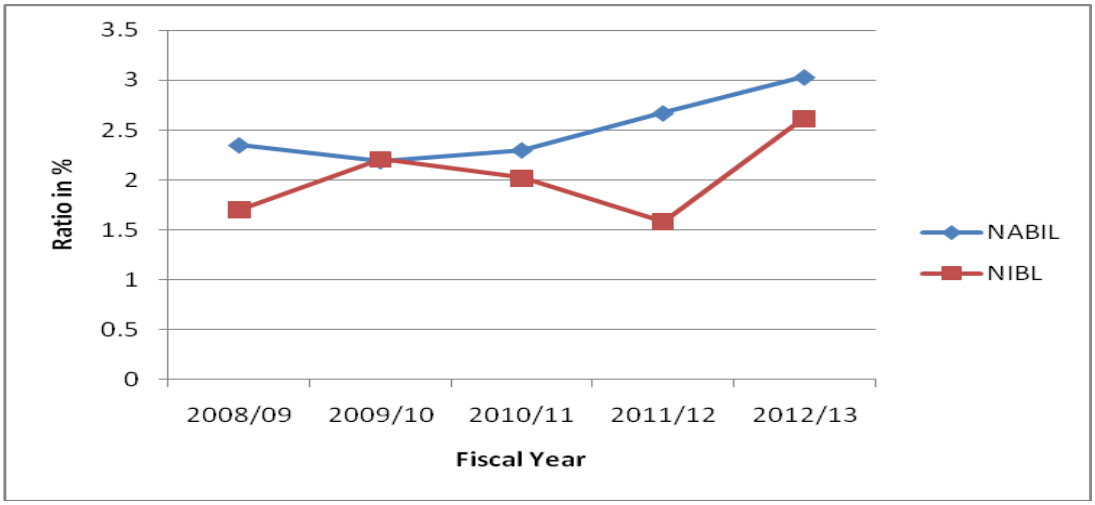
Source: Appendix I

The above table 4.11 shows the return on total assets ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. From the table 4.11 it shows that the return on total assets ratio of NABIL is in increasing trends except in fiscal year 2008/09. The ratio is ranged from 2.19% in fiscal year 2009/10 to 3.03% in fiscal year 2012/13. In average, the NABIL has generated 2.51% of its total assets investment as net profit. However, the ratio followed fluctuated trend in NIBL, i.e. from 1.70% in the fiscal year 2008/09 to 2.21% in fiscal year 2009/10 and eventually decreased to 1.58% in the fiscal year 2011/12 and finally increased to 2.62% in final year 2012/13. NIBL has converted 2.02% of its total assets in net profit in average with 20.51% of coefficient of variation.

Comparing the return on assets of two banks, the return on assets of NABIL is higher than that of NIBL which clearly indicated that NABIL is more successful in generating profit from the investment in total assets than other two banks and NABIL is strong position in the earning capacity by utilizing available resources than NIBL.

Figure 4.11

Return on Total Assets Ratio



1.18.4.2

1.18.4.3 **4.1.3.2 Total Interest Earned to Total outside Assets Ratio**

It reflects that the extent to which the bank is successful to earn interest as major income on all the outside assets. Higher the ratio higher will be the earning power of total outside assets. This is very important ratio as the main asset is the outside assets of a commercial bank. Total outside assets includes loan and advance and government securities, share, debenture and other. The table below shows total interest earned to total outside assets ratio of NIBL and NABIL.

Table 4.12

Total Interest Earned to Total outside Assets Ratio

(*Rs. In Thousands*)

Bank	**NABIL**			**NIBL**		
Fiscal Year	**Interest Income**	**Outside Assets**	**Ratio (%)**	**Interest Income**	**Outside Assets**	**Ratio (%)**
2008/09	2798486	38416312	7.28	3267941	43641019	7.49
2009/10	4049714	45971897	8.81	4653521	48953838	9.51
2010/11	5254030	51115302	10.28	5803440	48518620	11.96
2011/12	6126855	55654649	11.01	5982641	52075486	11.49
2012/13	5702123	62701878	9.09	5878272	57835322	10.16
Mean			9.30			10.12
S.D.			1.43			1.77
C.V.			15.42			17.51

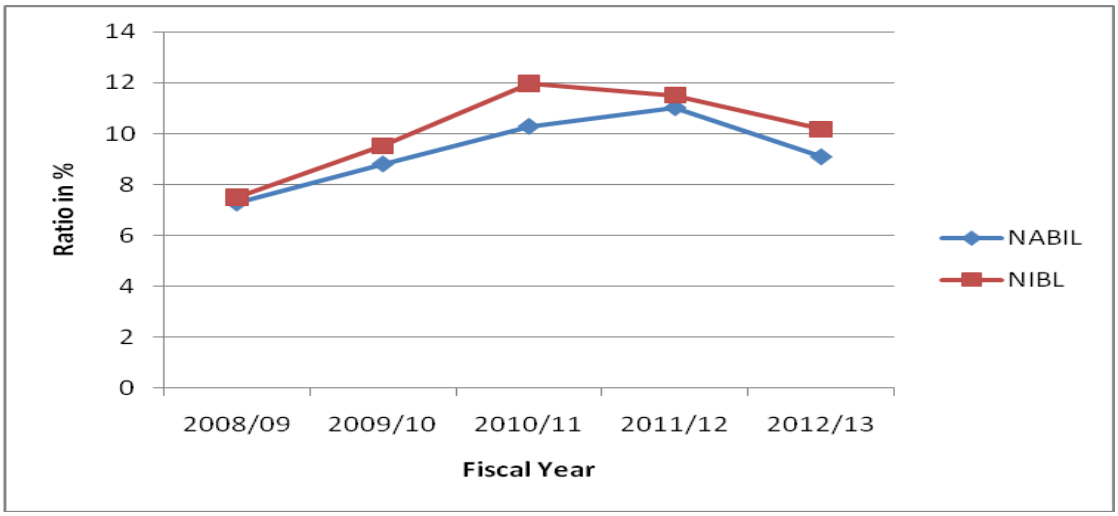
Source: Appendix I

The above table 4.12 shows the interest income to total outside assets ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. From the table 4.12 it shows that the ratio of NABIL is in increasing trend except in fiscal year 2012/13. NABIL has highest ratio is 11.01% in fiscal year 2011/12 and lowest ratio is 7.28% in fiscal year 2008/09. Similarly, the interest income to total outside assets ratio of NIBL is in

fluctuating trends and ranged from 7.49% in fiscal year 2008/09 to 11.96% in fiscal year 2010/11.

On the basis of mean interest income to total outside assets ratio NIBL is greater than NABIL i.e. 10.12% > 9.30%. Co-efficient of variation of NIBL is greater than NABIL i.e. 17.51% > 15.42%. From the above analysis it can be concluded that NIBL had been succeed in comparison to NABIL in the view point of mean interest income to total outside assets ratio and NIBL is less consistent than NABIL in the view point of C.V.

Figure 4.12
Total Interest Earned to Total outside Assets Ratio



1.18.4.4 4.1.3.3 Return on Loan and Advance Ratio

This ratio measures the earning capacity of commercial bank through its mobilized fund as loan and advances. A high ratio indicates greater success to mobilized fund as loan and advances. Loan and advances include loan cash credit, overdraft bills purchases and discounted. The following table shows that return on loan and advances ratio of NIBL and NABIL of this period.

Table 4.13

Return on Loan and Advance Ratio

(*Rs. In Thousands*)

Bank	NABIL			NIBL		
Fiscal Year	NPAT	Loan and Advance	Ratio (%)	NPAT	Loan and Advance	Ratio (%)
2008/09	1031053	27589933	3.74	900619	36241207	2.49
2009/10	1141051	32268873	3.54	1265949	40318308	3.14
2010/11	1337745	38034097	3.52	1176641	41095514	2.86
2011/12	1689392	41605683	4.06	1039276	41636999	2.50
2012/13	2218762	46369835	4.78	1915028	46400054	4.13

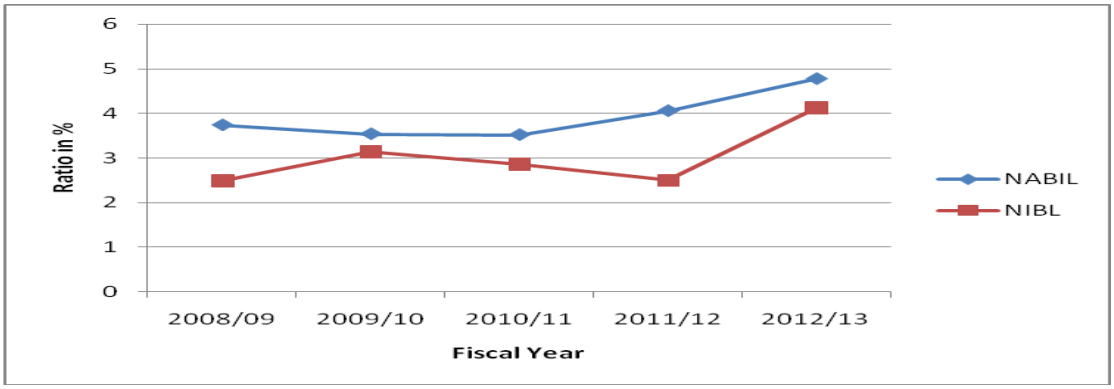
Mean			3.93			3.02
S.D.			0.53			0.68
C.V.			13.42			22.35

Source: Appendix I

The above table 4.13 shows the return on loan and advance ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. The table 4.13 shows that the return on loan and advance ratio on NABIL is in increasing trends except in fiscal year 2008/09. The return on loan and advance ratio of NABIL is ranged from 3.52% in fiscal year 2010/11 to 4.78% in fiscal year 2012/13. The average return on loan and advance ratio of NABIL is 3.93%. Similarly, the ratio in NIBL is in fluctuating trends. The ratio of NABIL is 2.49% in fiscal year 2008/09 to 3.14% in fiscal year 2009/10 and decreased to 2.50% in fiscal year 2011/12 and finally increased to 4.13% in fiscal year 2012/13. The average return on loan and advance ratio of NIBL is 3.02%.

The mean return on loan and advance ratio NIBL is less than NABIL i.e. 3.02% < 3.93%. So we can say NABIL is strong to mobilize the fund based on loan and advances to return than NIBL. On the other hand, co-efficient of variation of NIBL is greater than NABIL i.e. 22.35% > 13.42%. Thus we can be concluded that NABIL is consistent than NIBL.

Figure 4.13
Return on Loan and Advance Ratio



1.18.4.5 4.1.3.4 Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund ratio reflects the extent to which the banks are successful in mobilizing their total assets to acquire income as interest. This ratio actually reveals the earning capacity of a commercial bank by mobilizing its working fund. Higher the ratio higher will be the income as interest. The following table shows total interest earned to total working fund ratio of NIBL and NABIL throughout the reviewing period.

Table 4.14
Total Interest Earned to Total Working Fund Ratio

(*Rs. In Thousands*)

Bank	**NABIL**			**NIBL**		
Fiscal Year	**Interest Income**	**Total Working**	**Ratio (%)**	**Interest Income**	**Total Working**	**Ratio (%)**

		Fund			Fund	
2008/09	2798486	43867398	6.38	3267941	53010803	6.16
2009/10	4049714	52151683	7.77	4653521	57305413	8.12
2010/11	5254030	58141437	9.04	5803440	58356827	9.94
2011/12	6126855	63193414	9.70	5982641	65756232	9.10
2012/13	5702123	73241259	7.79	5878272	73152155	8.04
Mean			8.13			8.27
S.D.			1.28			1.41
C.V.			15.78			17.10

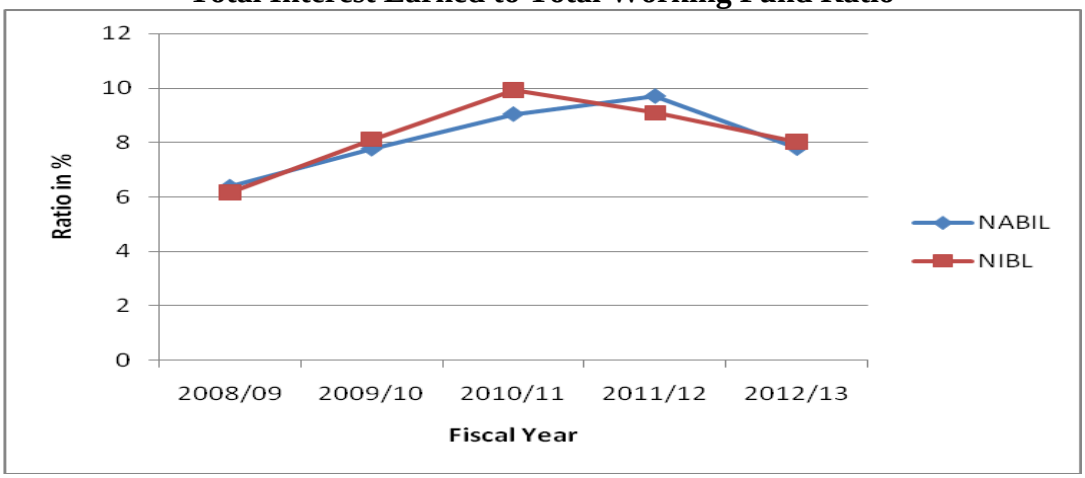
Source: Appendix I

The above table 4.14 shows the interest income to total working fund ratio of NABIL and NIBL during the study period 2008/09 to 2012/13. The table 4.14 shows that NABIL interest earning ratio is in increasing trend except in fiscal year 2012/13. The ratio of NABIL is ranged from 6.38% in fiscal year 2008/09 to 9.70% in fiscal year 2011/12. Whereas, the ratio in NIBL is in fluctuating trends and has highest ratio is 9.94% in fiscal year 2010/11 and lowest ratio is 6.16% in 2008/09.

The mean interest income to total working fund ratio of NABIL is lower than NIBL i.e. 8.13% < 8.27%. It indicates that NABIL is lower to generate interest income from the total working fund than NIBL. Similarly, co-efficient of variation between ratios of different five years under the study period, in case NABIL is found to be 15.78% whereas NIBL has 17.10%. Its earning ratio with respect to total working fund of NIBL is less stable than that of NABIL. Thus it can be concluded that NIBL is able to earn high interest return from the total working fund comparison with NABIL because high ratio is an indicator high earning power of the bank of its total earning fund.

Figure 4.14

Total Interest Earned to Total Working Fund Ratio



1.18.4.6

1.18.4.7 4.1.3.5 Total Interest Paid to Total Working Fund Ratio

Total interest paid is that amount which is paid to the lenders as well as bond-holders. This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund. The following table shows the total interest paid to total working fund ratio of NIBL and NABIL.

Table 4.15

Total Interest Paid to Total Working Fund Ratio

(*Rs. In Thousands*)

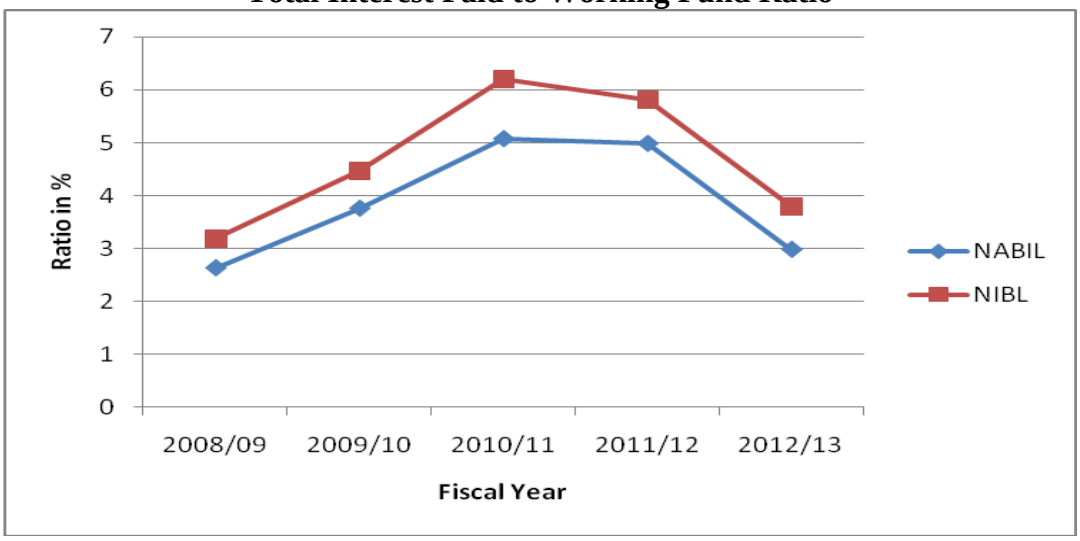
Bank	**NABIL**			**NIBL**		
Fiscal Year	**Interest Expenses**	**Total Working Fund**	**Ratio (%)**	**Interest Expenses**	**Total Working Fund**	**Ratio (%)**
2008/09	1153280	43867398	2.63	1686973	53010803	3.18
2009/10	1960108	52151683	3.76	2553847	57305413	4.46
2010/11	2955431	58141437	5.08	3620337	58356827	6.20
2011/12	3155490	63193414	4.99	3814411	65756232	5.80
2012/13	2186185	73241259	2.98	2774788	73152155	3.79
Mean			3.89			4.69
S.D.			1.13			1.29
C.V.			28.94			27.52

Source: Appendix I

The above table 4.15 shows the interest expenses to total working fund ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. From the table 4.15 it shows that the ratio of NABIL is in fluctuating trend. NABIL's highest ratio is 5.08% in fiscal year 2010/11 and lowest ratio is 2.63% in fiscal year 2008/09. Similarly, the interest expenses to total working fund ratio of NIBL also is in fluctuating trends and ranged from 3.18% in fiscal year 2008/09 to 6.20% in fiscal year 2010/11.

On the basis of mean interest expenses to total working fund ratio NABIL is lower than NIBL i.e. 3.89% < 4.69%. It means NIBL has paid more interest on the respect of total working fund than NABIL. Similarly, co-efficient of variation of NABIL is greater than NIBL i.e. 28.94% > 27.52%. So it concludes NIBL is consistent than NABIL.

Figure 4.15
Total Interest Paid to Working Fund Ratio



1.18.54.1.4 Risk Ratio

Bank had to take risk to get return on its investment. The risk taken is satisfied by the increase in profit. So, the banks operating for high profit have to accept the risk and manage it efficiently. A bank has to have the idea of the level of risk that one had needed to bear while investing its funds.

1.18.5.1

1.18.5.2 4.1.4.1 Credit Risk Ratio

Bank makes investment by utilizing its collected fund. The credit risk ratio measures the risk behind making investment or granting loan. Actually, the proportion of non-performing assets shows credit risk ratio in total loan and advances of a bank. But unavailability of related data the ratio is calculated with the help of loan and total assets. The following table presents the credit risk ratio of NIBL and NABIL.

Table 4.16
Credit Risk Ratio

(*Rs. In Thousands*)

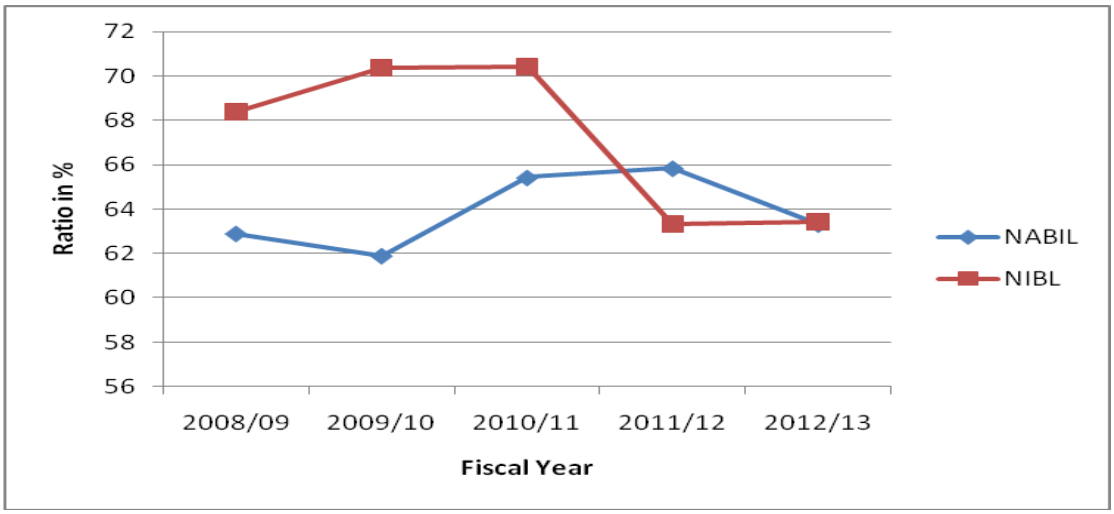
Bank	NABIL			NIBL		
Fiscal Year	**Loan and Advance**	**Total Assets**	**Ratio (%)**	**Loan and Advance**	**Total Assets**	**Ratio (%)**
2008/09	27589933	43867398	62.89	36241207	53010803	68.37
2009/10	32268873	52151683	61.88	40318308	57305413	70.36
2010/11	38034097	58141437	65.42	41095514	58356827	70.42
2011/12	41605683	63193414	65.84	41636999	65756232	63.32
2012/13	46369835	73241259	63.31	46400054	73152155	63.43
Mean			63.87			67.18
S.D.			1.70			3.57
C.V.			2.66			5.31

Source: Appendix I

The above table 4.16 shows the total loan and advance to total assets ratio of NABIL and NIBL during the fiscal year 2008/09 to 2012/13. From the table 4.16 it shows that the credit risk ratio of NABIL is in fluctuating trend. NABIL has highest ratio in fiscal year 2011/12 i.e. 65.84% and lowest ratio is 61.88% in fiscal year 2009/10. NIBL has also fluctuating trend in the study period. NIBL has highest ratio in fiscal year 2010/11 i.e. 70.42% and lowest ratio is 63.32% in fiscal year 2011/12.

When mean ratios of loan and advance to total assets are taken it is found that NIBL is greater than NABIL i.e. 67.18% > 63.87%. It means NIBL has higher credit in compare to NABIL. In the case of co-efficient of variation NIBL is greater than NABIL i.e. 5.31% > 2.66%. It means NIBL credit policy is less consistent than that of NABIL. From the above analysis, it can be concluded that the credit risk of NIBL is higher in compare to NABIL.

Figure 4.16
Credit Risk Ratio



1.18.5.3

1.18.5.4 **4.1.4.2 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 is profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank.

Table 4.17
Liquidity Risk Ratio

(*Rs. In Thousands*)

Bank	**NABIL**			**NIBL**		
Fiscal Year	**CBB**	**Total Deposit**	**Ratio (%)**	**CBB**	**Total Deposit**	**Ratio (%)**
2008/09	3372512	37348256	9.03	7918003	46698100	16.96
2009/10	1400097	46410700	3.02	6815890	50094725	13.61
2010/11	2458549	49696113	4.95	8140371	50138122	16.24
2011/12	4275821	55023695	7.77	11803751	57010604	20.70
2012/13	5882568	63609809	9.25	13252088	62428845	21.23
Mean			6.80			17.75
S.D.			2.72			3.20
C.V.			40.03			18.02

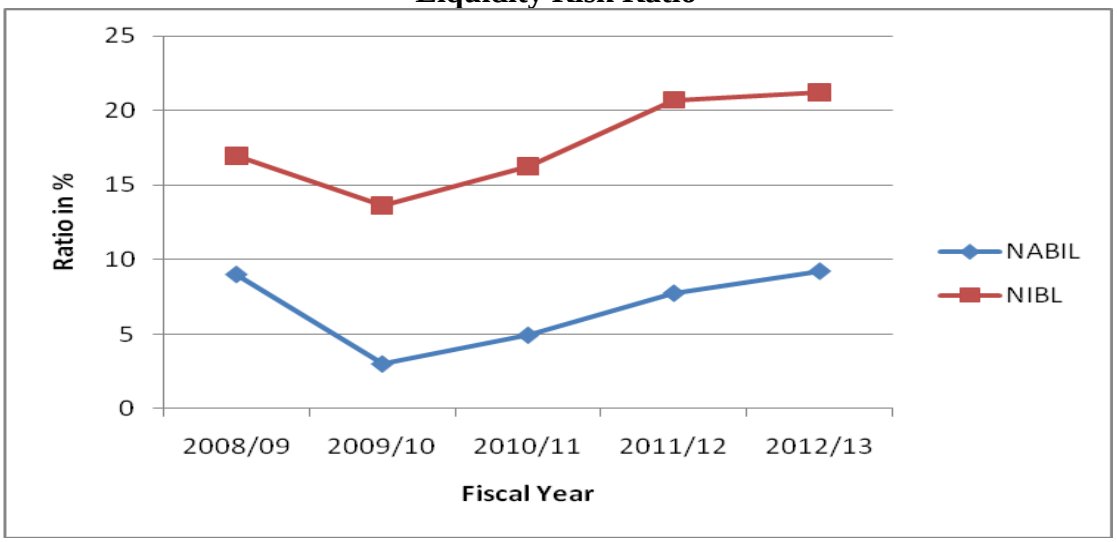
Source: Appendix I

The table 4.17 shows that the comparative cash and bank balance to total deposit ratio, which is in increasing trend for both NIBL and NABIL except in fiscal year

2008/09. NABIL's higher ratio is 9.25% in fiscal year 2012/13 and lower is 3.02% in fiscal year 2009/10. Similarly, in case of NIBL, higher ratio is 21.23% in fiscal year 2012/13 and lower ratio is 13.61% in fiscal year 2009/10.

The mean ratio of NABIL is lower than that of NIBL i.e. 6.80% and 17.75% respectively. On the basic of co-efficient of variation it can be conclude that NIBL ratios are consistent than that of NABIL i.e. 18.02% < 40.03%. It indicates that the liquidity risk of NIBL is less consistent than NABIL. From the above analysis, it can be concluded that the degree of liquidity risk in NABIL is greater than NIBL.

Figure 4.17
Liquidity Risk Ratio



1.19 4.2 Statistical Analysis

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

1.19.14.2.1 Coefficient of Correlation Analysis

To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and investment have been used of Karl Pearson's coefficient of correlation.

1.19.1.1 4.2.1.1 Coefficient of Correlation between Deposits and Investment

The Coefficient of correlation between deposit and investment is to measure the degree of relationship between two variables. In correlation analysis, deposit is independent variables (X) and total investment is dependent variables (Y). The purpose of computing coefficient correlation is to justify whether the deposits are significantly used in proper way or not. The table no. 4.22 shows the value of r, r^2 calculated value of t and tabulated value of t between deposits and total investment of NIBL and NABIL for the study period.

Table 4.18

Correlation between Deposits and Total Investment

(*Rs. In Thousands*)

Bank	**NABIL**		**NIBL**	
Year	**Total Deposits (X)**	**Investment (Y)**	**Total Deposits (X)**	**Investment (Y)**
2008/09	37348256	10826379	46698100	7399812
2009/10	46410700	13703024	50094725	8635530
2010/11	49696113	13081205	50138122	7423106
2011/12	55023695	14048966	57010604	10438487
2012/13	63609809	16332043	62428845	11435268
Correlation Coefficient (r)		0.9608	0.9625	
Coefficient of Determination (r^2)		0.9231	0.9264	
Probable Error (P.E)		0.0232	0.0222	
6 × P. E.		0.1391	0.1332	
Remarks		Significant	Significant	

Source: Appendix II

From the above table 18 shows the coefficient of correlation between deposit and investment of NABIL and NIBL. The correlation value 'r' is 0.9608 in case of NABIL. It shows positive relationship between these two variables. Similarly, the coefficient of determination in the dependent variables 'r^2' is 0.9231; it means 92.31% of the variation in the dependent variables (total investment) has been explained by the independent variable (deposit).

In the case of NIBL, the Coefficient of correlation between total deposits and total investment is 0.9625. It shows the positive relationship between these variables. The value of r^2 is 0.9264. It means 92.64% in the dependent variable (investment) has been explained by the independent variable (deposit).

Similarly, in the value of r is greater than 6PE in both NABIL and NIBL so it can be conclude that there is significant relationship between investment and total deposit in both of the banks.

1.19.1.2 4.2.1.2 Coefficient of Correlation between Deposit and Loan and Advance

Coefficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In the this analysis, deposit is independent variable (X) and loan and advance are dependent variable (Y) the main objective of computing 'r' between these two variables is to justify whether deposits are significantly uses as loan and advances proper way or not.
The table no. 4.23 shows the value of r, r^2calculated value of t and tabulated value of t between deposits and loan and advances of NIBL and NABIL for the study period.

Table 4.19

Correlation between Deposit and Loan and Advance

(*Rs. In Thousands*)

Bank	NABIL		NIBL	
Year	Total Deposits (X)	Loan and Advance (Y)	Total Deposits (X)	Loan and Advance (Y)
2008/09	37348256	27589933	46698100	36241207
2009/10	46410700	32268873	50094725	40318308
2010/11	49696113	38034097	50138122	41095514
2011/12	55023695	41605683	57010604	41636999
2012/13	63609809	46369835	62428845	46400054
Correlation Coefficient (r)		0.9839	0.9236	
Coefficient of Determination (r^2)		0.9681	0.8530	
Probable Error (P.E)		0.0096	0.0443	
6 × P. E.		0.0578	0.2660	
Remarks		Significant	Significant	

Source: Appendix II

The above table shows the correlation between deposit and loan and advance of NABIL and NIBL. From the above table 4.19, it is found that the coefficient of correlation between deposits and loan and advances of NABIL and NIBL is 0.9839 and 0.9236 respectively. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r^2 is 0.9681 and 0.8530 and it means 96.81% and 83.30 of the variation in the dependent variable in NABIL and NIBL respectively. Similarly, the value of r is lower than the 6 PE in both NABIL and NIBL so the relationship between deposit and loan and advance is significant in both of the banks.

1.19.1.3

1.19.1.4 **4.2.1.3 Coefficient of Correlation between Investment and Net Profit**

To measure and evaluate the coefficient of correlation between these two variables i.e. total investment and net profit, Karl Person's Coefficient of correlation has been calculated under this topic. In this analysis, investment is independent variable (X) and net profit is dependent variable (Y). The purpose of computing correlation of Coefficient is to justify whether the net profit is significantly correlated with respective total assets or not. The table no. 4.20 shows the value of r, r^2 calculated value of t and tabulated value of t between investment and net profit of NIBL and NABIL.

Table 4.20

Correlation between Investment and Net Profit

(*Rs. In Thousands*)

Bank	NABIL	NIBL

Year	Net Profit (Y)	Investment (X)	Net Profit (Y)	Investment (X)
2008/09	10826379	1031053	7399812	900619
2009/10	13703024	1141051	8635530	1265949
2010/11	13081205	1337745	7423106	1176641
2011/12	14048966	1689392	10438487	1039276
2012/13	16332043	2218762	11435268	1915028
Correlation Coefficient (r)		0.8924	0.6974	
Coefficient of Determination (r^2)		0.7964	0.4864	
Probable Error (P.E)		0.0614	0.1549	
6 × P. E.		0.3685	0.9296	
Remarks		Significant	Insignificant	

Source: Appendix II

The above table 4.20 shows the correlation between net profit and investment of NABIL and NIBL during the five fiscal year. From the above table 4.20, it is found that the coefficient of correlation between investment and net profit of NIBL is 0.8924. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r^2 is 0.7964 and it means 79.64% of the variation in the dependent variable.

Likewise, in case of NIBL the coefficient of correlation between investment and net profit of NIBL is 0.6974. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r^2 is 0.4864 and it means 48.64% of the variation in the dependent variable. Since, the value of r is lower than 6PE in NABIL there is significant relationship between investment and net profit but in NIBL the value of r is lower than 6 PE so there is insignificant relationship between investment and net profit.

1.19.24.2.2 Trend Analysis and Projection of Next Five Years

Trend analysis occupies an important place in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. Trend analysis helps in forecasting and planning future operation. It is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial result of the firms.

Trend analysis informs to various persons who are directly or indirectly related to joint venture banks. To shareholders of the banks, it informs about the expected future return, which helps them to decide whether to stick in the present investment or to search for the alternative investment opportunities. Depositors can save the degree of safety in the form of worthiness of financial credit of the banks in future. For the borrowers, it assures about the financial capability of the banks to furnish their loans and advances in future and also helps to continue the present trend.

Various methods are used for trend analysis; out of which least square method is one of the popular methods is used in the study. In the present study, the tendency of total deposit, loan and advances, total investment and net profit are forecasted for next five years on the basis of the past performance and records. The projections are based on the following assumption.

- The main assumption is that other things will remain unchanged.
- The bank will run in this present position.
- The economy will remain in the present stage.
- The forecast will be true only when the limitation of least square method is carried out.
- Nepal Rastra Bank will not change its guidelines to commercial banks.

1.19.2.1 4.2.2.1 Trend Analysis of Total Deposits

Under this topic, an effort has been made to calculate the trend values of deposit of NABIL and NIBL for five years from 2008/09 to 2012/13 and forecast next five years till 2017/18. This following table shows the trend value of 10 years from 2008/09 to 2017/18.

Table 4.21

Trend Value of Total Deposit of NABIL and NIBL

(Rs. in Thousands)

Fiscal Year	Actual Value		Trend Value	
	NABIL	NIBL	NABIL	NIBL
2008/09	37348256	46698100	38190494.40	45598605.4
2009/10	46410700	50094725	44304104.50	49436342.3
2010/11	49696113	50138122	50417714.60	53274079.2
2011/12	55023695	57010604	56531324.70	57111816.1
2012/13	63609809	62428845	62644934.80	60949553
2013/14			68758544.9	64787289.9
2014/15			74872155	68625026.8
2015/16			80985765.1	72462763.7
2016/17			87099375.2	76300500.6
2017/18			93212985.3	80138237.5

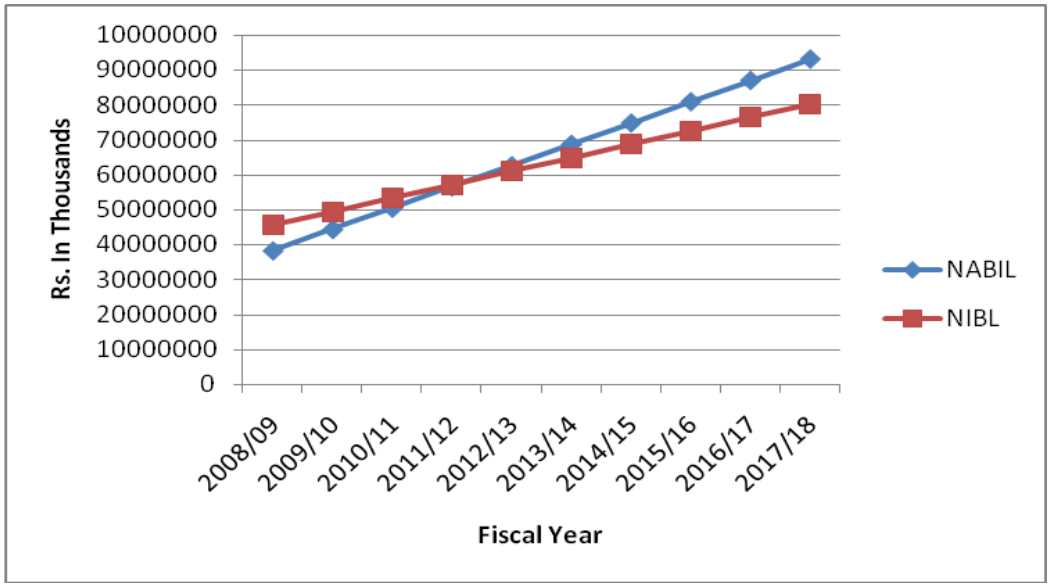
Source: Appendix III

The above table shows the trend of total deposit of NABIL and NIBL from fiscal year 2008/09 to 2017/18. From the table 4.21 it is clear that total deposit of both the banks NABIL and NIBL are in increasing trend. Other things remaining the same or constant total deposit of NABIL in 2017/18 is predicted by 93212985.3 thousands and the same of NIBL is 80138237.5, which is the highest under the study period. From

the above trend analysis, it is quite obvious that NIBL deposit collection position in relation to NABIL is proportionally better in projected five years.

Figure 4.18

Trend Value of Total Deposit



1.19.2.2 4.2.2.2 Trend Analysis of Total Investment

Under this topic, an effort has been made to calculate the trend values of investment of NABIL and NIBL for five years from 2008/09 to 2012/13 and forecast next five years till 2017/18. This following table shows the trend value of 10 years from 2008/09 to 2017/18.

Table 4.22

Trend Value of Total Investment of NABIL and NIBL

(Rs. in Thousands)

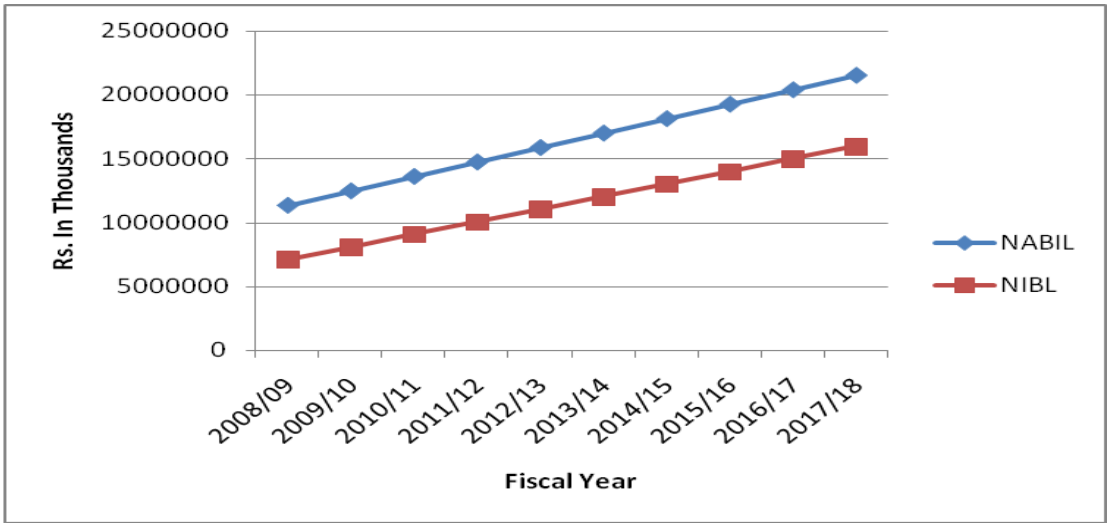
Fiscal Year	Actual Value		Trend Value	
	NABIL	NIBL	NABIL	NIBL
2008/09	10826379	7399812	11326869.4	7091666.8
2009/10	13703024	8635530	12462596.4	8079053.7
2010/11	13081205	7423106	13598323.4	9066440.6
2011/12	14048966	10438487	14734050.4	10053827.5
2012/13	16332043	11435268	15869777.4	11041214.4
2013/14			17005504.4	12028601.3
2014/15			18141231.4	13015988.2
2015/16			19276958.4	14003375.1
2016/17			20412685.4	14990762
2017/18			21548412.4	15978148.9

Source: Appendix III

The table 4.22 shows the trends value of investment of NABIL and NIBL from fiscal year 2008/09 to 2017/18. From the table no. 4.27, it is clear that total investment of both the banks NABIL and NIBL are in increasing trend. Other things remaining the same or constant total investment NABIL in 2017/18 is predicted by 21548412.4 thousands and the same of NIBL be 15978148.9 thousands, which is the highest under the study period. From the above trend analysis, it is quite obvious that NABIL's total investment position in relation to NIBL is proportionally better in all ten years.

Figure 4.19

Trend Value of Total Investment



1.19.2.3 4.2.2.3 Trend Analysis of Loan and Advance

Under this topic, an effort has been made to calculate the trend values of loan and advance of NABIL and NIBL for five years from 2008/09 to 2012/13 and forecast next five years till 2017/18. This following table shows the trend value of 10 years from 2008/09 to 2017/18.

Table 4.23

Trend Value of Loan and Advance of NABIL and NIBL

(Rs. in Thousands)

Fiscal Year	Actual Value		Trend Value	
	NABIL	NIBL	NABIL	NIBL
2008/09	27589933	36241207	27794361.4	36811139.4
2009/10	32268873	40318308	32484022.8	38974777.9
2010/11	38034097	41095514	37173684.2	41138416.4
2011/12	41605683	41636999	41863345.6	43302054.9
2012/13	46369835	46400054	46553007	45465693.4
2013/14			51242668.4	47629331.9
2014/15			55932329.8	49792970.4
2015/16			60621991.2	51956608.9
2016/17			65311652.6	54120247.4
2017/18			70001314	56283885.9

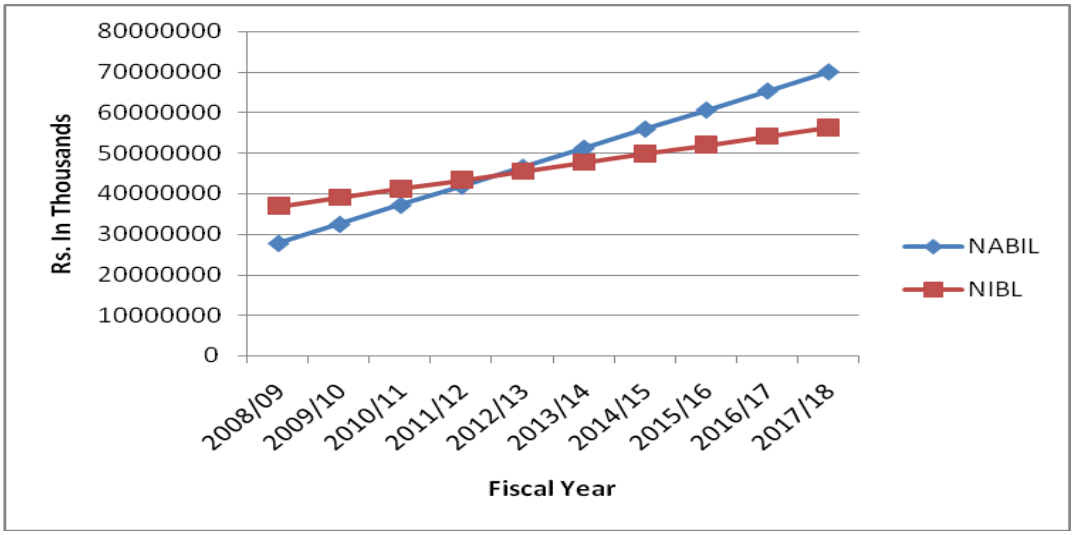
Source: Appendix III

The above table 2.23 shows the trends of loan and advance from fiscal year 2008/09 to 2017/18 of NABIL and NIBL. From the above table 4.23, it is clear that loan and advance of both the banks NIBL and NABIL are in increasing trend. Other things remaining the same or constant loan and advance NABIL in 2017/18 is predicted by 70001314 thousands and the same of NIBL is 56283885.9 thousands, which is the highest under the study period. From the above trend analysis, it is quite obvious that

NABIL's loan and advance position in relation to NIBL is proportionally better projected last five years.

Figure 4.20

Trend Value of Loan and Advance



1.19.2.4 4.2.2.4 Trend Analysis of Net Profit

Under this topic, an effort has been made to calculate the trend values of net profit of NABIL and NIBL for five years from 2008/09 to 2012/13 and forecast next five years till 2017/18. This following table shows the trend value of 8 years from 2008/09 to 2017/18.

Table 4.24

Trend Value of Net Profit of NABIL and NIBL

(Rs. in Thousands)

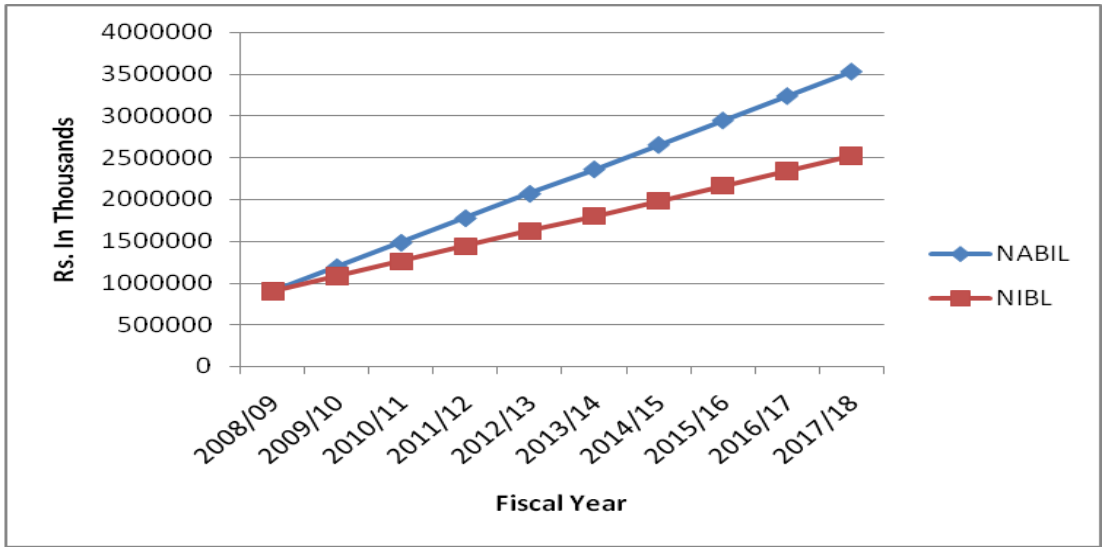
Fiscal Year	Actual Value		Trend Value	
	NABIL	NIBL	NABIL	NIBL
2008/09	1031053	900619	898848.8	899073.6
2009/10	1141051	1265949	1191224.7	1079288.1
2010/11	1337745	1176641	1483600.6	1259502.6
2011/12	1689392	1039276	1775976.5	1439717.1
2012/13	2218762	1915028	2068352.4	1619931.6
2013/14			2360728.3	1800146.1
2014/15			2653104.2	1980360.6
2015/16			2945480.1	2160575.1
2016/17			3237856	2340789.6
2017/18			3530231.9	2521004.1

Source: Appendix III

The above table shows the trend value of net profit of NABIL and NIBL during the fiscal year 2008/09 to 2017/18. From the above table no. 4.29, it is clear that net profit of both the banks NABIL and NIBL are in increasing trend. Other things remaining the same or constant net profit NABIL in 2017/18 is predicted by 3530231.9 thousands and the same of NIBL be 2521004.1 thousands, which is the highest under the study period in both banks. From the above trend analysis, it is quite obvious that NABIL net profit position in relation to NIBL is proportionally better in all ten years.

Figure 4.21

Trend Value of Net Profit



1.20 4.3 Major Finding of the Study

The main findings of the study are derived on the analysis of financial data of NIBL and NABIL, which are given below.

- The current ratio of NABIL (1.27 times) is higher than that of NIBL (1.08 times). It shows that the liquidity position of NABIL is better than that of NIBL. The co-efficient of variation of variation of NABIL is greater than NIBL i.e. 13.97% > 3.00%. It can be said that current ratio of NIBL is more consistent then of NABIL. (Table 4.1)
- The mean cash and bank balance to current assets ratio of NABIL (10.74%) lower than that of NIBL (18.94%). It supports the conclusion that NABIL has been not successful to maintain its higher cash and bank balance to current assets ratio in comparison. (Table 4.2)
- The mean of government securities to current ratio of NABIL (21.72%) is higher than the NIBL (8.89%). It means NABIL has invested much portion of current assets than NIBL bank. On the other hand, co-efficient of variation of NABIL is less than NIBL, which means that the variability's of ratios of NABIL is more consistent and homogenous than of NIBL (Table 4.3).
- NABIL has maintained 114.38% which is higher than NIBL i.e. 82.86% and co-efficient of variation ratio is greater in NABIL than NIBL In this case, NIBL is poor its fund as loan and advances with respect to current assets in comparison to NABIL. The mean reveals that NIBL loan advances to current

are satisfactory level but overall liquidity position of NIBL is not satisfactory than of NABIL. (Table 4.4)

- Comparing two banks on the basis of cash reserve ratio, it can be considered the liquidity position of NIBL is better than that of NABIL. (Table 4.5)
- The mean loan and advance to total deposit ratio of NIBL has maintained (77.48%) which is higher than NABIL (73.69%) so it can be concluded that NIBL is aggressive NABIL in mobilizing the total deposit in loans and advances (Table 4.6).
- The average investment to total deposit ratio of NABIL (27.21%) is greater than NIBL (16.90%), so be concluded that NABIL is most efficient in utilizing the total deposit than NIBL (Table 4.7)
- On the basis of mean ratio of loan and advance to total working fund NIBL (67.18%) is greater than NABIL (63.87%) from this it can say that NIBL is strong condition to mobilize its total working fund as loan and advance than NABIL (Table 4.8).
- Comparing the mean ratio of investment on government securities to total working fund NIBL seems too weak to mobilize its working fund as investment in government securities than NABIL (Table 4.9).
- On the basis of mean investment on share and debenture to total working fund ratio, it can be stated that NABIL has invested higher amount in share and debentures in comparison to NIBL (Table 4.10).
- Comparing the return on assets of two banks, the return on assets of NABIL (2.51%) is higher than that of NIBL (2.02%) which clearly indicated that NABIL is more successful in generating profit from the investment in total assets than other two banks and NABIL is strong position in the earning capacity by utilizing available resources than NIBL. (Table 4.11)
- On the basis of mean interest income to total outside assets ratio NIBL (10.12%) is greater than NABIL (9.30%), it can be concluded that NIBL had been succeed in comparison to NABIL in the view point of mean interest income to total outside assets ratio. (Table 4.12)
- The mean return on loan and advance ratio NIBL (3.02%) is less than NABIL (3.93%). So we can say NABIL is strong to mobilize the fund based on loan and advances to return than NIBL (Table 4.13).

- The average interest income to total working fund ratio of NABIL is lower than NIBL. It indicates that NABIL is lower to generate interest income from the total working fund than NIBL. Similarly, earning ratio with respect to total working fund of NIBL is less stable than that of NABIL. Thus it can be concluded that NIBL is able to earn high interest return from the total working fund comparison with NABIL because high ratio is an indicator high earning power of the bank of its total earning fund (Table 4.14).
- The mean ratios of loan and advance to total assets of NIBL is greater than NABIL It means NIBL has higher credit in compare to NABIL and it can be concluded that the credit risk of NIBL is higher in compare to NABIL (Table 4.16). Likewise, the cash and bank balance to total deposit ratio of NABIL is lower than NIBL so, it can be concluded that the degree of liquidity risk in NABIL is greater than NIBL (Table 4.17).
- The coefficient of correlation between deposit and investment of NABIL and NIBL are positive relationship and the value of r is greater than 6PE in both NABIL and NIBL so it can be conclude that there is significant relationship between investment and total deposit in both of the banks (Table 4.18).
- The coefficient of correlation between deposits and loan and advances of NABIL and NIBL is 0.9839 and 0.9236 respectively. It shows positive relationship between these two variables and , the value of r is lower than the 6 PE in both NABIL and NIBL so the relationship between deposit and loan and advance is significant in both of the banks. (Table 4.19)
- The correlation between investment and net profit of NABIL and NIBL is positive but the value of r is lower than 6PE in NABIL there is significant relationship between investment and net profit but in NIBL the value of r is lower than 6 PE so there is insignificant relationship between investment and net profit (Table 4.20).
- The trend value of total deposit, investment, loan and advance and net profit of NABIL and NIBL are in increasing trends and projection of the entire variable are better in NABIL than NIBL. (Table 4.21, 4.22, 4.23 and 4.24).

CHAPTER-V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter first concludes the fact-findings base on analytical chapter four where data have been analyzed and interpreted applying different accounting and statistical tools. Under financial analysis, various financial ratios related to the investment function of commercial banks, they are liquidity ratio, profitability ratio, asset management ratio, risk ratio and growth ratio, some relevant statistical are used. They are coefficient of correlation, trend analysis and test of hypothesis.

1.21 5.1 Summary

Investment policy plays a key role on the development of countries utmost investment. The political insanity, government rules, tax policy treaty with neighbor country, social and economic condition of the country affect investment policy of bank. To keep up the stability with the foreign policy results the improvement of investment policy. Designing good investment policy helps to the improvement of investment policy in the country. As political influence, intervention economic scenario and social, economic scenario of the country is dramatically problem for the detection of designing investment policy of bank.

In this study, the financial tools ratio analysis viz. liquidity ratio, asset management ratio, profitability ratios, risk ratios and statistical tolls like percentage, mean, standard deviation, coefficient of variation, correlation and trend analysis have been used for the analysis and interpretation of the data. The data which were employed in this research are secondary in nature. They are obtained from annual reports of the concerned banks, likewise, the financial statement of five year from 2008/09 to 2012/13 are selected for the purpose evaluation.

The main objective of this study is to examine investment policy of NABIL Bank and Nepal Investment Bank of the sampled commercial banks, namely NABIL and NIBL on the basis of liquidity, profitability, risk and assets management ratio. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of its shareholders based on the finding of the study.

The researcher has identified the research problem of the joint venture bank then the objectives are determined on the basis of research problem. Related literatures are reviewed on the bases of the purposive study. Then the data have been collected from the different secondary sources. The analysis of data has been done according to the available data and the objectives of this study. The five years financial statements, covering from the fiscal year 2008/09 to 2012/13 have been examined for the purpose of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter.

An attempt has been made to fulfill the objectives of the research work. All secondary data are compiled, processed and tabulated as per necessity and figures, diagrams, different types of chart are also used. This study suffers from different limitations; it considers two banks only and time and resource are the constraints of the study.

Therefore, the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

1.22 5.2 Conclusions

From the analysis of coefficient of correlation analysis we can conclude that the current ratio of NABIL is higher than that of NIBL which means the liquidity position of NABIL is better than that of NIBL. The mean cash and bank balance to current assets ratio of NABIL lower than that of NIBL, it supports the conclusion that NABIL has been not successful to maintain its higher cash and bank balance to current assets ratio in comparison. The government securities to current ratio of NABIL are higher than the NIBL. It means NABIL has invested much portion of current assets than NIBL bank. On the other hand, co-efficient of variation of NABIL is less than NIBL, which means that the variability's of ratios of NABIL is more consistent and homogenous than of NIBL.

The cash reserve ratio of NIBL is better than that of NABIL; it can be considered the liquidity position of NIBL is better than that of NABIL. The mean loan and advance to total deposit ratio of NIBL has maintained which is higher than NABIL so it can be concluded that NIBL is aggressive NABIL in mobilizing the total deposit in loans and advances. The average investment to total deposit ratio of NABIL is greater than NIBL so be concluded that NABIL is most efficient in utilizing the total deposit than NIBL. Likewise, the loan and advance to total working fund ratio of NIBL is greater than NABIL from this it can say that NIBL is strong condition to mobilize its total working fund as loan and advance than NABIL.

Comparing the mean ratio of investment on government securities to total working fund NIBL seems too weak to mobilize its working fund as investment in government securities than NABIL. On the basis of mean investment on share and debenture to total working fund ratio, it can be stated that NABIL has invested higher amount in share and debentures in comparison to NIBL. The return on assets of NABIL is higher than that of NIBL which clearly indicated that NABIL is more successful in generating profit from the investment in total assets than other two banks and NABIL is strong position in the earning capacity by utilizing available resources than NIBL. The mean interest income to total outside assets ratio NIBL is greater than NABIL, it can be concluded that NIBL had been succeed in comparison to NABIL in the view point of mean interest income to total outside assets ratio.

The return on loan and advance ratio NIBL is less than NABIL. So we can say NABIL is strong to mobilize the fund based on loan and advances to return than NIBL. The interest income to total working fund ratio of NABIL is lower than NIBL. It indicates that NABIL is lower to generate interest income from the total working fund than NIBL. Similarly, earning ratio with respect to total working fund of NIBL is less stable than that of NABIL. Thus it can be concluded that NIBL is able to earn high interest return from the total working fund comparison with NABIL because high ratio is an indicator high earning power of the bank of its total earning fund.

The coefficient of correlation between deposit and investment of NABIL and NIBL are positive relationship and the value of r is greater than 6PE in both NABIL and NIBL so it can be conclude that there is significant relationship between investment

and total deposit in both of the banks. The coefficient of correlation between deposits and loan and advances of NABIL and NIBL is positive, the value of r is lower than the 6 PE in both NABIL and NIBL so the relationship between deposit and loan and advance is significant in both of the banks. The trend value of total deposit, investment, loan and advance and net profit of NABIL and NIBL are in increasing trends and projection of the entire variable are better in NABIL than NIBL.

1.23 5.3 Recommendations

Suggestion helps to take corrective action in their activities in future. On the basis of above analysis and findings of the study, following suggestions can be advances to overcome weakness, inefficiency and satisfactory improvement of the present fund mobilization and investment policy of NIBL as well as NABIL.

- The liquidity position of a NIBL has maintained the ratios of cash and bank balance to current assets considerably higher than that of NABIL and recommended to increased cash and bank balance to meet current obligations and loan demand.
- NIBL has made lower investment amount on government securities. Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of particular maturity due to lowest risk in future, it is more better in regard to safety that other means of investment. So, NIBL is strongly recommended to give more importance to invest more funds government securities instead of keeping them idle with this proverb something is better than nothing.
- NIBL's profitability position is low than that of NABIL. So NIBL is strongly recommended to utilize risky assets and shareholder's fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheap fund being more profitable. Out of working fund, NABIL has not invested its more fund as total investment in comparison to the other two banks. Though the percentage of invested by those banks have nominal. So, it is recommended to those banks to invest their more funds in different types of companies in different areas.
- Both of the banks are recommended to invest more on other company's shares and debentures to mobilize its fund for business and industries for industrial support.
- To get success in competitive banking environment, depositor's money must be utilized on different sectors. It is found from the analysis of data that both of the

banks has utilized its large portion of its fund on loans and advances and has not considered on the investment. Thus, these banks are recommended to follow liberal lending policy.

B) Calculation of Major financial Ratios of NIBL (Rs in Thousands)

Fiscal Year	Current Assets	Current Liabilities	Ratio	CBB	Total Deposit	Ratio	CBB	Cur Ass
2008/09	44095727	42449147	1.04	7918003	46698100	16.96	7918003	4409
2009/10	46211873	42053175	1.10	6815890	50094725	13.61	6815890	4621
2010/11	46260199	43888429	1.05	8140371	50138122	16.24	8140371	4626
2011/12	53835129	48658874	1.11	11803751	57010604	20.70	11803751	5383
2012/13	58974811	53217208	1.11	13252088	62428845	21.23	13252088	5897
Mean			1.08			17.75		
S.D.			0.03			3.20		
C.V.%			3.00			18.02		

Fiscal Year	Government Securities	Current Assets	Ratio	Loan and Advance	Current Assets	Ratio	Loan and Advance	Total D
2008/09	2531300	44095727	5.74	36241207	44095727	82.19	36241207	4669
2009/10	3621850	46211873	7.84	40318308	46211873	87.25	40318308	5009
2010/11	4294600	46260199	9.28	41095514	46260199	88.84	41095514	5013
2011/12	6169485	53835129	11.46	41636999	53835129	77.34	41636999	5701
2012/13	5985490	58974811	10.15	46400054	58974811	78.68	46400054	6242
Mean			8.89			82.86		
S.D.			2.20			5.08		
C.V.%			24.74			6.13		

Fiscal Year	Total Investment	Total Deposit	Ratio	Loan and Advance	Total Working Fund	Ratio	Government Securities	To Wor Fu
2008/09	7399812	46698100	15.85	36241207	53010803	68.37	2531300	5301
2009/10	8635530	50094725	17.24	40318308	57305413	70.36	3621850	5730
2010/11	7423106	50138122	14.81	41095514	58356827	70.42	4294600	5835
2011/12	10438487	57010604	18.31	41636999	65756232	63.32	6169485	6575
2012/13	11435268	62428845	18.32	46400054	73152155	63.43	5985490	7315
Mean			16.90			67.18		
S.D.			1.55			3.57		
C.V.%			9.17			5.31		

Fiscal Year	Shares & Deben.	Total Working Fund	Ratio	NPAT	Total Assets	Ratio	Interest Income	Total C Ass
2008/09	64270	53010803	0.12	900619	53010803	1.70	3267941	4364
2009/10	66645	57305413	0.12	1265949	57305413	2.21	4653521	4895
2010/11	72911	58356827	0.12	1176641	58356827	2.02	5803440	4851
2011/12	174412	65756232	0.27	1039276	65756232	1.58	5982641	5207
2012/13	305346	73152155	0.42	1915028	73152155	2.62	5878272	5783
Mean			0.21			2.02		
S.D.			0.13			0.42		
C.V.%			63.27			20.51		

Fiscal Year	NPAT	Loan and Advance	Ratio	Interest Income	Total Working Fund	Ratio	Interest Expenses	To Wor Fu
2008/09	900619	36241207	2.49	3267941	53010803	6.16	1686973	5301
2009/10	1265949	40318308	3.14	4653521	57305413	8.12	2553847	5730
2010/11	1176641	41095514	2.86	5803440	58356827	9.94	3620337	5835
2011/12	1039276	41636999	2.50	5982641	65756232	9.10	3814411	6575
2012/13	1915028	46400054	4.13	5878272	73152155	8.04	2774788	7315
Mean			3.02			8.27		
S.D.			0.68			1.41		
C.V.%			22.35			17.10		

Fiscal Year	Loan and Advance	Total Assets	Ratio	CRR
2008/09	36241207	53010803	68.37	10.32
2009/10	40318308	57305413	70.36	7.77
2010/11	41095514	58356827	70.42	7.67
2011/12	41636999	65756232	63.32	13.60
2012/13	46400054	73152155	63.43	16.00
Mean			67.18	11.07
S.D.			3.57	3.66
C.V.%			5.31	33.10

Note: Mean, Standard Deviation and Coefficient of Variation have been calculated by using Microsoft Excel Formulae.

Sources: Annual Reports of Nepal Investment Bank Limited (2008/09 to 2012/13)

C) Calculation of correlation coefficient of Investment and Net Profit of NABIL

Fiscal Year	Investment X	Net Profit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	
2008/09	10826379	1031053	-2771944.4	-452547.6	7683675756691	2047
2009/10	13703024	1141051	104700.6	-342549.6	10962215640	1173
2010/11	13081205	1337745	-517118.4	-145855.6	267411439619	2127
2011/12	14048966	1689392	450642.6	205791.4	203078752935	4235
2012/13	16332043	2218762	2733719.6	735161.4	7473222851424	5404
Total	67991617	7418003			15638351016309	9262

i) Calculation of Mean

	For Investment		For Net Profit
Mean	$\bar{X} = \sum X/5 =$	9066440.60	$\bar{Y} = \sum Y/5 =$

ii) Calculation of Correlation Coefficient between Investment and Net Profit

$r_{xy} = \frac{\sum}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{1.98218E+12}{2842142984120} = 0.6974$

Trend value of Net Profit of NABIL

(Rs in Thousands)

Year (X)	Net Profit (Y)	X (t- 2010/11)	X^2	XY	Yc = a + bx Yc = 1483600.6+292375.9x
2008/09	1031053	-2	4	-2062106	898848.8
2009/10	1141051	-1	1	-1141051	1191224.7
2010/11	1337745	0	0	0	1483600.6
2011/12	1689392	1	1	1689392	1775976.5
2012/13	2218762	2	4	4437524	2068352.4
Sum	7418003		10	2923759	
2013/14					2360728.3
2014/15					2653104.2
2015/16					2945480.1
2016/17					3237856
2017/18					3530231.9

$a = \frac{\sum Y}{N} =$ 1483600.60 | $b = \frac{\sum XY}{\sum X^2}$ 292375.9

Trend value of Net Profit of NIBL

(Rs in Thousands)

Year (X)	Net Profit (Y)	X (t- 2010/11)	X^2	XY	Yc = a + bx Yc = 1259502.6+180214.5x
2008/09	900619	-2	4	-1801238	899073.6
2009/10	1265949	-1	1	-1265949	1079288.1
2010/11	1176641	0	0	0	1259502.6
2011/12	1039276	1	1	1039276	1439717.1
2012/13	1915028	2	4	3830056	1619931.6
Sum	6297513		10	1802145	

2013/14		1800146.1
2014/15		1980360.6
2015/16		2160575.1
2016/17		2340789.6
2017/18		2521004.1
$a = \frac{\Sigma Y}{N}$ =	1259502.60	$b = \frac{\Sigma XY}{\Sigma X^2}$ 180214.5