INVESTMENT POLICY ANALYSIS OF NEPLESE COMMERCIAL BANKS
(A Comparative Study of NABIL Bank NIBL)

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial fulfilment of the requirements for the Master's Degree

By

Kumari Hira Joshi
Roll No. 3833/18
Registration No. 7-2-327-807-2013
Central Department of Management
Kirtipur, Kathmandu

March, 2021

CERTIFICATE OF AUTHORSHIP

I certify that the work in this thesis has not previously has been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

………………..

Kumari Hira Joshi

Date:

REPORT OF RESEARCH COMMITTEE

Ms. Kumari Hira Joshi has defended research proposal entitled "**Investment Policy Analysis of Nepalese Commercial banks" (A Comparison Study of Nabil and Nepal Investment Bank Ltd)"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Prof. Bhawani Sankar Acharya and submit the thesis for evaluation and viva voce examination

Prof. Bhawani Sankar Acharya
Dissertation Supervisor

Dissertation Proposal Defended Date:
22 September, 2020

Prof. Bhawani Sankar Acharya
Dissertation Supervisor

Dissertation Submitted Date:
13 March, 2021

Prof. Dr. Sanjay Kumar Shrestha
Head of Research Committee

Dissertation Viva Voce Date:
16 March, 2021

APPROVAL-SHEET

We, the undersigned, have examined the thesis entitled "**Investment Policy Analysis of Nepalese Commercial banks" (A Comparison Study of Nabil and Nepal Investment Bank Ltd)** presented by Kumari Hira Joshi a candidate for the degree of **master of business studies** (MBS) and conducted the viva voice examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

____

Prof. Bhawani Sankar Acharya

Dissertation Supervisor

____

Reader, Dr. Dhruba Lal Pandey

Internal Examiner

____

Lecturer Phul Prasad Subedi

External Examiner

____

Prof. Dr. Sanjay Kumar Shrestha

Chairperson, Research Committee

____

Prof. Dr. Ramji Gautam

Head of Department, Central Department of management

Date: ………………………..

ACKNOWLEDGEMENTS

I extend my sincere gratitude to supervisor Prof. Bhawani Sankar Acharya for his valuable guidance, suggestions, timely supervision and co-operation in completing this thesis work, without whose efforts this thesis would not have come out in this manner. I would also like to express my gratitude towards respective Associate Prof. Dr. Sanjaya Kumar Shrestha (Head of the Research Committee), and rest of the respected Lecturer of faculty of management Central Department of Management Tribhuvan University.

This thesis has also been influenced by a number of standard and popular textbooks, journals, articles etc. As far as possible, they have been duly acknowledged at the appropriate places. I am thankful to all of them. I am very grateful to my family, friends, colleagues and others for their kind cooperation and support during the research period. I shall be remiss in my duty if I do not thank the courteous staff of NABIL and NIBL for their help in providing the necessary secondary data.

At last, guarantee of perfection of the research work cannot be given. Errors if any come under my role responsibility. I would very much appreciate and sincerely acknowledge suggestions for further improvement of the research work.

Kumari Hira Joshi
Roll Number :038/2018
Central Department of
Management, Kirtipur

Date: 2021

TABLE OF CONTENTS

CONTENTS ***Page no.***

LIST OF TABLES

LIST OF FIGURE

ABBREVIATIONS

B.S.:	Bikram Sambat
C.V. :	Coefficient of Variation
Etc.:	Extra
FY:	Fiscal Year
Govt.:	Government
Ltd.:	Limited
Nabil:	Nabil Bank Limited
NIBL:	Nepal Investment Bank Limited
NRB:	Nepal Rastra Bank
r.:	Coefficient of Correlation
r2:	Coefficient of Determination
Rs.:	Rupees
S.D.:	Standard Deviation
T.U.:	Tribhuvan University

ABSTRACTS

Banking sector plays an important role in the economic development of the country commercial banks one of the vital aspects of this sector which deals in the process of channel sings available resources in the needed sector. A good investment policy attracts both borrowers and lenders which enhances the volumes and quality of the deposit, loan and investment. The purpose of the investment policy is to guide the foundation in effectively supervising, monitoring and managing its investments.

This study is basically related to various aspect of investment policy of commercial banks in Nepal (NABIL and NIBL). Investment decision is one of the major decision functions of financial management. The main objective of the study is to evaluate and assess the investment policy and strategies followed by the bank. This study analyze trends and relationship of investment, deposits, loan and advances, and net profits of the selected commercial banks.

The research is conducted under 'descriptive research design' to fulfill the objectives of the study area. This research is based on secondary data, which include annual reports published by the concerned bank and other publications related to the concerned topic for five fiscal year 2015/15 to 2018/19. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate investment performance of Nabil and compare it with NIBL. The major ratio analysis consists of the composition of liquidity ratio, assets management ratio, risk ratio, profitability position other related ratios. Under these, main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of investment policy, Karl Pearson's correlation coefficient r is calculated and analyzed.

Under this study two commercial banks are taken into consideration sample banks especially in Nabil Bank ltd. And Nepal Investment Bank Ltd. To make this thesis more understandable to the readers available data and information are presented in different suitable table, diagrams with appropriate analysis and interpretations. This thesis work has been divided into five chapters.

This research helps to gain and share some practical knowledge of banding and management of the commercial banks in the perspective of improving financial performance. The study helps financial intuitions and as well as me.

CHAPTER -1
INTRODUCTION

1.1 Background of the Study

An investment policy is any government regulation or law that encourages or discourages foreign investment in the local economy. A sound investment policy is very essential in a nation’s economy for economical as well as financial growth of a country. Investment in its broadest sense, means the sacrifice of current currencies and resources for the sake of future currencies and resources.The well-organized financial system of a country plays a great role in the economic development of that country, as it transfers financial resources from savers to those who need them. As part of the financial system, financial institutions such as commercial banks, finance companies and financial cooperative societies are important vehicles for the development of economy, trade and business and other productive sectors that contribute to the economic growth of the nation. The mobilization of financial resources, capital formation, and their proper utilization play key role in the economic development of the country. Among them, the role of commercial banks is perhaps the most important in the economic development in the country. Commercial banks provide capital for the development of industry, trade and business by investing the saving collected as deposits from the public. They render various other services to their customers facilitating to improve their economic and social life. They are the most important instruments for the country’s development. Therefore, a competitive and reliable banking system is essential to every country to develop (Wassion, 1966).

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be carried without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially banks has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice- versa (Bhattarai, 2004).

An investment policy statement (IPS) is a document drafted between a portfolio manager and a client that outlines general rules for the manager. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are included in an investment policy statement. In addition to specifying the investor's goals, priorities and investment preferences, a well-conceived IPS establishes a systematic review process that enables the investor to stay focused on the long-term objectives, even as the market gyrates wildly in the short term. It should contain all current account information, current allocation, how much has been accumulated and how much is currently being invested in various accounts (Bhattarai, 2004).

Commercial banks are major financial institutions, which occupy quite important place in the frame work of every economy because they provide capital for the development of industry, trade and business and other resources sectors by investing collected deposits. Thus, they contribute to economic growth of nation. Besides this, commercial banks render numerous services to their customers in view of facilitating their economic and social life. All the economic activities of each country are greatly influenced by the commercial banking business in that country. In this way, commercial banks have become heart of financial system (Thirumalai, 2014).

“Commercial banks bring into being the most important ingredient of the money supply demand deposit, through the creation of credit in the form of loan and investment” (Crosse,1980).

Commercial bank also provides the flexibility and mobility to the customers because the payment can be mostly speedily and efficiently carried out. “The commercial bank permitted to accept demands deposit” (Hanks and Suki 1980).

1.1(a) Commercial banks and investment policy

Commercial Bank is an entity which accepts deposits and makes short term loans to business enterprises, regardless of the scope of its other services. (American Institution of Banking, 1972).

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

Commercial bank deals with people’s money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can’t afford to lock up their funds in assets that are not easily realizable. The depositor’s confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity.

Commercial banks must mobilize its deposits and other funds to profitable, secured, stable and marketable sector. Then only it can earn more profit as well as it should be secured and can be converted into cash whenever needed. But, commercial banks have to pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one facet of the overall spectrum of policies that guide bank’s investment operations. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. Commercial bank should be careful while performing the credit creation function. The banks should never invest its funds in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute. Emphasizing upon this, H.D. Crosse stated, “The investment policy should be carefully analyzed.”(Crosse H.D., 963) So they must invest their funds where they gain maximum profit.

Commercial banks must follow the rules and regulations as well as different directions issued by the central bank, ministry of finance, ministry of law and other regulatory bodies while mobilizing its funds. So, the bank should invest its funds in legal securities only. Diana McNaughton in her research paper ‘Banking Institutions in Developing Markets’ states that, investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities. (McNaughton, Diana, 1994). Thus, commercial banks should incorporate several elements while making investment policy. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial bank’s investment are fully considered while making investment decisions.

1.1 (b) Brief profile of Selected Banks

In this section general introduction of the banks under study is being attempted to furnish for the easy reference of the samples to the research.

Nabil Bank

Nabil bank limited is the nation’s first private sectors bank, commencing its business since July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objectives, Nabil provides a full range of commercial banking services through its 118 points of representation. In addition to this Nabil has presence through over 1500 remit agents throughout the nation.

Nabil as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era modern banking with customer satisfaction measured as a focus objective while doing business operations of the bank including day to day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes international standard banking software that supports the e-channels and e-transactions.

Nabil is moving forward with a mission to be **"1st choice provider of complete financial solution"** for all its stakeholders, customers, shareholders, regulators, communities and staff. Nabil is determined is delivering excellence to its stakeholders in an array avenues not just parameter like profitability or market share. it is reflected its brand promises "**together ahead "** the entire Nabil team embraces as set of values C.R.I.P. representing the fact of Nabil consistency strives customer focused, Result oriented, Innovative, synergistic and Professional. The following Activities and services are provides by Nabil including normal functions;

1. Tele Banking
2. Credit card facilities
3. SWIFT
4. Deposit Locker
5. Western Union money Transfer
6. ATM
7. International Trade and Bank Guarantee.

This Bank is awarded by "Bank of year 2004".

(www.nabilbank.com)

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 the largest banking group in the world.

Later, in 2002 a group of Nepalese companies comprising of bankers, professionals, industrialists, and businessman acquired the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank ltd., and accordingly the name of the bank also changed to Nepal investment bank ltd. At present the bank shareholding pattern is as follows:

Promoters – 69%

General public - 31%

The following Activities and services are provided by NIBL including normal functions; (i) Tele Banking

(ii) Credit card facilities

(iii) SWIFT

(iv) Deposit Locker

(v) NTC's Mobile bill payment

(vi) ATM

(vii) International Trade and Bank Guarantee.

This bank is awarded by "Bank of year 2003"

(www.nibl.com)

1.2 Statement of Problem

The economic development of the country thus depends on the volume of investments made by the commercial banks. The main economic goal of developing countries is to accelerate the present growth rate. Although most of the developing countries are predominantly agricultural, industrial development is need of these country for their economic development and investment. But rate of investment in Nepal is very low. The main cause political instability, low investor confidences, lack of knowledge, lack of efficient capital market, lack of improved prospectus to investors and slow privatization process.

There are various problems in resources mobilization by financial institution in Nepal. The most important problems are is poor investment climate prevailing in Nepal due to heavy regulatory procedure, uncertain government policy, NRB's stringent directives, unsecured social environment etc. Lack of sound investment policy is another reason for a commercial bank not to properly utilizing its deposits that is making loan and advances or lending for a profitable project. This condition may lead the commercial bank to the position of liquidation.

Commercial banks invest their funds in limited areas to achieve highest amount of profit. They are found to more interest in investment in less risky and highly liquid sectors like in T-Bills, development bonds and retail and consumer lending. There is an obvious hesitation to invest on long-term projects and in venture capital investment. So, many of them follow conservative and un-effective investment policy. As with everything in Nepal, every commercial bank has an investment in the same sectors. They are in consumer lending, tourism, garments and in trading sector. They are the major sectors. But given the current situation of the country, it is not up to them to decide which sector they want to go into. The main factor for success of any organization is the security situation. Once the security situation stabilizes, then only commercial banks consider rationally as to where they should to invest and grow. So, security problem is the burning problem for every commercial bank to invest their funds in our any sectors.

Many of Nepalese commercial banks have not formulated their investment policy in an organized manner. Majority of them mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don’t have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks. Based on the above statement of problems this research their to answer the following research questions.

1. What are the trends of their deposits, loans, advances investment and net profits?
2. What is the relationship between investment and loan with total deposits and total net profit?
3. Which investment policy is more effectives and efficient between the two selected banks?

1.3 Objectives of the Study

Investment decision is one of the major decision functions of financial management. The main objective of the study is to evaluate and assess the investment policy and strategies followed by the bank. The specific objectives of the study are as follow:

1. To analyze the trends of investment, deposit, loans investment and net profit of sample commercial bank.
2. To study of relationship between investments, deposits, loans, advances and net profit of the sample commercial banks.
3. To examine the investment policy of the sample banks.

1.4 Rationale of the Study

The investment policy of commercial banks should be in accordance with the spirit of the economic advancement of the people and also called it as the life-blood of any financial institution because only deposit collection carries no meaning, there should a proper policy of investment also. If it is utilized in a proper investment then only better return and sustainability is possible. Therefore, to this significance on account this study on behalf of the firm's investment policy and its relationship is justified as a specified subject matter (Atal, 2010).

Investment policies of commercial banks expecting that the study can be bridge the gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks (Karn, 2009).

Investment is concerned with management of an investor wealth, which are the sum of current income and the present value of all future income fund to be invested come from assets already owned borrowed money and saving or forgone consumption (Jha, 2009).

The study has theoretical significance as it helps to add the existing literature of the Nepalese financial management, particularly to the literature of investment policy management in the Nepalese context (Upreti, 2012).

This study was to determine an innovative investment policy for the commercial banks in order to improve our nation’s economy and to reduce the inflation rate prevailing in our country. This study will also reveal the present investment policy and the basic functions of the commercial bank (Thirumalai, 2014).

This study important for depositors can take decision to deposit on their money. Also useful to more people and organization such as trade creditors, investors, academicians, general public, stock brokers etc. This research helps to gain and share some practical knowledge of banding and management of the commercial banks in the perspective of improving financial performance. The study helps financial institution, feedback for other researcher as well as me.

The main focus of the study is to highlight the investment policies of commercial banks expecting that the study can be bridge the gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks. In the context of Nepal there is less availability of research work, Journal and Articles in investment policy of commercial banks as well as other financial institution. As it is a well-known fact that the success and prosperity of the bank relies heavily upon the successful investment of collected resource to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks.

1.5 Limitations of the Study

Since this study deals merely with Nabil Bank and Nepal Investment bank limited, the confusion derived from the study may or not be applicable to other commercial bank. This Study will be based on secondary data. It is apparent that the secondary data are crucial for the study. Even the financial statement of Nepalese commercial banks published by them will not sufficient for this study because they publish only summary of their financial statement, they treats as confidential of its details. Though it will try to provide completeness to the study as far as possible, some limitation appeared there by different causes. This study has been carried out within certain assumptions and limitation which are as follows.

1. This study covers only the period of five years trend of commercial banks from the financial year 2014/2015 to 2018/ 2019.

2. The study include only those factors related with investment policy to financial aspect will be considered
3. Since, the study is fully based on the secondary data collected from various sources. Their relevancy depend upon the authenticity of the publishers.
4. Only two commercial banks selected for the study.
5. The study deals with limited financial and statistical tools, so the summary of the study and conclusion as well as recommendation based on the technique used.
6. The study is focusing an comparative policy of Nabil Bank and NIBL.

1.6 Organization of the Study

This study has been divided into five chapters as introduction, review of literature, research methodology, Results comparative analysis of investment policy of NABIL and Nepal Nepal Investment bank and summary, conclusions and recommendations.

Chapter - 1: Introduction

This is the first chapter of the study. This chapter consists of general background of the study, statement of the problem, objectives of the study, significance of the study, limitations/scope of the study and organization of the study.

Chapter - 2: Review of Literature

The second chapter, Review of Literature, reviews of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research to show what types of studies were made in this field and what conclusions were drawn by the previous researchers.

Chapter - 3: Research Methodology

The chapter contains research design, sources of data, population and sample, method of data collection and analysis. Various financial and statistical tools are defined which have been used in the analysis of data.

Chapter - 4: Results and discussion

This chapter consists of presentation and analysis of data and major findings findings and discussion of the study. Analysis will describe based on chapter 3 and the calculate results will presents in a tabulated form and graphical presentation will make along with the interpretation of the calculated figures.

Chapter - 5:Summary and conclusions

The fifth and last chapter lists the summary and conclusions, and offers recommendations, discussion suggestions based on the analysis and interpretation of the data. Bibliography and appendices are also included at the end.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This section focuses on the review of literature of relevant to the investment policy of commercial banks the conceptual framework given by different authors, research scholars is received from the books, research papers and annual reports.

Banks are such types of institutions, which deal in money and substitute for money. The most essential and important thing for bank is its good circulation of credit fluctuation in the flow of credit and weak decision harms the whole economy and the bank as well. Thus to collect fund effectively and its well utilization is very challenging task for the bank

The purpose of this chapter is to review the relevant literature regarding the investment policy of commercial banks in Nepal so as to formulate the appropriate research problem, and the research gap between the previous research studies and the present study. Such a review make from various sources of literature available in different libraries, documentation center, Nepal Stock Exchange Ltd., other information concern with commercial banks' websites. This chapter first presents the conceptual review, review of articles, research papers and previous research studies relevant to this study, and the research gap.

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter focus on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic review.

"Commercial bank is the corporation which accept demand deposits subject to check and makes short-term loans to business enterprises regardless of the scope of its other sources" (American Institute of Banking, 1992).

Commercial banks are designed primary to finance the production, distribution and sales of goods that is to lend short term funds. The built of deposit commercial bank consist of demand deposit, which are invested in short term loans. National and state banks are the best examples of commercial banks, although in most states trust. Companies are also permitted to engage in commercial banking private banks are usually commercial banks" (Woeltel 1999).

"An organization which exchanges money, deposits money, accepts deposits, grand loans and performs commercial banking functions and which is not a bank meant for co-operative agriculture, industries or for such specific purpose" (BAFIA 2073).

These facts show that the commercial banking system of the nation is important to the functioning of our economy. "The name commercial bank was first and to indicate that loans extended were short term loans to business, though loans later were extended to consumers, government and other non-business institutions as well. In general, the assets of commercial banks tend to be more liquid and carry less risk than the assets held by other financial intermediaries" (The New Encyclopedia Britannia, 1991).

The term full service banking has been promoted in recent years as a more description term because of the diversification of commercial banks into many operations other than commercial lending including consumer banking, mortgage banking, saving banking, commercial sales, financing and factoring, international banking and foreign exchange, underwriting and trading to us government and state, state and municipal obligations, travel service, travellers cheques, money order and so forth" (Woelfel, 1999).

Commercial banking is different from investment banks, securities, firms and commercial financial services institutions. Government authorities closely regulate commercial banking operations to control deposit growth and to ensure the safety of customer deposits and the soundless of the bank. Government regulators require cash reserves against deposits; specify maximum interest rate bank can pay on deposits, set minimum capital requirements and place limits on the size of loans to borrowers. Federal banking law, further limits bank operations to activities closely related to banking. Commercial banks can be federally or state chartered. Commercial bank can be classified either as unit bank with all operating housed in a single office or branch banks with multiple offices. Bank holding companies or organization that own controlling interest in one or more commercial banks (Woelfel, 1999).

Lending is difficult. Generally, it involves risk. To manage the risk, it is needed to acquire and process information, to draw up a contact with the borrower with due attention to the incentives, this creates and to monitor compliance liquidity too may be a problem.

Dr. Sunity Shrestha, in her book "Portfolio behavior of commercial bank in Nepal", said- "The commercial banks fulfil the credit needs of various sectors. The lending policy of commercial banks is based on, the profit maximizing of the institution as well as the economic enhancement of the country" (Portfolio Behavior of Commercial Banks in Nepal, 1995).

2.2 Theoretical Review

Review of supportive text provides the fundamental theoretical framework and foundation to the present study. For this, various books, research paper, articles etc. dealing with theoretical aspects of investment policy analysis are taken into consideration.

2.2.1 Definition of Investment

Investment is nothing but deploying our savings in a manner that ensures safety of our money and provides a sustained return to supplement our regular income. (Delhi Stock Exchange, January 2002). The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there are adequate savings. 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 savings and investment are interrelated. Investments are made in assets. Assets in all are of two types, real assets (land, buildings, factories etc.) and financial assets (stocks, bond, T-bill etc.). These two investments are not competitive but complementary. Highly –developed institutions for financial investment greatly facilitate real investment (Bhattarai, 2004).

Preeti Singh has defined investment in this way; investment is the employment of funds with the aim of achieving additional income or growth in value (Singh, 1992).

In the words of Gitman and Joehank, investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns (Gitman and Joehank, 1990).

Jones has defined that, investment as the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all income (Charles, 1991).

2.2.2 Features of sound Investing Policy

Some of the main characteristics of sound lending and investment policies which most of the banks must consider have been given by many authors are as under:

(I) Safety and Security

While selecting the sectors for investing the funds, a bank should be very much conscious. It should never invest its funds in those securities, which are too volatile because a little difference may cause a great loss. Similarly, the businessman who is bankrupt at once or earns a million in a minute should not be financed at all. The banks invest its funds in legal securities only. The bank should accept that type of securities, which have marketability; ascertain ability, stability & transferability and it also accept those securities, which are commercial, durable and high market prices. For the safety and security in investing funds the bank can use the investment portfolio tools also.

(II) Liquidity

Liquidity generally refers to the cash or any assets that can be converted into cash immediately. Generally, people deposit money at the bank in different account with 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 obligations when they become due for repayment Liquidity is the capacity of bank to pay cash against deposits. Hence the liquidity position of a bank is such an important factor.

(III) Profitability

Commercial banks invest on those sectors from where more and more return can flow because through maximizing the returns on its investment, bank can maximize its volume of wealth. Hence the investment or granting of loan & advances by them are highly influenced by the profit margin. Generally, the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities. Profitability is only the term, which always motivates commercial banks to invest their money more and more.

IV) Suitability

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

V) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and maximize the profit, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because if securities of a company depreciated, there may be appreciation in the securities of other companies. In this way, the loss can be recovered (Bhattarai, 2004).

2.2.3 Sources of Funds for the Investment

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

(i) Capital

Capital is the lifeblood of the trade and commerce. Therefore, capital is needed for the operation of the bank as in other business. The capital fund consist of two elements like: Issuing Shares, General Reserves etc. Bank issues its share for the collections of capital. So this is one of the sources of fund to invest. By increasing in the issue of share, the bank can increase its capital.

(ii) Accumulated profit

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

(iii) Deposits

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

(iv) External and Internal Borrowings

The funds can be collected by borrowing money through different banks or different institution. In a developing country like Nepal, those types of borrowings are very important. The commercial banks may not have sufficient fund to invest in different sector. In that case it has to borrow from other bank or other financial institutions. Generally the commercial bank borrows from two sources i.e. external and internal. Generally external borrowing means the borrowing from foreign banks, and foreign government. Internally, the commercial banks borrow mainly from inter bank and Nepal Rastra Bank. So the commercial bank cannot provide loan or investment without the funds. From the fund collected from above different source, the commercial bank grants loan (Bhattarai, 2004).

2.3 Empirical Review

Every scientific research is based on past knowledge. The previous studies cannot be ignored because they provided the foundation to the preset study. Therefore, in the light of this dissertation in this section review of articles, review of research papers & review of thesis of previous study are taken into consideration.

2.3.1 Review of Journal and Articles

Under this heading, efforts have been made to examine and review some of the related articles published in different economic journals, bulletin of World Bank, dissertation papers, magazines, newspapers and other related books.

Wang, Luo and Tian (2020) in this study or journal examined bank ownership and investment decisions in the capital market. They found significant evidence that bank ownership improves investment efficiency by reducing both underinvestment and overinvestment and by improving investment sensitivity to investment opportunities. Further evidence supported their conjecture that bank ownership's positive impact on investment efficiency is facilitated through intensified disclosure requirements and supervisions (disclosure channel) and reduced financial constraints (financing channel).

Consistent with their disclosure channel argument, bank ownership was found to reduce both tunneling through related-party transactions and excess corporate cash holdings; furthermore, it improved the quality of firms' financial reporting and the market value of cash, especially in firms with more serious agency problems. In addition, we found that bank holding firms had access to more bank loans, had lower cash flow sensitivity of cash, and were less sensitive to tight monetary policy. These results supported the argument that bank ownership alleviates financial constraints, which, in turn, reduces underinvestment. In addition, they found that bank ownership had a more pronounced impact on investment efficiency in non-SOEs, in firms located in provinces with less developed institutions, and in firms with less institutional investors. Their results are robust regarding corrections based on bank ownership endogeneity and alternative explanations.

Bank holding firms are not unique to China, and they can be found in several other countries. La Porta et al. (2003) showed that the value of non-financial entities controlling a bank depended on the quality of disclosure requirements and supervision. In many developing countries, weak institutional environments enable bank holding firms to allocate banks' capital to areas where they can expropriate for a higher return; thus, weakly designed disclosure regulations and supervision systems can largely reduce the value of this downward vertical bank-firm connection. Their study suggests that implementation of strong governance mechanisms in bank holding firms can maximize the benefits of this unique ownership structure. The regulatory designs of bank holding firms in China may offer some experience for other countries with similar institutional settings. To minimize insiders' expropriation, they suggest that governments should impose strict disclosure requirements on bank holding firms and closely monitor related-party transactions within such business groups.

Thirumalai, (2014) in his article "investment policy of commercial banking loan" he concluded that commercial banks form the most important part of financial intermediaries. Banks form a significant part of the infrastructure essential for breaking vicious circle of poverty and promoting economic growth. So from my study, it is known that the banks are not investing in the private company. His innovate idea is that it can be allowed up to 10%of its deposits to be invested in those sector too. It will induce the production level of many industries. And it also boosts up the operating profit. It helps in Industrial development and it increases standard of living. And this investment is must for the developing country like us for our development. It will also bring down the inflation rate prevailing in the country. So the money value will increase. This will enhance the development of the country in the nearby future.

Khedkar, (2013) in his article "Investment Portfolio of scheduled of commercial banks"he concluded that the aggregate investments of the in India are dependent on macro-economic indicators like market capitalization and GDP growth rate. Although there have been cyclic variations in the general macro-economic environment during the study period, the aggregate investments of the banks have clearly shown a rising trend. This indicates that Scheduled Commercial Banks in India are also exploring different avenues, apart from core banking operations, in order to improve their income streams and thus the profitability.

Morris, (1980) in his discussion paper on "Latin America's banking system in the 1980's", has concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation (investment decision) and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked.

He further adds that mismanagement in financial institutions has involved inadequate and overoptimistic loan appraisal, high risk diversification of loan portfolio and investments, high risk concentration, related parties lending, etc, are major cause of investment and loan that has gone bad (Morris, 1990;pp81)

Vithessonthi, Shwaninger, and muller,(2017) in their article "Monetary Policy, Bank Lending and Corporate Investment" Using data from three countries (i.e., Germany, Switzerland, and Thailand) that conduct their monetary policy under the inflation targeting regime, we study how banks react to the central bank's monetary policy changes and how firms react to changes in the interest rate. They develop and empirically test four hypotheses. Of the four hypotheses presented at the outset, only one is confirmed (Hypothesis 1) while three are refuted (Hypotheses 2 to 4). Their key findings can be summarized as follows. After controlling for the US monetary policy, the monetary policy appears to influence the banks' lending rate in the short run (i.e. within two months), whereas the monetary policy in Switzerland seems to be ineffective at influencing the banks' lending rate in the short run. These findings suggest that for small, open and advanced economies such as Switzerland, the central banks' monetary policy is not effective as a means to influence commercial banks' interest rate. One plausible explanation is that as one of the global financial centers, Switzerland is open to capital mobility that renders the monetary policy actions ineffective.

Their results show that the banks' lending rate has a negative effect on their loans and that this negative effect is weakened by their growth opportunities. They further find that the supply of bank loans, rather than the lending rate, plays a more pivotal role in determining firms' investment. Our findings also suggest that neither the lending rate nor the loan-to-assets ratio moderates the sensitivity of investment to growth opportunities.

These findings have some ramifications for central banks, especially those conducting monetary policy under an inflation-targeting regime. Take our finding that the sensitivity of the firm's investment to investment opportunities is not affected by the lending rate: this evidence suggests that central banks may have to reconsider the use of monetary policy as a means to encourage/discourage corporate investment. While central banks might be concerned that the positive relationship between the firm's investment opportunities and its investment could be strengthened by the supply of bank loans, our findings suggest that this is not the case. Overall, our results provide empirical evidence for channels through which changes in monetary policy could affect corporate investments. For instance, we find that the banks' lending rate has a negative effect on their loans and that the aggregate-level bank loan is positively associated with the firm-level capital investment. These findings suggest that to reduce the firm-level investment, the central bank should try to reduce the supply of bank loans since it plays a more important role in determining the firm-level investment than the lending rate.

2.3.2 Review of Previous Theses

several thesis works have been conducted by various students regarding the various aspects of commercial banks such as lending policy, investment policy, investment planning, liquidity and investment position, trends of saving investment and capital formation, investment on priority sectors etc. Some of them as supposed to be relevant for the study are presented below.

Karn, (2009) in his study “Investment Policies of Commercial banks” A comparative study of Nabil bank and NIBL. In this study, for the analysis and interpretation of the data different financial & statistical tools are used. In the financial tools liquidity ratios, assets management ratios, profitability ratios and risk ratios have been used, where as in statistical tools mean, standard deviation, coefficient of variation, trend analysis, coefficient of correlation and test of hypothesis (i.e. t-test) have been used. Only the secondary data have been used for the analysis in this research. The data are obtained from annual reports of concerned banks.

The liquidity position of Nabil is comparatively lower than NIB but it has the highest investment on government securities to current assets ratio.

Through the assets management ratio, Nabil has highest investment policy towards investment to total deposits and government securities to total working fund but lower into shares and development to total working fund.

In analysis of profitability, return on total working fund and return on loan & advances, total interest earned to total outside assets and total interest earned to total working fund of Nabil is higher but total interest paid to total working fund of Nabil is lower.

From the viewpoint of risk ratio, liquidity risk is lower than NIBL but credit risk and capital risk of Nabil is higher than NIBL.

Through the both trend analysis i.e. loan & advances to total deposits and total investment of total deposit ratios of NIBL is greater than that of Nabil. It shows the NIBL's position will be better in future.

From the co-efficient of correlation between deposit and loan & advances there is a significant relationship. Through the analysis and findings we can summarize that Nabil's investment policy is better in every sector and profitability ratio is also good, similarly trend of loan & advances to total deposits shows that NIBL's position will be better. However, liquidity position is not good but it has average risk ratio.

Atal, (2010) has conducted a study on "Investment Policy Analysis of Commercial Banks" A comparative study Himalayan bank and SBI Bank ltd. She concluded After study and analysis of given data it is concluded that NSBI has invested maximum percentage in HMG securities while HBL has invested its major portion in other investments such as foreign banks, local banks, etc .NSBI started to invest in other sectors since fiscal year 2005/06.Investment of HBL is lower than NSBI in shares, debentures and bonds. Both the banks have not invested in Nepal Rastra Bank Bonds over the study period. Considering liquidity ratios, the mean currents ratio of HBL is higher than NSBI. Similarly, NSBI has maintained a higher average in cash reserve, cash and bank balance to current assets and investment on government securities to current assets. NSBI is in a better position to maintain its cash and bank balance and investing in government securities while the position of HBL is more consistent in maintaining the ratios than NSBI.

While analyzing the assets management ratios, it was found that NSBI has strong position regarding the mobilization of total deposit on loan and advance than HBL. The mean ratio of OBS operation to loan and advances of NSBI is lower as well as highly variable than that of HBL It was also found that HBL has invested higher amount of the total deposits in securities and shares than NSBI while the performance of NSBI in terms of recovery of loan is weaker in comparison to HBL due to higher loan loss ratio. The mean ratio of return on loan and advance of HBL is higher than that of NSBI. The position of NSBI is better than HBL in earning good return on total assets; however, HBL has been able to maintain a stable and consistent return on total assets in comparison to NSBI.HBL is efficient and more consistent in the utilization of its equity capital than NSBI. NSBI has better position with respect to the income earned from total outside assets and also it has better and stable position regarding the 136 mobilization of interest bearing assets than HBL but it has paid higher interest on total deposits than HBL. When a firm wants to bear risk, the profitability and effectiveness of the firm increase. As per the analysis of risk ratio, NSBI has higher credit risk as well as unstable credit policy in comparison to HBL and the degree of capital risk in HBL is also slightly riskier than NSBI.

From the trend analysis, it is concluded that clear that the trend of total deposits, loan and advances and net profit of HBL are increasing whereas the trend of total investments have been fluctuating .Similarly, the trend of total investments of NSBI has also been fluctuating while the trend of total deposits, loan and advances and net profit are following an increasing trend. It is also found that the deposits collection position, total investments position and net profit position of HBL is better than NSBI. HBL has also mobilized the loan and advances better than NSBI.

Baidya, (2011) has conducted on “A Comparative Study on Investment Policy of Nabil Bank and SBI bank ltd. “He concluded after his research finding following.

The liquidity position of Nabil is comparatively lower than SBI bank but it has the highest investment in government securities to current assets ratio.

Nabil bank has highest ratio in investment to total deposit and government securities to total working fund but lower into shares and debentures to total working fund.

Analyzing the profitability of these two banks, we found that return on total working fund and return on loan and advances of Nabil is higher than that of SBI bank. But, total interest paid to total working fund of Nabil is lower than that of SBI bank.

From the viewpoint of the risk ratio, liquidity risk and credit risk of Nabil is lower than that of SBI bank whereas it is higher in case of capital risk

From the analysis of growth ratio we found that, Nabil has lower growth rate in total deposit, loan & advances and total investment but it has average growth rate in net profit.

Through the help of the trend analysis we come to know that, loan and advances to total deposit and total investment to total deposit ratios of Nabil bank are greater than that of SBI bank. It suggests that the position of Nabil bank may be higher than the other bank.

Through the analysis and findings we can summarize that investment policy of Nabil bank is better in every sector and profitability ratio is good. Similarly, trend analysis of loan &advances and total investment to total deposits show that the position of Nabil will be better in the future. However, liquidity position and growth rate is not satisfactory and it has average risk ratio.SBI bank has good liquidity position and risk ratio.

Upreti, (2012) has conducted on "Investment Policy of Joint Venture Banks in Nepal" A comparative study on on SBI bank Nabil bank ltd. She concluded that after her research Economic liberalization policy of the government has encouraged the establishment of growth of the banks in the country with in short period of time. In a situation when the existing financial institutions, especially governments commercial banks were unable to meet credit needs and perform other activities, the contribution of joint venture commercial banks have played pivotal role. However, the overall performance of JVBs is not satisfactory.

Strengthening and the institutionalization of commercial bank are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. The liquidity position of sample JVBs (NABIL and Nepal SBI) is satisfactory. Nepal SBI has higher liquidity position than that of NABIL. The coefficient of correlation of deposit lending and investment of Nepal SBI shows that it has better position than NABIL as NABIL has failed to maintain sufficient level coefficient of correlation. The commercial banks have to prove that they can really contribute to the national economy, are efficient and visible agencies for mobilization of saving and are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned. From the analysis of t-test NABIL has become in perfect correlation is significant.

2.3.3 Summary of Articles and Theses

Author	Title	Methodology	findings
Thirumalai (2014)	Investment policy of commercial loan	Mean, s.d. and correlation analysis	He concluded that commercial banks form the most important part of financial intermediaries. Banks form a significant part of the infrastructure essential for breaking circle of poverty and promoting economic growth.
Baidya (2011)	A comparative study of investment policy of commercial banks	Regression analysis and probable error	He concluded that there is significant relationship between deposit and

	in Nepal.		total investment and deposit and loan and advances but negative relationship between outside assets and net profit of Nabil bank. All the variables of SBI bank have positive relationship with each other.
Atal (2010)	Invetment policy analysis of commercial bank of nepal	Correlation and regression analysis	it is concluded that clear that the trend of total deposits, loan and advances and net profit of HBL are increasing whereas the trend of total investments have been fluctuating
Jha (2009)	A comparative study of investment policy of commercial bank in nepal	Mean, S.D, Hypothesis and C.V Analysis	The inferential analysis reveals that total deposit have significant correlation with total investment. It reveals that there is sound relation between deposit and investment.

2.4 Research Gap

Various studies have been conducted on investment policy of commercial banks. The previous studies mainly emphasized on liquidity, profitability and leverage of the commercial banks. This research is conducted with recent data to know actual investment policy of commercial bank from the year 2014/15 to 2018/19.The present study tries to define different accord, directives, time period, applied tools and investment policy of commercial banks in Nepal by applying those various facts in context of Nepalese commercial banks. Therefore the investment policy of commercial banks add new dimension towards banking function of commercial banks. Looking at there all studies it shows that limited studies have been conducted in the area investment policies of between these two banks. So it is expected that this study will contribute significant role in this area. Hence this study for on the policy and management of investment in these two banks.

This research work will be identify causes to analyze them and recommend improvement measures of the betterment of the banks under study and to analyze the investment position of sample banks.

Investment in different sectors is made on the basis of the directives and instructions of Nepal Rastra Bank as well as the investment policy and guidelines of the concerned commercial bank itself.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 Introduction

The chapter contains research design, sources of data, population and sample, method of data collection and analysis. Various financial and statistical tools are defined which have been used in the analysis of data.

3.2 Research Design

Research design indicates a plan of action to be carried out in connection with proposed research work. This study applied descriptive research design. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate investment performance of Nabil and compare it with NIBL. Besides very simple questions asked to the concerned personnel's in the course of visiting the bank, this report contains no other primary data. This report is mainly based on secondary data, which include annual reports published by the concerned bank and other publications related to the concerned topic.

3.3 Population, Sample, and Sampling Design

There are 27 commercial banks functioning all over the country at present and most of their stocks are traded actively in the stocks market. Although there are 27 commercial banks operating in Nepal at present.

From these populations Nabil Bank Ltd. And Nepal Investment Bank Ltd. has been selected and its data related to investment policy are comparatively studied. in this study the sample selected by using convenience sampling. Generally this method is used because there is high limition of time and resource .And researcher can collect data quickly at low cost and at less time using convenience sampling method.

3.4 Nature and Sources of Data

The study is conducted on the basis of the secondary data only. The data required for the analysis are directly obtained from the balance sheet and the P/L account of the concerned bank’s annual reports. Supplementary data and information are collected from the number of institutions and regulating authorities like NRB, SEBON, NEPSE, Ministry of Finance, budget speech of different fiscal years.. Economic Survey and national planning commission etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources. Formal and informal talks with concerned authorities of the bank will also helpful to obtain the additional information of the related problem.

3.5 Data Collection Procedure and Instrument

This research is based on secondary data so the data collecting through internet, selected banks websites and other concerned sources. This research using quantitative data. To achieve the data published or unpublished sources, Governments reports and publications and computerized database.

The data collecting for five years selected sample bank websites, and other relevant sources. The data available for five financial year already access in sample bank websites, NRB, and other concerned authorities.

3.6 Data Processing Procedure and Data Analysis Method

3.6.1 Data Processing Procedure

The data are used classified and tabulated in suitable manner. All the secondary data are compiled processing and tabulated in time series as per the need and objectives.The data showing different charts also. The data calculating to used SPSS software and excel.

3.6.2 Data Analysis Tools and Techniques

3.6.2.1 Financial Tools

To achieve the objective of the study, various financial and statistical tools have been used in this study like financial ratios, growth ratios and coefficient of correlation as an analysis tool have been used in this study. The various calculated results obtained through financial and statistical tools are tabulated under different headings and then compared with each other to interpret the results.

3.6.2.2 Ratio Analysis

Ratio analysis is a tool of scanning the financial statement of the firm. “Ratio means the numerical or quantitative relationship between two items or variables. It can be expressed as percentage fraction or a stated comparison between numbers” (Panday, 1992). Ratio analysis is the relationship between two accounting figures expressed in mathematically. It is computed by dividing one item of relationship with the other. Management itself can use these parameters to improve the organization’s performance in future. Because, truly know- how of the strengths and weakness for exploiting maximum benefits and to repair the weaknesses to meet the challenges. Even though there are many ratios, only those financial ratios are calculated and analyzed which are related in this study. They are as follows:

A . Liquidity Ratios

Liquidity ratios measure the firm’s ability to current obligations. It reflects the short – term financial strength of the business. It is the measurement of speed with which a bank’s assets can be converted into cash to meet deposit withdrawal and other current obligations. A bank should ensure that it does not suffer from lack of liquidity and also it does not have excess liquidity. Both condition of liquidity are not in favour the viewpoint of banks. The following ratios are evaluated under liquidity ratios.

Current ratio

It indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution. The widely accepted standard of current ration is 2:1 .

We have,

Current ratio = Current Assets/ Current Liabilities

Where, Current assets consist of cash and bank balance, money at call or short-term notice, investment in government securities and other interest receivable, non banking assets, loan advances and bills purchase and other miscellaneous current assets where as current liabilities consist of deposits, borrowings, loan and advances, bills payable, tax provision, Staff bonus, dividend payable and miscellaneous current liabilities.

Cash and bank balance to Total Deposit Ratio (Cash Reserve Ratio)

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. Mathematically it is expressed as:

CRR ratio = Cash and Bank Balance / Total Deposits

Hence, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks whereas the total deposits include current deposits, saving deposits, fixed deposits, money at call and short term notice and other deposits.

Cash and Bank Balance to Current Ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of the bank. Higher ratio shows the banks ability to meet its demand for cash.

This ratio is calculated by dividing cash and bank balance by current assets. Mathematically it is expressed as,

Cash and bank balance to current assets ratio = Cash and Bank Balance /Current Assets

Investment on Government Securities to Current Assets Ratio

Investment on government securities includes treasury bills and development bonds etc. This ratio is calculated to find out the percentage of current assets invested in government securities.

This ratio is calculated by dividing investment made on government securities by current assets, Mathematically it is expressed as,

Investment on govt. securities to current assets ratio = Investment on Government securities /Current Assets

B . Assets Management Ratios (Activity Ratios)

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted turnover into sales. Asset management ratio measures how efficiently the bank manages the resources at its command. The following ratios are used under this asset management ratio.

(i)Loan and Advance to Total Deposit Ratio

This ratio is calculated to find out that which banks are able to utilizing their total deposits on loan and advances for profit generating purpose. This ratio can be obtained by dividing loan and advances by total deposits, which can be states as,

Loan and Advances to Total Deposit Ratio = Loan and Advances / Total Deposit

(ii)Total Investments to Total Deposit Ratio

This ratio implies the utilization of firm's deposit on investment in government securities and share debentures of other companies and bank.

This ratio can be calculated by dividing total investment by total deposit. Which can be states as,

Total Investment to Total Deposit Ratio= Total Investment / Total Deposits

Hence, total investment consist investment on government securities, investment on debenture and bonds, share in subsidiary companies, share in other companies and other investment.

C . Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and grow over a long period of time, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of its company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of a company. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. The following ratios are taken into account under this heading.

(i)Return on Loan and Advance Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This ratio is computed by dividing net profit by loan & advances. This can be expressed as,

Return on Loan & Advances Ratio = Net Profit / Loan and Advances

(ii)Return on Total Assets Ratio

This ratio is calculated by dividing net profit by total assets. This can be stated as:

Return on Total Assets Ratio = Net Profit /Total Assets

The numerator indicates with portion of income left to the internal equities after all costs, charges have been deducted.

(iii)Return on Equity Ratio

This ratio can be calculated by dividing net profit by total equity.

Mathematically:

Return on Equity Ratio = Net Profit /Total Equity

(iv)Total Interest Earned to Total Operating Income Ratio

This ratio is calculated by dividing total interest earned by total operating income. This can be stated as:

Total Interest Earned to Total Operating Income Ratio= Total Interest Earned / Total Operating Income

D . Risk Ratio

Risk taking is the prime business of bank's investment managements. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operations, when ultimately influences the bank investment policy.

The followings ratios are evaluated under this topic:

Credit Risk Ratio

Credit risk ratios measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank by definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. Here, dividing total loan and advance by total assets derives this ratio. This can be stated as:

Credit Risk Ratio = Total Loan and Advances / Total Assets

The ratio, lower is the capital risk. This ratio is computed by dividing capital (Paid up capital + reserves) by risk-weighted assets as computed under BASLE committee's Formula this can be mentioned as:

Capital Risk Ratio = Capital (Paid up + Reserves) / Risk Weighted Assets (RWA)

E. Growth Ratios

Growth ratios are directly related to the fund mobilization on investments managements of a commercial bank. Growth ratio represents how well the commercial bank is maintaining its economic position. The followings ratios come under above the headings:

Growth ratio of total deposit

Growth ratio of loan and advances

Growth ratio of total investments and

Growth ratio of net profit

3.6.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. In this study, statistical tools such as coefficient of correlation between different variables, trend analysis of important variables have been used for analyzing and interpreting the financial data. The basis of statistical analysis related to this study is discussed below:

Arithmetic Mean

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and by dividing this total by the number of items. The formula is given below:

$$X = \frac{\sum X}{N}$$

Where, X = Arithmetic average

$\sum X$ = Sum of values of all items, and

N = Number of term

Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ {read as sigma}, standard deviation is extremely useful for judging the representatives of the mean.

Standard deviation is represented as:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(X - \overline{X})^2}{N}}$$

Where, X = Arithmetic average

σ = Standard deviation

N = Number of items

Coefficient of Correlation Analysis (r)

"Correlation it is the statistical tools that we can use to describes the degree to which one variable in linearly related to another." (Richard I Levin and David S. Rubin, Statistics for managements (New Delhi: Prentice Hall of India Pvt. Ltd. 1991; 505). The coefficient of correlation measures the degree of relationship between two sets of sigma. Among the various methods of finding out coefficients of correlation, Karl 71 Pearson's method is applied in the study. The result of co-efficient of correlation is always between +1 or -1. When r= +1, it means there is perfect relationship between two variables and vice versa. When r=0. It means there is no relationship between two variables.

The Pearson's formula is: - r = $\dfrac{n\sum XY - \sum X \sum Y}{\sqrt{[\{n\sum x^2 - (\sum X)^2\}\{n\sum Y^2 - (\sum Y)^2\}]}}$

(V) Coefficient of Determination (R^2)

The coefficient of determination is a measure of the degree of linear association or correlation between two variables one of which happens to be independent and other being dependent variable. In other words coefficient of determination measures the percentage total variation independent variables explained by independent variables. Zero to one is the ranging measurement of this coefficient of multiple determinations. If R^2 is equal to 0.75, which indicates that the independent variables used in, regression model explained 75% of the total variation in the dependent variable. If the regression line is a perfect estimator R^2 will be equal to +1, when there is no correlation the value of R^2 is zero.

Trend Analysis (The Least-Square Method)

Trend analysis describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It generally shows that the line of best-fit or straight line is obtained or not. The line of the best fir describes the change in a given series accompanying a unit change in time. In other words, it gives that best possible mean value of dependent variable for a given value of independent variable.

For the calculation of the "line of best fit" following equations should be kept in mind.

$Yc = a + bx$

Where,

Yc = the estimated value of 'Y' for given value of x obtained from the line of regression of Y on x.

a = "Y-intercept" or mean of 'Y' value.

b = Slope of trend line or rate of change.

x = the variable in times series analysis represents time.

There are two normal equations estimating for 'a' and 'b' are;

$\Sigma Y = na + b\Sigma x$.......... (i)

$\Sigma XY = a\Sigma x + b\Sigma x^2$………. (ii)

Since, $\Sigma x = 0$

The term best fit interpreted in accordance with the principle of least square which consist in minimizing the sum of the square residual or errors of estimate i.e. the deviations between the given observed value of the variables and their corresponding estimated values as given by the line of best fit.

The following trend value analyses for the next five years have been used in this study.

Trend analysis of total deposit

Trend analysis of loan and advances

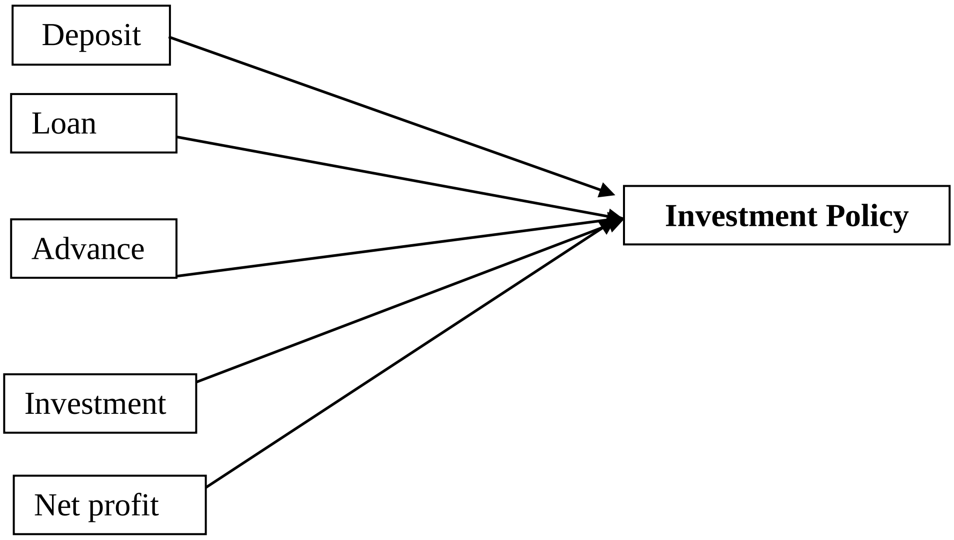
Trend analysis of total investment

Trend analysis of net profit

3.7 Conceptual Framework

A conceptual framework is a model that shows the relationships among the several factors that have been identified as important to the problem. It is prepared after the literature review, defining the problems. This study of conceptual framework is given below.

Independent variables **Dependent variable**



In the above figure, investment policy is dependent variable and other deposit, loan, advance, Investment, and net profit are independent variable. These independent variables are affected dependent variable.

CHAPTER 4
RESULTS AND DISCUSSION

4.1 Results

4.1.1 Data Presentation and Analysis

This chapter entitled "Results” is the crucial chapter as it utilizes. The processed data tools and techniques of working capital analysis, as described in research methodology go achieve the objectives of this study. Objectives of this study are to find out the solution of the problems identified. Bank are facing working capital management problems of current assets, fixed assets, long term & short term solvency, profitability and value of the firm. This study aim to determining the effect of investment policy on the profitability and value of the firm and they are by generalizing the result.

For this purpose the collected and organized data should be analyzed through different tools and techniques and interpreted. The data constitute the financial information extracted from the financial statement, i.e. income statement and balance sheet period. The fiscal years of five years period from 2014/15to 2018/19 are the sample year for this study. These data are presented in the tabular, diagram or the graphical form from the analysis through different statistical and financial tools. As per the tools used in this study, this chapter has been divided into sub-chapters such as ratio analysis trend analysis correlations analysis.

4.1.2 Financial Analysis

This is analytical chapter, where the researcher has analyzed and evaluated those major financial items, which are mainly related to the investment management and fund mobilization of NABIL Bank limited in comparison to that of other commercial Bank i.e. Investment Bank Limited. From the point of view of the fund mobilization and investment policy only those ratios are calculated and analyzed which are very important. The rations are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and needed financial ratios, which are to be calculated for the purpose of this study, are as fallows respectively.

4.1.2.1 Liquidity Ratios

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, to meet demands for deposits, withdraws, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate needs without loss to bank and consequent impact in long run profit. In fact analyses of liquidity needs are helpful to the preparation of cash budget and funds flow statement. The following ratios are evaluated and interpreted under liquidity ratio: -

Current Ratio

Current ratio indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution. The widely accepted standard of current ratio is 2:1.

Current assets consist of cash and bank balance, money at call or short-term notice, investment in government securities and other interest receivable, non-banking assets, loan advances and bills purchase and other miscellaneous current assets whereas current liabilities consist of deposits, borrowings, loan and advances, bills payable, tax provision, Staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1

Current Ratios (Times)

SN	F.Y	Nabil	NIBL
1	2014/15	0.66	0.65
2	2015/16	0.77	0.66
3	2016/17	0.65	0.64
4	2017/18	0.63	0.64
5	2018/19	0.65	0.64
Total		3.36	3.23
Mean		0.67	0.64
S.D		0.05	0.01
C.V		0.07	0.02

Source: Annex: 1

Fig 4.1 Current ratio

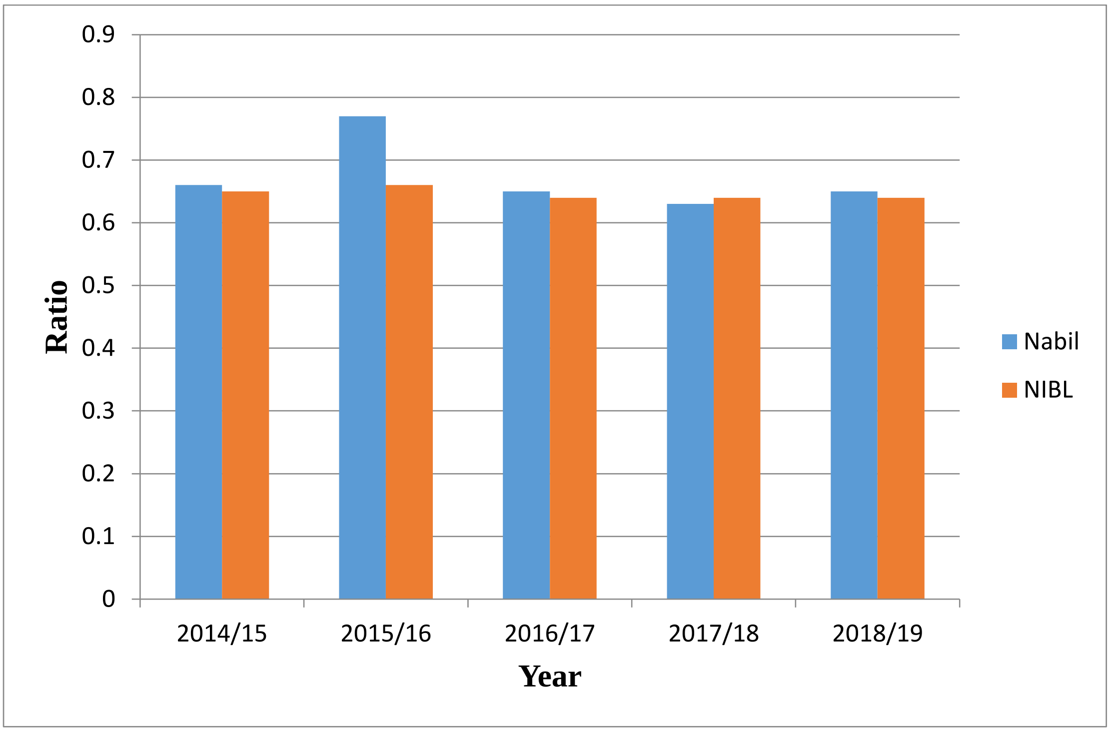


Table:4.1 shows that the current ratio of two commercial banks. It is calculated as per total mean, Standard deviation and coefficient of variation.

In an average, Nabil has maintained higher current ratio than NIBL (3.36>3.23), which states that liquidity position of Nabil is fair.Mean of Nabil Bank is 0.67 and NIBL has 64. S.D of Nabil also greater than NIBL (0.05>0.01).But the coefficient of variation between the current ratio of Nabil is 0.07 which is comparatively higher than 0.02 of NIBL, it shows that current ratio of Nabil is less consistence than NIBL.

(ii) Cash and Bank balance to total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. Mathematically it is expressed as: CRR ratio = Cash and Bank Balance / Total Deposits

Hence, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks whereas the total deposits include current deposits, saving deposits, fixed deposits, money at call and short term notice and other .

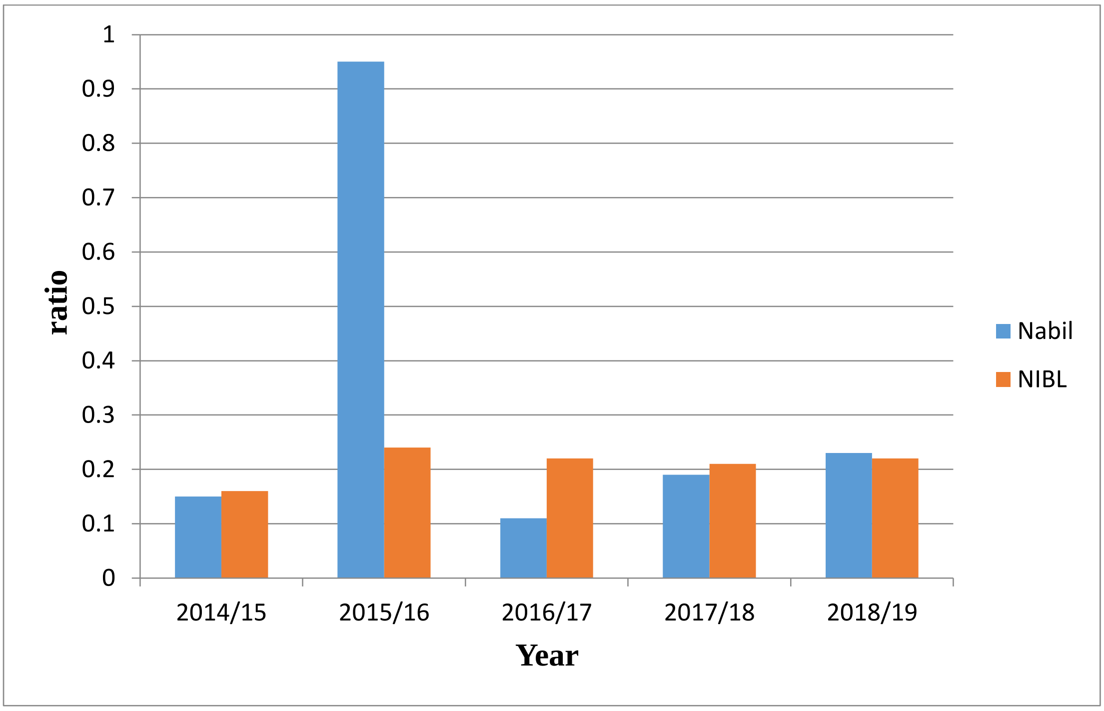
Table 4.2

Cash and Bank Balance to Total Deposit Ratio

S.N	Fiscal Year	Nabil	NIBL
1	2014/15	0.15	0.16
2	2015/16	0.95	0.24
3	2016/17	0.11	0.22
4	2017/18	0.19	0.21
5	2018/19	0.23	0.22
Total		1.63	1.05
Mean		0.32	0.21
S.D		0.31	0.03
C.V		0.96	0.13

Source : Annex: 2

Fig 4.2: Cash and Bank Balance to Total Deposit Ratio



The Table 4.2 shows that the total mean, standard deviation and coefficient of variation of cash and bank balance to total deposit ratio of two commercial banks.

Figure in the table shows that the ratio (CBR) of Nabil is increasing trend from FY 2014/15 to 2018/19. But trend is decreasing scale in the F.Y. 2016/17. NIBL has decreasing and increasing or mixing trend from 20114/15 to 2018/19.

Mean and standard deviation ratio of Nabil are higher than that of NIBL. C.V. of Nabil and NIBL are 0.95 and 0.12 respectively. From the above analysis it can be concluded that Nabil bank has high return and high gain of its tight liquidity than that of NIBL. Because more liquidity indicate the inability of the bank. Nabil bank is more risky than NIBL because the C.V. of Nabil is greater than NIBL.

(iii) Cash and Bank Balance to Current Assets Ratio

This ratio shows the banks liquidity capacity on the basis of cash and bank balance that is the most liquid asset. So this ratio visualizes higher liquidity position than current ratio. Where, Cash and bank balance represent total of local currency, foreign currencies, cheques in hand and various bank balances in local as well as foreign banks whereas the current assets consists of cash and bank balance, money at call, short term notice, loan and advances, investment in government securities and other interest receivable and others miscellaneous current assets.

Table 4.3

Cash and Bank Balance to current assets Ratio

S.N	Fiscal year	Nabil	NIBL
1	2014/15	0.14	0.14
2	2015/16	0.07	0.21
3	2016/17	0.09	0.18
4	2017/18	0.16	0.17
5	2018/19	0.19	0.18
Total		0.65	0.88
Mean		0.13	0.17
S.D		0.04	0.02
C.V		0.30	0.11

Source :Annex 3

Fig 4.3: Cash and Bank Balance to current assets Ratio

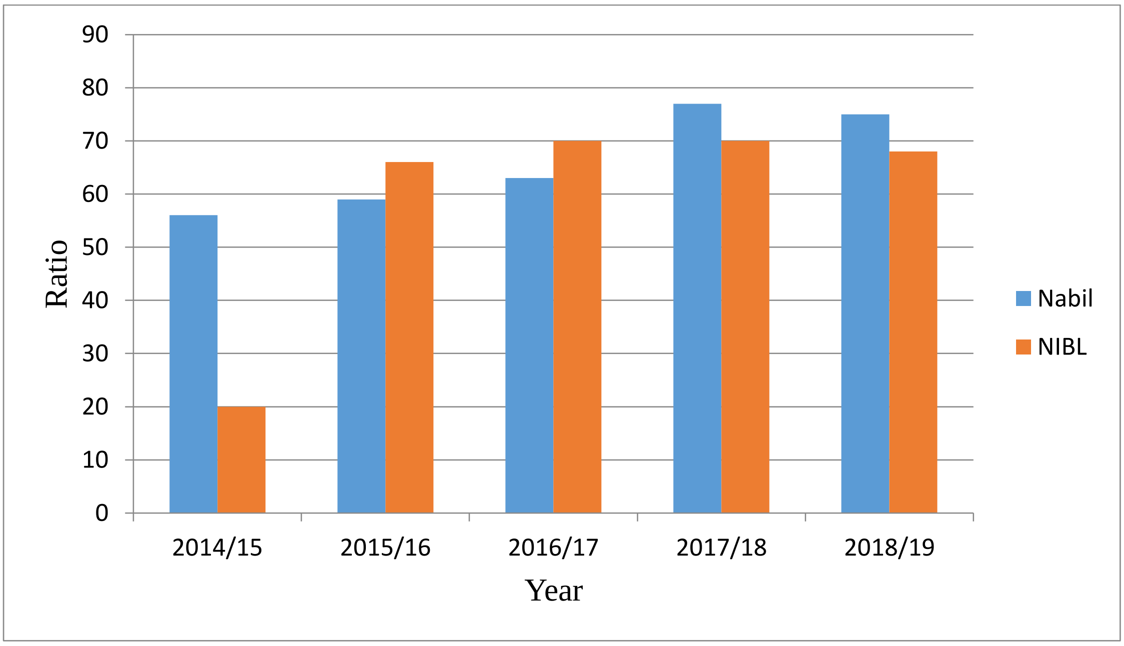


Table 4.3 shows the total mean, standard deviation and C.V. of cash and bank balance to current assets ratio of commercial banks.

Current asset ratio of two banks is better as they show the ability to manage the deposit withdrawals from the customers. The above table shows that cash and bank balance to current assets ratio of Nabil bank decreasing trend. But increased in F.Y. 2017/18. NIBL has fluctuating trend, it has range.Total ratio of NIBL is greater than Nabil (0.88>0.65).

From the above analysis we can conclude that liquidity position (only cash and bank balance) of Nabil bank is lesser than NIBL. But NIBL has higher consistency. Liquidity position of NIBL is less risky than Nabil, because the C.V. of NIBL is less than Nabil (0.11<0.30).

(iv) Investment on Government Securities to Current Asset Ratio

The government securities are not so much liquid as cash and bank balance. But they can easily sell in the market or they can be converted into cash in other ways. Investment on government securities includes treasury bills and development bonds etc.

We have,

Investment on government securities current assets ratio = Investment on government securities/ Current Assets

Table 4.4

Investment on Government Securities to Current Assets Ratio

S.N	Fiscal Year	Nabil	NIBL
1	2014/15	0.27	0.21
2	2015/16	0.31	0.13
3	2016/17	0.23	0.11
4	2017/18	0.11	0.1
5	2018/19	0.13	0.94
Total		1.05	1.49
Mean		0.21	0.29
S.D		0.07	0.10
C.V		0.37	0.36

Source: Annex 4

Fig 4.4: Investment on government securities to current assets

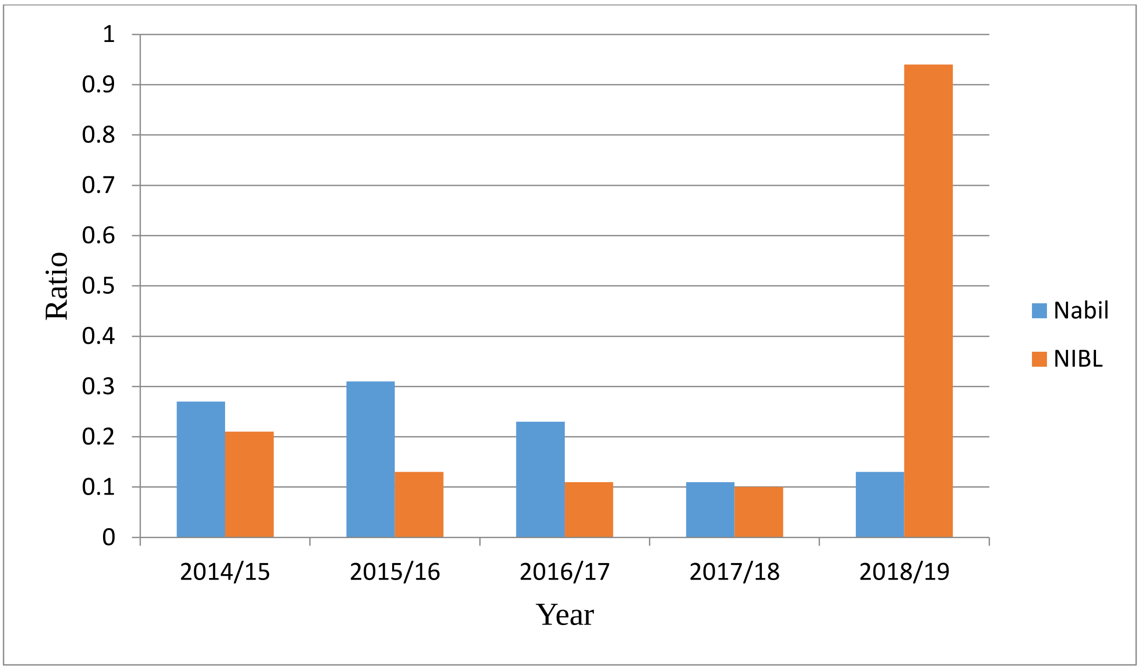


Table 4.4 shows the total mean, standard deviation and coefficient of variation of investment on government securities to current assets ratio of commercial banks. 0.21,

0.07, 0.37 respectively Mean , S. D and C.V. of Nabil bank and 0.29 , 010 and 0.36 respectively mean , S.D and C.V. of NIBL.here NIBL has strong position than Nabil.

Figure in the table shows that investment on government securities to current assets ratio of both Nabil and NIBL has in fluctuating trend and there is no consistency.

In overall, the mean ratio of investment on government securities to current assets of Nabil is less than that of NIBL i.e. 0.21<0.29. On the other hand coefficient of variation of Nabil is also higher than other NIBL i.e. 0.37>0.36 .

It can be concluded that Nabil uses to invest its current asset in government securities more than NIBL and the investment is quite stable too than that of NIBL bank.

4.12.2 Activity Ratios

Asset management ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. They indicate the speed with which assets are being converted. Thus these ratios are used to measure the banks ability to utilize their available resources.

Loan and Advance to Total Deposit Ratio

It shows the relationship between loans & advances to total deposit. The ratio measures the extent to which the banks are successful to mobilize their total deposit on loan & advances.

Where, Loan & advances include loans, advances, cash credit, local and foreign bill purchased and discount. Total deposits include saving, fixed current call at short deposit and others.

Table 4.5

Loan and Advances to Total Deposit Ratio

S.N	Fiscal year	Nabil	NIBL
1	2014/15	0.63	0.02
2	2015/16	0.69	0.79
3	2016/17	0.75	0.83
4	2017/18	0.81	0.88
5	2018/19	0.93	0.85
Total		3.81	3.37
Mean		0.76	0.67
S.D		0.10	0.32
C.V		0.13	0.47

Source: Annex 5

Fig 4.5: Loan and advances to total deposits

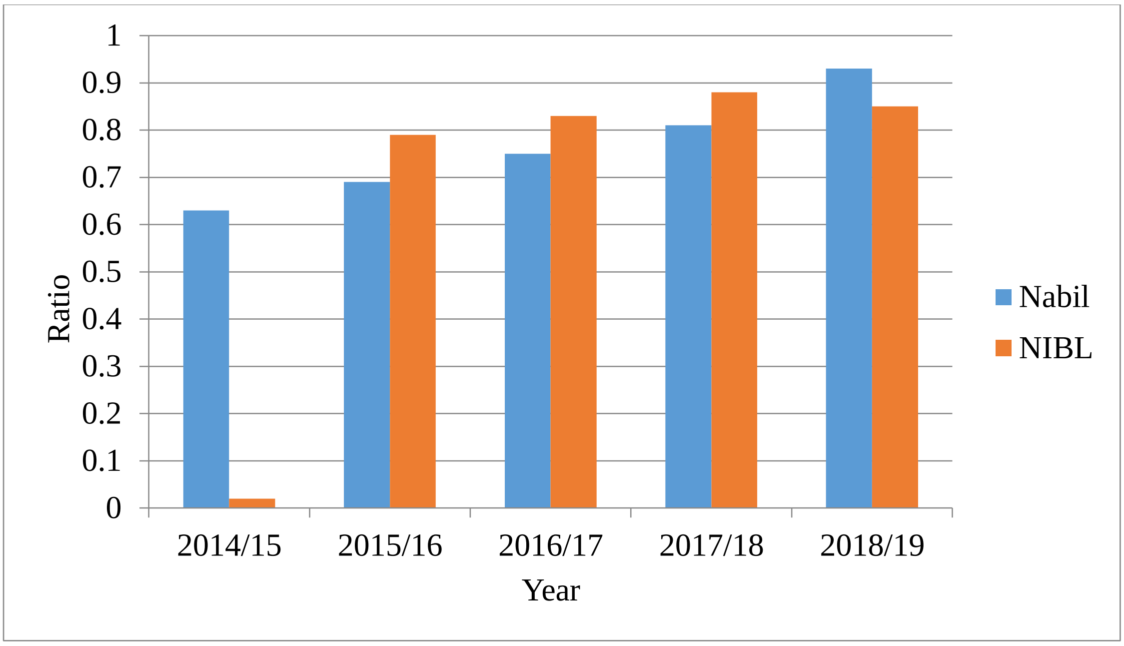


Table 4.6 shows the total mean, S.D. and C.V. of loan & advances to total deposit ratio of commercial banks. Contents of the table show the percentage of loan & advances to total deposit ratio position of Nabil and NIBL. The above table exhibits that the ratio of Nabil has increasing trend. NIBL has been also increasing trend.

The mean value of Nabil is highest than that of NIBL. Mean ratio of Nabil and NIBL is 0.76>0.67. Coefficient of variation of Nabil is lower than that of NIBL i.e 0.13<0.47.

From the above table it shows that Nabil has strong position regarding the mobilization of total deposit on loans and advances and acquiring high profit in comparison. But only higher ratio is not better from the point of view of liquidity as the loans and advances are not as liquid as cash and bank balance. On the other hand Nabil has less C.V. than NIBL, which indicate that loans and advances of Nabil are stable and consistent than that of NIBL.

(ii)Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposit by investing its fund in different securities issued by government and other financial or non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities.

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

Table 4.6

Total Investment to Total Deposit Ratio

S.N	Fiscal Year	Nabil	NIBL
1	2014/15	0.29	0.23
2	2015/16	0.32	0.15
3	2016/17	0.27	0.13
4	2017/18	0.13	0.12
5	2018/19	0.23	0.11
Total		0.029	0.74
Mean		0.23	0.15
S.D		0.07	0.26
C.V		0.33	1.78

Source: Annex 6

Fig 4.6 :Total investment to total deposit

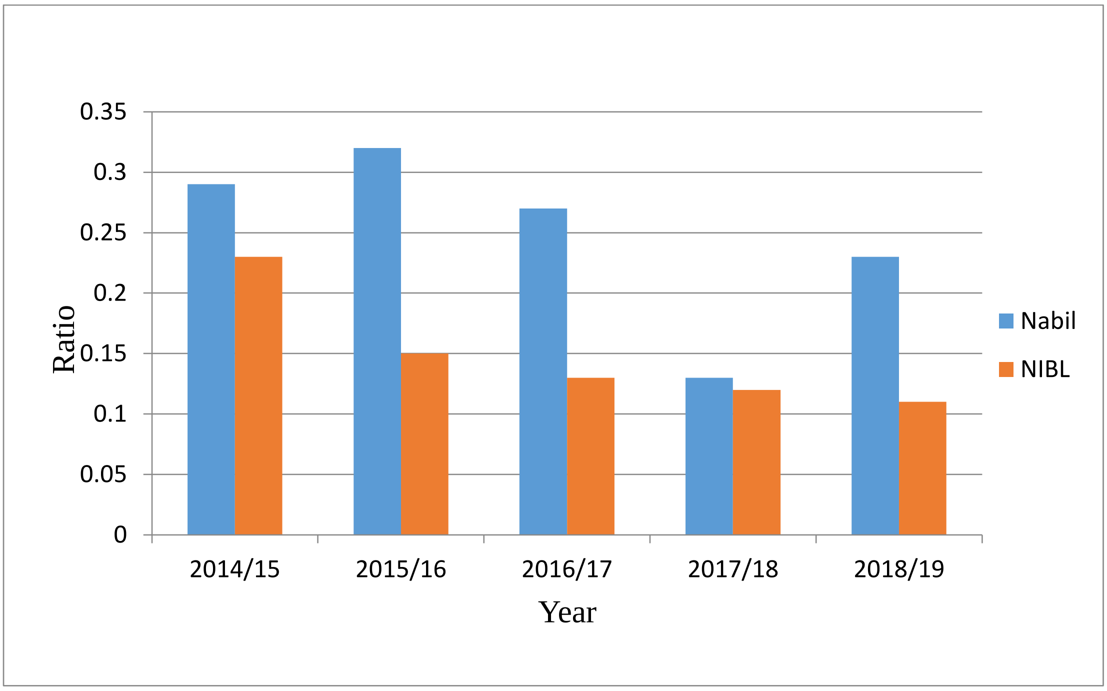


Table 4.6 shows the total mean, standard deviation & coefficient of variation of total investment to total deposit ratio of commercial banks.

The ratio of Nabil bank is fluctuating and mean value of Nabil bank is higher than NIBL (0.29<0.74). Nabil has success to better utilization of deposit to investment than NIBL and also NIBL has higher consistency to investment in securities than other bank. Its investment policy is better. The mean value of NIBL is less than Nabil bank (0.23>0.15). but C.V of Nabil bank is less than NIBL (0.33<1.33). so the Nabil bank has less riskier than NIBL.

4.1.1.3 Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency of operation of financial institutions. Here, profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Higher the profit ratio shows that higher the efficiency of a bank. The following profitability ratios are taken into account under this heading.

(i) Return on Loan and Advances Ratio

It measures the earning capacity of a commercial banks on its deposits mobilized on loan & advances. Higher the ratio greater will be the return and vice versa.

We have

,Return on loan and advances ratio $= \frac{\text{net profit}}{\text{loan \&advances}}$

Where,

Loan & Advances includes loan cash credit, overdraft bills purchased and discounted.

Table 4.7

Return on Loan and Advances (percentage)

S.N	Fiscal Year	Nabil	NIBL
1	2014/15	3.19	2.96
2	2015/16	3.7	2.98
3	2016/17	4.05	2.9
4	2017/18	3.65	3.03
5	2018/19	2.76	2.61
Total		17.35	14.48
Mean		3.47	2.89
S.D		0.44	0.14
C.V		0.12	0.05

Source: Annex 7

Fig 4.7: Return on loan and advances

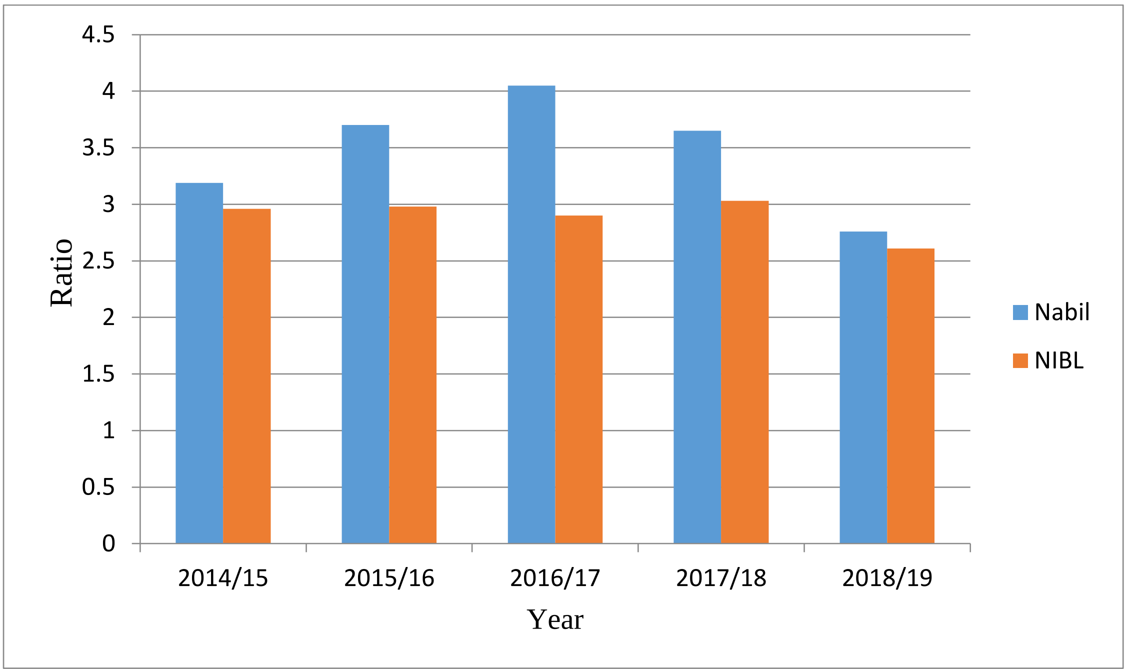


Table 4.7 shows the total mean, standard deviation and coefficient of variation of return on loan & advances ratio of commercial banks. In the above table return on loan & advances ratio of Nabil bank has fluctuating trend. In case of NIBL it has increasing trend. Mean ratio of Nabil is greater than that of NIBL i.e. 3.47 and 2.89. Similarly, coefficient of variation of NIBLis lesser than Nabil i.e. 0.05<0.12.

From above analysis it is found that Nabil bank has the comparatively higher return on loan than NIBL. It concludes that Nabil has success to earn high return on its loan & advances. It indicates that investment policy of Nabil has effective than NIBL.

(ii) Return on Total assets Ratio

This ratio measures the profit earning capacity by utilizing available resources of banks. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the bank's assets. A high ratio usually indicates the efficiency and utilization of its overall resources, and vice versa. This ratio is computed by dividing net profit by total assets.

Table 4.8

Return on Total Assets

S.N	Fiscal Year	Nabil	NIBL
1	2014/15	1.8	1.88
2	2015/16	2.21	1.92
3	2016/17	2.58	2.06
4	2017/18	2.83	2.13
5	2018/19	2.1	1.79
Total		11.52	9.78
Mean		2.3	1.95
S.D		0.13	0.12
C.V		0.05	0.06

Source: Annex 8

Fig 4.8: Return on total assets

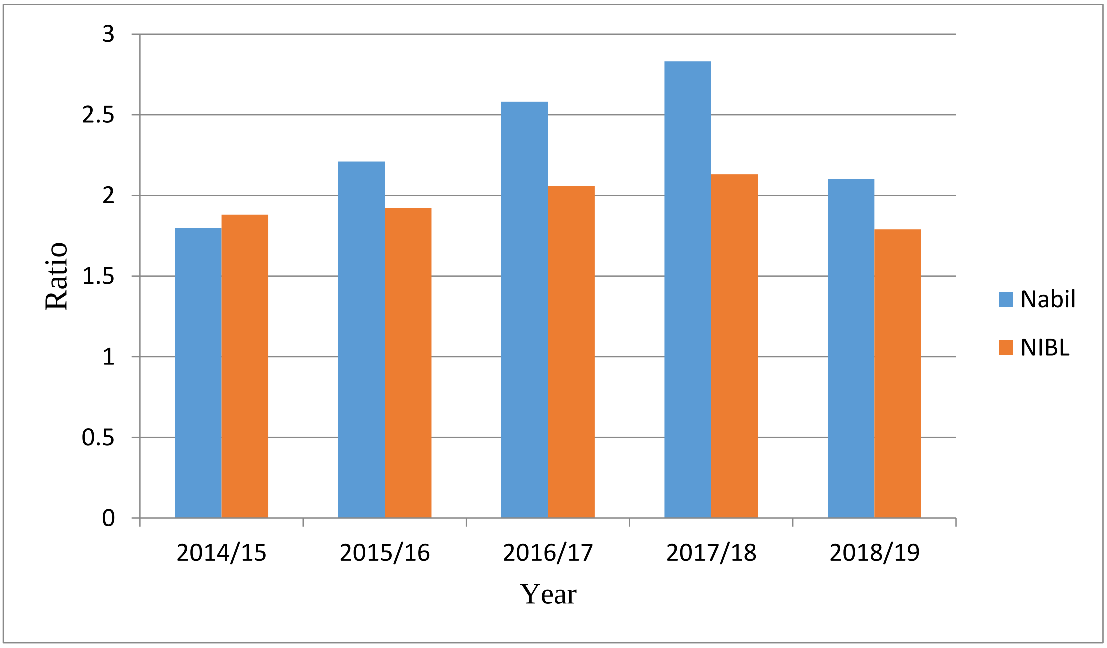


Table 4.8 shows return on total assets, mean ,standard deviation and coefficient of variation of both Nabil and Nepal investment banks. Nabil bank has increasing trend I.e. fiscal year 2015/15 to 2018/19. And NIBL has fluctuating. Nabil bank has higher total ratio and mean ratio than NIBL .nabil bank also coefficient of variation also

lower than NIBL .the CV of both banks are 0.05<0.06. so the Nabil bank has better financial position.

(iii) Total Interest Earned to Total Operating Income Ratio

This ratio measures the capacity of the firms for earning interest on total operating income. Total operating income is the difference between operating revenues and operating expenses. Total interest earned comprises total interest income from loans, advance, cash credit, overdraft, government securities, interbank and other investments. This ratio is calculated by dividing total interest earned by total operating income.

Table 4.9

Total Interest Earned to Total Operating Income Ratio (percentage)

S.N	Fiscal Year	Nabil	NIBL
1	2014/15	74.16	71.73
2	2015/16	75.39	73
3	2016/17	76.38	73.76
4	2017/18	77.64	73.95
5	2018/19	76.71	71.2
Total		380.28	292.11
Mean		76.06	58.42
S.D		1.81	12.7
C.V		0.02	0.21

Source: Annex 9

Fig 4.9: Total interest earned to total operating income ratio

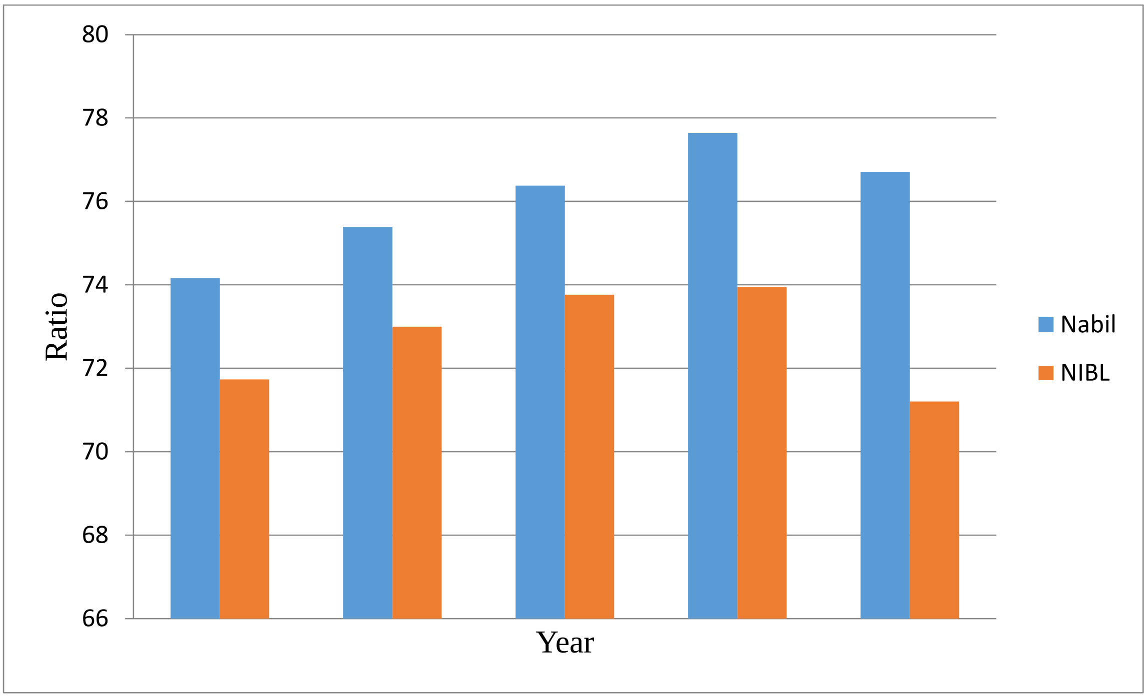


Table 4.9 shows Total interest earned to total earning ratio, mean and standard deviation and coefficient of variation both Nabil and Nepal investment bank.

Nabil bank has higher return than NIBL i.e. 76.06>58.42.Nabil bank has increasing trend and NIBL has fluctuating trend. Coefficient of variation also Nabil bank is lower (0.02<0.21), so the Nabil bank has better performance than NIBL.

4.1.1.4 Risk Ratio

The possibility of risk makes banks investment a challenging task. Bank has to take risk to get return on investment. It increases effectiveness and profitability of the bank. If a bank expects high return on its investment it has to accept the risk and manage it efficiently. Through following ratios, effort has been made to measure the level of risk.

(i) Credit Risk Ratio

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

We have,

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

Table 4.10

Credit Risk ratio (percentage)

S.N	Fiscal Year	Nabil	NIBL
1	2014/15	56	20
2	2015/16	59	66
3	2016/17	63	70
4	2017/18	77	70
5	2018/19	75	68
Total		330	294
Mean		66	58.8
S.D		8.48	19.06
C.V		0.12	0.32

Source: Annex 10

Fig 4.10: Credit Risk ratio

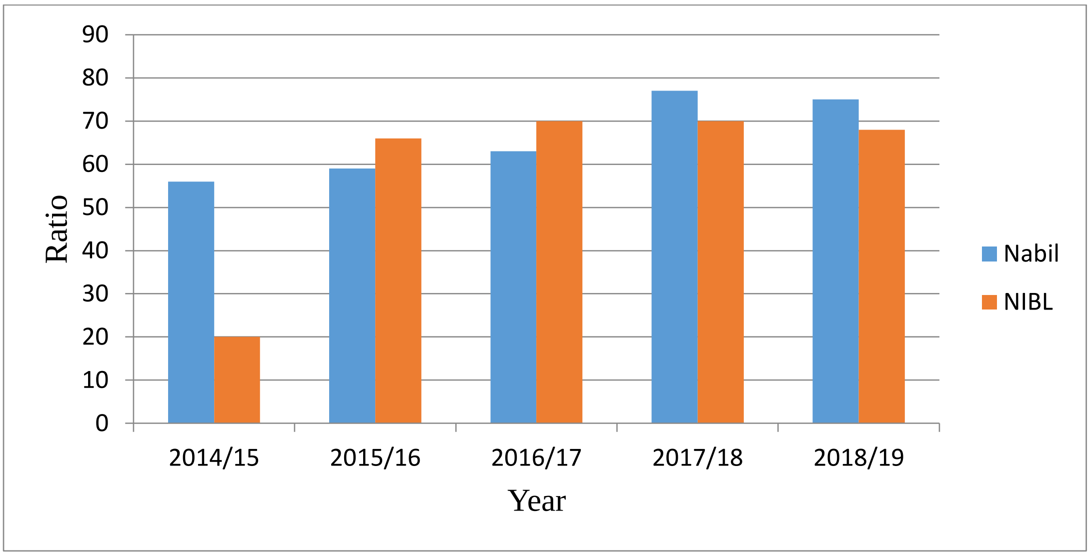


Table 4.10 shows that the total mean, standard deviation & coefficient of variation of credit risk ratio of commercial banks. The above table shows that the credit risk ratios of these two commercial banks are fluctuating trend. Nabil has maintained a highest meanof 66% . Similarly, NIBL has maintained a highest mean of 58.8% . Mean ratio of Nabil is higher than NIBL (i.e. 66>58.80) And C.V of Nabil is lower than that of NBIL. It indicates that Nabil has more consistency than NIBL.

4.1.1.5 Growth Ratios

The growths ratios represent how the commercial banks will are maintaining their economic and financial position. The higher ratio is the better performance of the bank and vice-versa. Under this section, those growth ratios are analyzed and interpreted, which are directly related to found mobilization and investment management of commercial bank.

These ratios are:

(i) Growth Ratio of Total Deposit
(ii) Growth Ratio of Loan and Advances
(iii) Growth Ratio of Total Investment
(iv) Growth Ratio of Net Profit

Table 4.11

Growth Ratio of Total Deposit (percentage)

Year	Nabil	NIBL
2014/15	38.27	22.75
2015/16	5.78	19.01
2016/17	7.63	15.74
2017/19	13.60	11.61
2018/19	20.87	9.55

Source: Annex 19

Fig.4.11: Growth Ratio of Total Deposit Nabil bank and NIBL

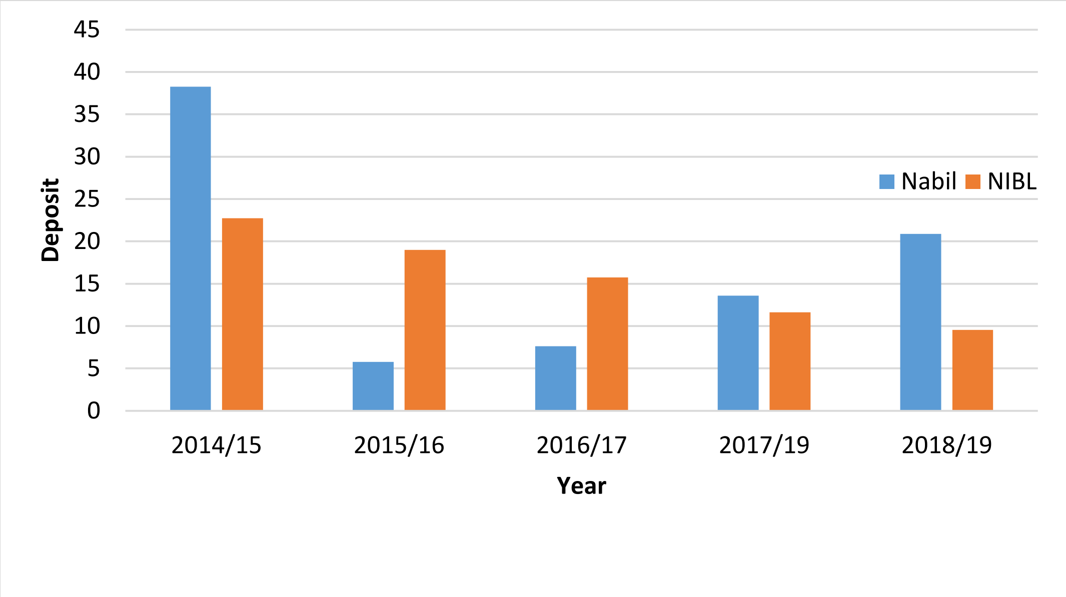


Table number 4.11 shows growth ratio of total deposit of Nabil and NIBL from fiscal year 2014/15 to 2018/19 is presented in the above tables of both banks.

The highest growth ratio of Nabil bank F.Y. 2014/15 is 38.27% and Lowest Growth ratio of total deposit F.Y. 2016/17 is 5.78%. Similarly highest growth ratio of total deposit F.Y. 2014/15 is 22.75%and lowest ratio of F.Y. 2018/19 is 9.55%.

(ii) Growth Ratio of Loan and Advances

Loan and Advances growth ratio shows whether the banks are increasing its loan and advances or decreasing.

Table 4.12

Growth Ratio of Loan and Advances

Year	Nabil	NIBL
2014/15	41.25	12.76
2015/16	16.18	19.25
2016/17	18.09	22.41
2017/18	21.34	15.48
2018/19	43.03	5.23

Source: Annex 19

Fig. 4.12: Growth ratio of Loan and Advances

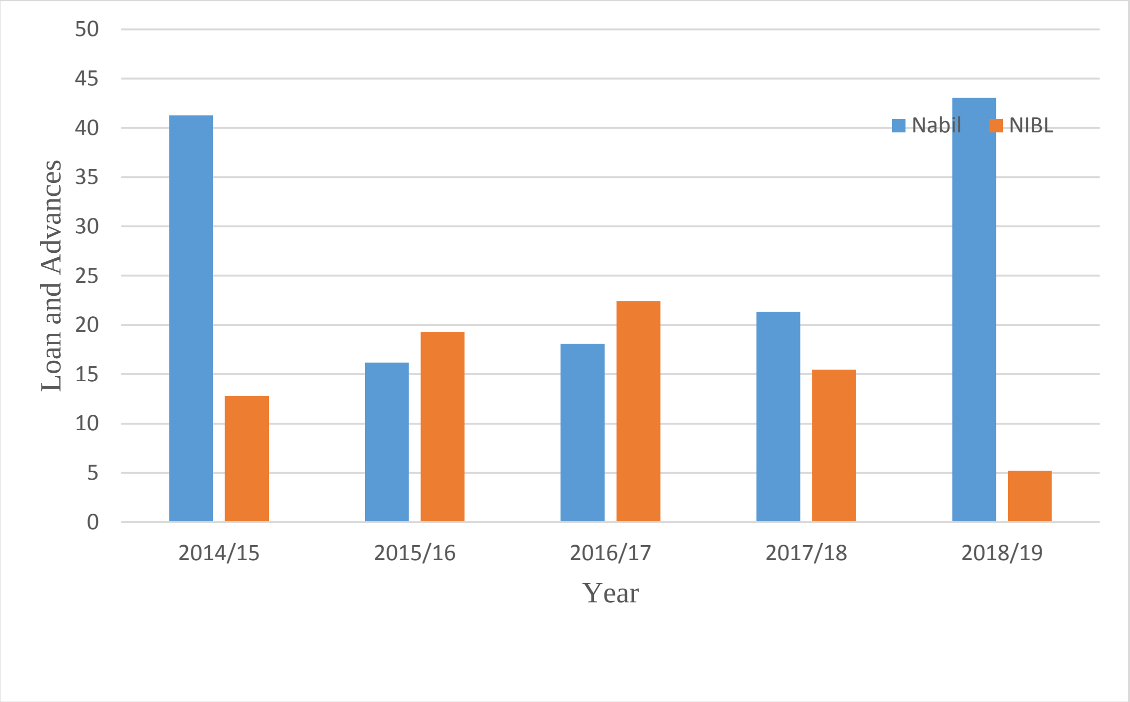


Table 4.12 shows growth ratio of loan and advances of Nabil and NIBL is presented from fiscal year 2014/15 to 2018/19.

The above tables out that the highest growth ratio of loan and an advance of Nabil F.Y.2018/19 is 43.03% and lowest ratio of F.Y 2015/16 is 16.18%. Similarly the NIBL has highest growth loan and advance ratio F.Y.2016/17 which is 22.41% and lowest ratio is 5.23% of F.Y 2018/19.

(iii) Growth ratio of Total Investment

This ratio shows whether the sample bank increased the Total Investment or decreased the Investment.

Table 4.13

Growth ratio of Total Investment

Year	Nabil	NIBL
2014/15	89.65	36.45
2015/16	5.12	-22.53
2016/17	-9.31	-1.03
2017/18	-43.8	7.16
2018/19	37.57	-3.02

Source: Annex 19

Fig 4.13: Growth Ratio of Investment

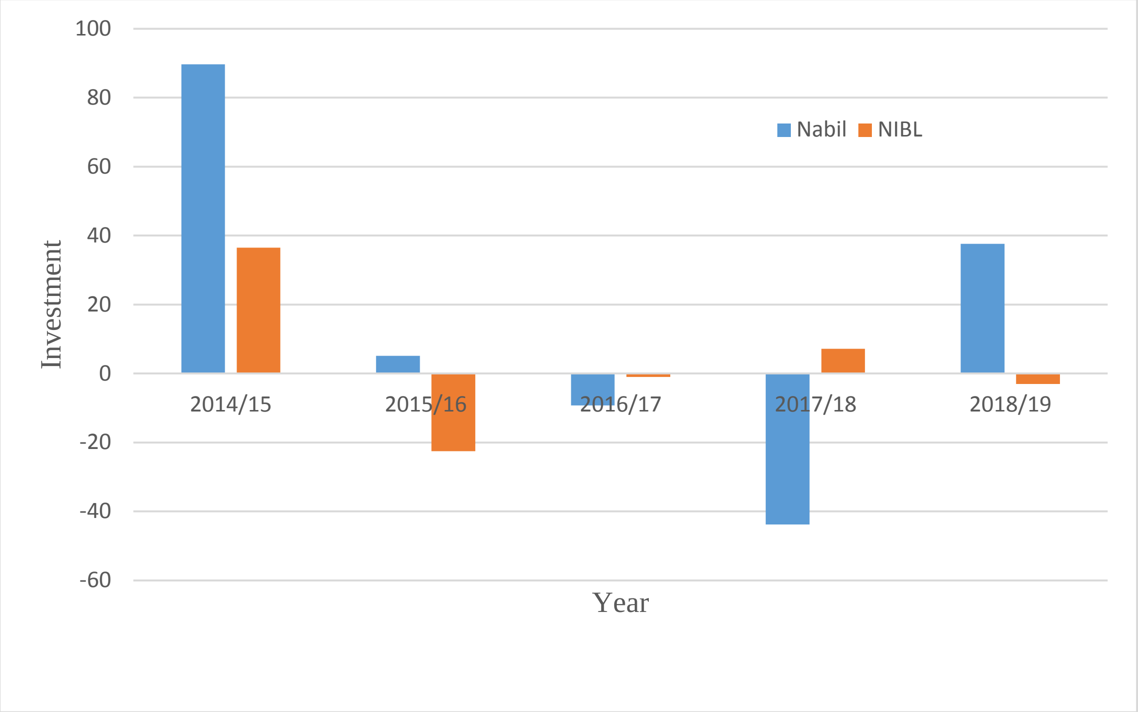


Table 4.13 shows growth ratio of total investments of Nabil and NIBL is presented from fiscal year 2014/15 to 2018/19 investments of both banks.

The above tables show that the highest growth ratio of total investments of NIBL of F.Y. 2014/15 is 89.65% and lowest ratio F.Y. 2017/18 is -43.80% .and The Nabil highest growth ratio of investment is 36.45 of F.Y. 2014/15. And the lowest ratio is -22.53% of F.Y. 2015/16.

(iv) Growth Ratio of Net Profit

This ratio shows whether the sample bank increased or decreased the net profit over the period of study.

Table 4.14

Growth Ratio of Net profit

Year	Nabil	NIBL
2014/15	-5.43	1.55
2015/16	3.50	30.10
2016/17	2.90	26.54
2017/18	9.34	17.68
2018/19	6.53	9.30

Source: Annex 19

Fig 4.14: Growth Ratio of Net Profit

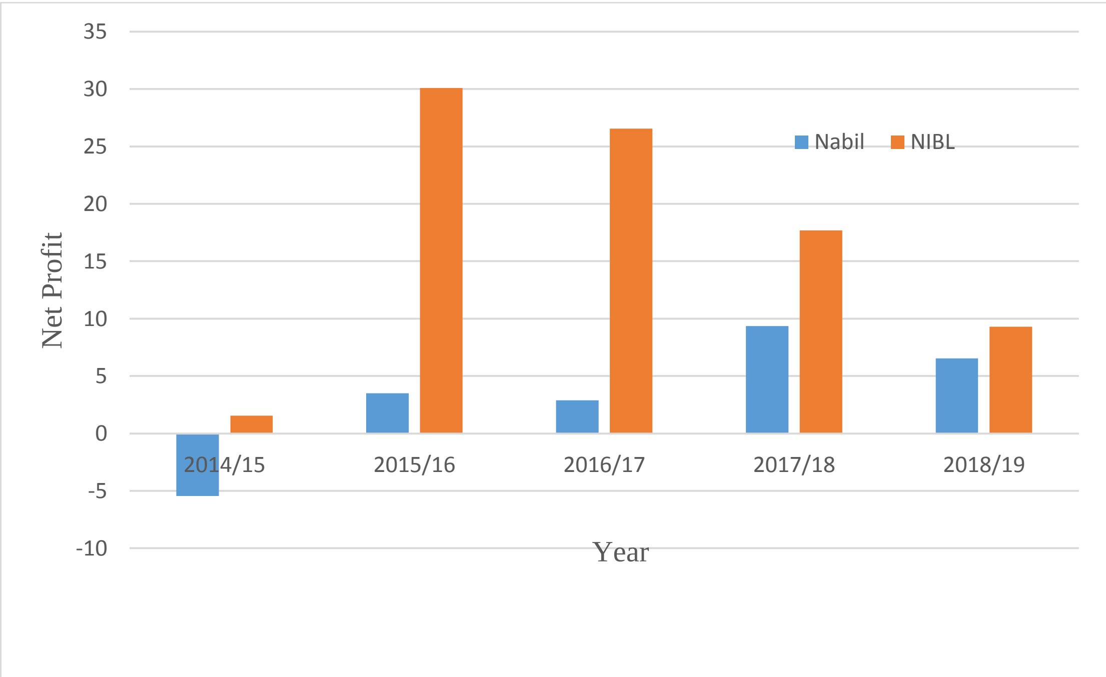


Table 4.14 shows growth ratio of Net profit of Nabil and NIBL from fiscal year 2014/15to 2018/19 is presented in the above tables.

The table shows that highest growth ratio of net profit Nabil bank is 9.34% of fiscal year 2017/18 and lowest ratio is -5.43% of fical year 2014/15.similarly NIBL has highest ratio of fiscal year 2016/17 which is 26.54%.

4.1.2 Statistical Analysis

Statistical tools help to find out the trend of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund mobilization through providing loan and advances or investment on other company. In this study, statistical tools such as coefficient of correlation between different variable and also hypothesis test have been used for analyzing and interpreting the financial data.

4.1.2.1 Correlation Analysis

Correlation analysis means the relationship between two variables where the changes in known as coordination. The degree of relationship between the variables under consideration is measured through the correlation analysis. It is the technique used in measuring the closeness of the relationship between the variables. To measure the correlation between the total deposits and total investments, co-efficient of determination is calculated in the study.

(i) Correlation between Total Deposits and Total Investments

The co-efficient between total deposit and total investment measures the degree of relation between the respective variables. In the correlation analysis, total deposit is independent variable while the total investment is a dependent variable.

Table 4.15

Correlation between Total Deposits and Total Investment

Banks	Correlation (r)	Coefficient of Determination (r2)
Nabil	-0.62	0.38
NIBL	-0.64	0.41

Source: Annex 11

The Table number 4.15 shows that the correlation coefficient between total deposits and total investment of Nabil and NIBL are -0.62 and -0.64 respectively. So, there is negative correlation between total deposit and total investment of both the banks. In order to measure the degree of change on dependent variable (investment) due to a change on independent variable (deposit), value of co-efficient of determination is calculated.

The value of co-efficient of determination of Nabil is 0.38 which means 38% Investment is depend on deposit and 62% investment decision depends on other variables. Similarly, the value of co-efficient of determination of NIBL is 0.41 which means 41% Investment is depend on deposit and rest investment decision depends on other variables.

(ii) **Correlation between Total Investment and Loan and Advances**

The coefficient of correlation between total investments and loan and advance measures the degree of relationship between these two variables. In this analysis, total investment is independent variable (X) and loan and advance is dependent variable(Y).

Table 4.16

Correlation between total Investment and Loan and Advances

Banks	Correlation (r)	Coefficient of determination(r2)
Nabil	-0.65	0.42
NIBL	-0.71	0.50

Source: Annex 14

The table 4.16 shows that the correlation coefficient between total investment and loan and advance of Nabil and NIBL are -0.65 and -0.71 respectively. So, there is negative correlation between total investment and loan and advance of both the banks. In order to measure the degree of change on dependent variable (loan and advance) due to a change on independent variable (investment), value of co-efficient of determination is calculated.

On the basis of co-efficient of determination, it is found that when there is a change in total investment, it brings 42 % change in loan and advance of Nabil due to total investment and.58% due to other variables. Similarly, it is found that when there is a change in total investment, it brings 50% change in loan and advance of NIBL due to total investment and rest due to other variables.

(iii) Correlation between Total Investment and Net Profit

The coefficient of correlation between total investments and net profit measures the degree of relationship between these two variables. In this analysis, total investment is independent variable (X) and net profit is dependent variable(Y).

Table .4.17

Correlation between Total Investment and Net profit

Banks	Correlation(r)	Coefficient of Determination(r2)
Nabil	-0.61	0.37
NIBL	-0.69	0.48

Source: Annex 13

The table 4.17 shows that the correlation coefficient between total investment and net profit of Nabil and NIBL are -0.61 and -0.69 respectively. So, there is negative correlation between total investment and net profit of both the banks. In order to measure the degree of change on dependent variable (net profit) due to a change on independent variable (investment), value of co-efficient of determination is calculated. On the basis of co-efficient of determination, it is found that when there is a change in total investment, it brings 37% change in net profit of Nabil due to total investment an.63% due to other variables. Similarly, it is found that when there is a change in total investment, it brings 48% change in net profit of NSBI due to total investment and rest due to other variables.

(iv) Correlation between Total Deposit and Loan and Advances

The coefficient of correlation between total deposits and loan and advance measures the degree of relationship between these two variables. In this analysis, a total deposit is independent variable (X) and loan and advance is dependent variable(Y).

Table 4.18

Correlation between Total deposit and Loan and Advances

Banks	Correlation (r)	Coefficient of Determination (r2)
Nabil	0.83	0.69
NIBL	0.99	0.98

Source: Annex 12

The table number 4.18 shows that the correlation coefficient between total deposit and loan and advance of Nabil and NIBL are 0.83 and 0.99 respectively. So, there is positive correlation between total deposits and loan and advance of both the banks. In order to measure the degree of change on dependent variable (loan and advance) due to a change on independent variable (total deposits), value of co-efficient of determination is calculated.

On the basis of co-efficient of determination, it is found that when there is a change in total deposits, it brings 69%change in net profit of Nabil due to total deposit and rest due to other variables. Similarly, when there is a change in total deposits, it brings 98%change in net profit of NSBI due to total deposit and rest due to other variables.

4.1.2.2 Trend Analysis

In this section, an attempt has been made to analyze and interpret the trend of deposits, loans and advances, investments and net profits of Nabil and NIBL to forecast them for next five years period. The following trend value analysis has been used in the study.

(i) Trend Analysis of Deposit

Under this topic an attempt is made to analyze the trend of deposits of Nabil and NIBL and forecast the trend for next 5 years. The following table shows the trend values of total deposits of Nabil and NIBL for five years from FY 2014/15to 2018/19 and forecasted the same till FY 2023/24.

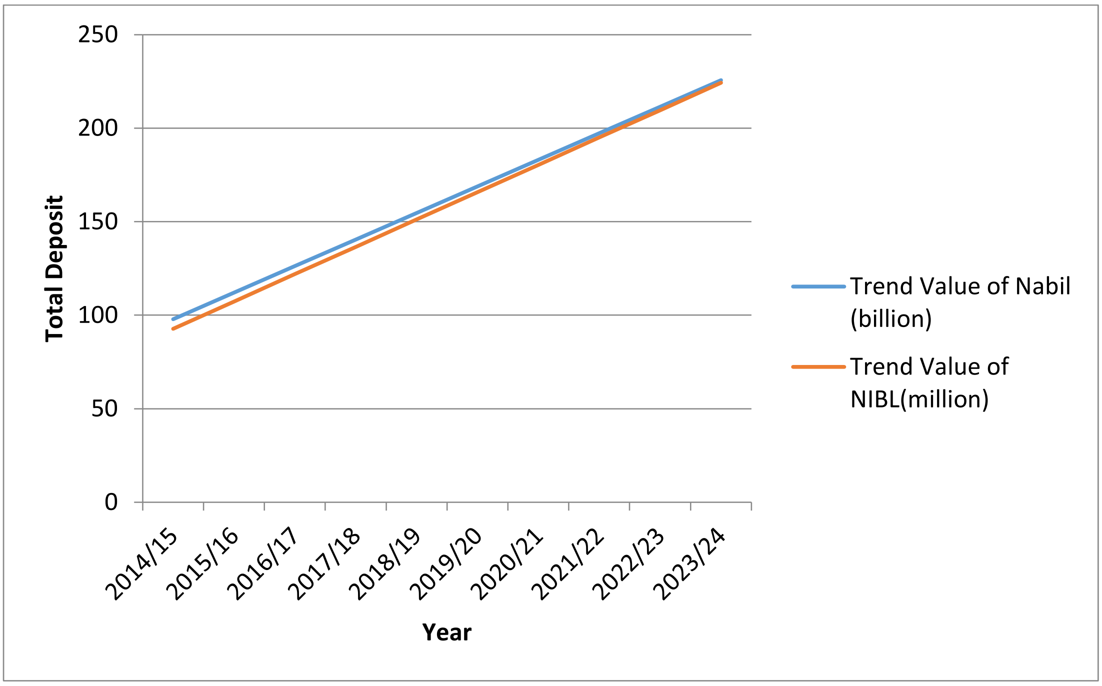
Table 4.19

Trend Analysis of Deposit

F.Y	Trend Value of Nabil (billion)	Trend Value of NIBL(million)
2014/15	97.78	92.64
2015/16	111.98	107.26
2016/17	126.18	121.88
2017/18	140.38	136.5
2018/19	154.58	151.15
2019/20	168.78	165.74
2020/21	182.98	180.36
2021/22	197.18	194.98
2022/23	211.38	209.6
2023/24	225.58	224.22

Source: Annex 18

Fig. 4.15: Trend Analysis of Total Deposit



When analyzing the table 4.19, it is clear that the total deposits of Nabil and NIBL are in increasing trend. Other things remaining constant, the total deposits of Nabil and NIBL in FY 2023/24 will be Rs. 225.58 and Rs. 224.22 respectively. From the above trend analysis, it is found that the deposits collection position of Nabil is better than NIBL.

(ii) Trend Analysis of Loan and Advances

Under this topic an attempt is made to analyze the trend of loan and advances of Nabil and NIBL and forecast the trend for next 5 years. The following table shows the trend values of loan and advances of Nabil and NIBL for five years from FY 2014/15 to 2018/19 and forecasted the same till FY 2023/24.

Table 4.20

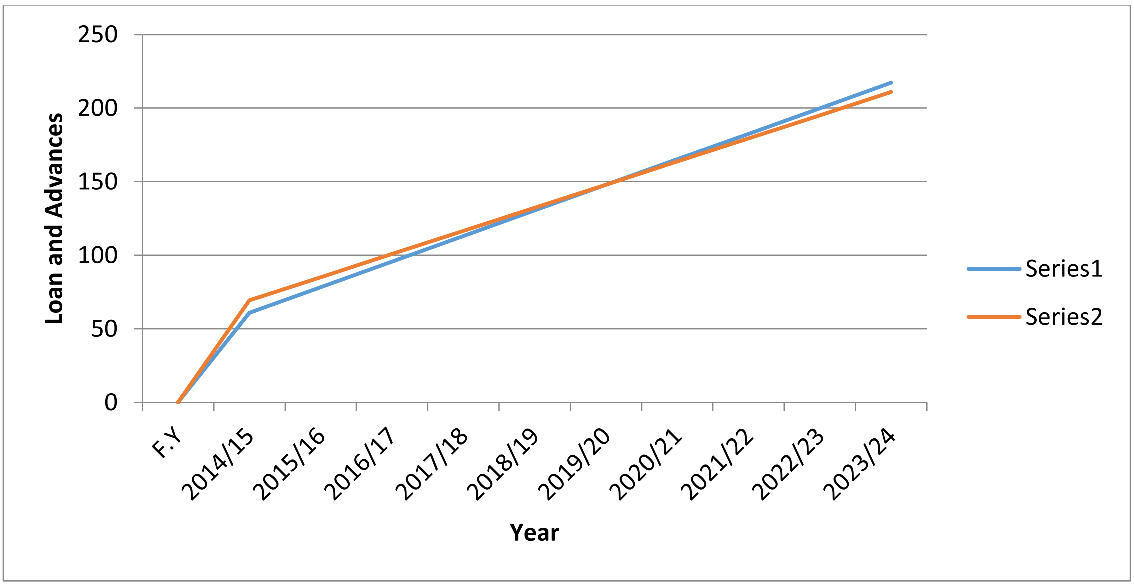
Trend Analysis of Loan and Advances

F.Y	Trend Value of Nabil Bank (billion)	Trend Value of NIBL (million)
2014/15	61	69.41
2015/16	78.37	85.13
2016/17	95.74	100.85
2017/18	113.11	116.57
2018/19	130.48	132.29
2019/20	147.85	148.01
2020/21	165.22	163.73
2021/22	182.59	179.45
2022/23	199.96	195.17
2023/24	217.38	210.89

Source: Annex 16

Fig. 4.16

Trend Analysis of Loan and Advances



When analyzing the table 4.20, it is clear that the loan and advances of both Nabil and NIBL are in increasing trend. Other things remaining constant, the loan and advances of Nabil and NIBL in FY 2023/24 will be Rs. 217.38 billion and Rs. 210.89 million respectively. From the above trend analysis, it is found of Nabil has mobilized loan and advances well than NIBL.

(iii) Trend Analysis of Total Investment

Under this topic an attempt is made to analyze the trend of investments of Nabil and NIBL and forecast the trend for next 5 years. The following table shows the trend values of total investments of Nabil and NIBL for five years from FY 2014/15 to 2018/19 and forecasted the same till FY 2023/24.

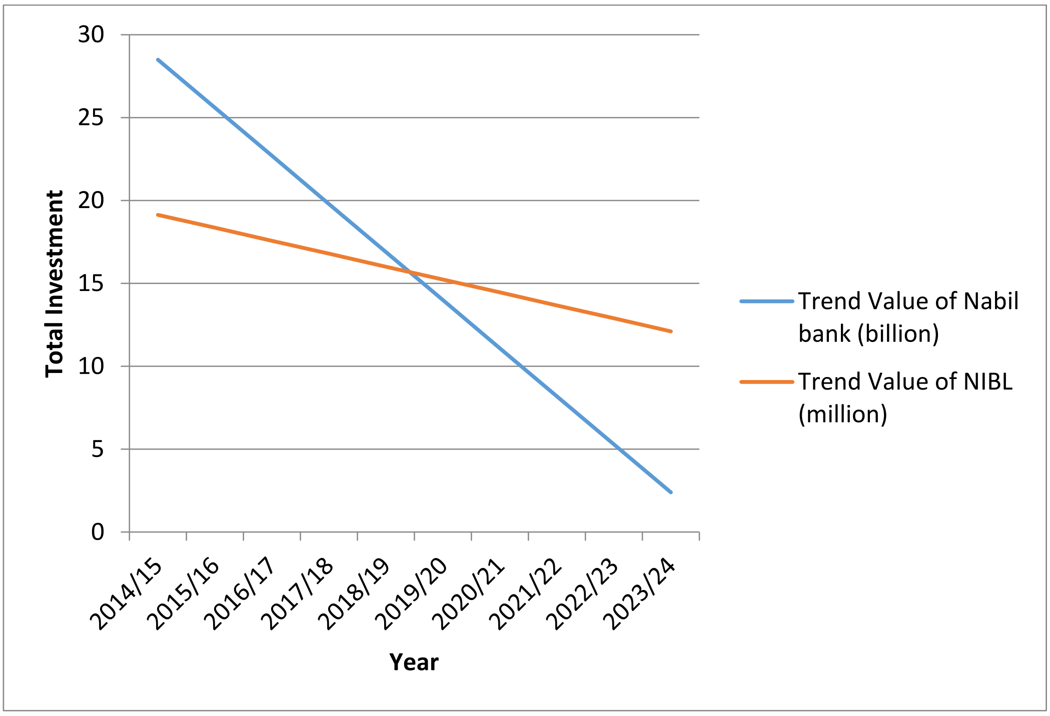
Table 4.21

Trend Analysis of Total Investment

F.Y	Trend Value of Nabil bank (billion)	Trend Value of NIBL (million)
2014/15	28.49	19.13
2015/16	25.59	18.35
2016/17	22.69	17.57
2017/18	19.79	16.79
2018/19	16.89	16.01
2019/20	13.99	15.23
2020/21	11.09	14.45
2021/22	8.19	13.67
2022/23	5.29	12.89
2023/24	2.39	12.11

Source: Annex 15

Fig. 4.17: Trend analysis of Total Investment



When analyzing the table 4.21, it is clear that the total investments of both Nabil and NIBL are in decreasing trend. Other things remaining constant, the total investments of Nabil and NIBL in FY 2023/24 will be Rs.2.39 billion and Rs. 12.11million respectively. From the above trend analysis, it is found that the total investments position of Nabil is better than NIBL.

(iv) Trend Analysis of Net profit

Under this topic an attempt is made to analyze the trend of net profit of Nabil and NIBL and forecast the trend for next 5 years. The following table shows the trend values of net profit of Nabil and NIBL for five years from FY 2014/15 to 2018/19 and forecasted the same till FY 2023/24.

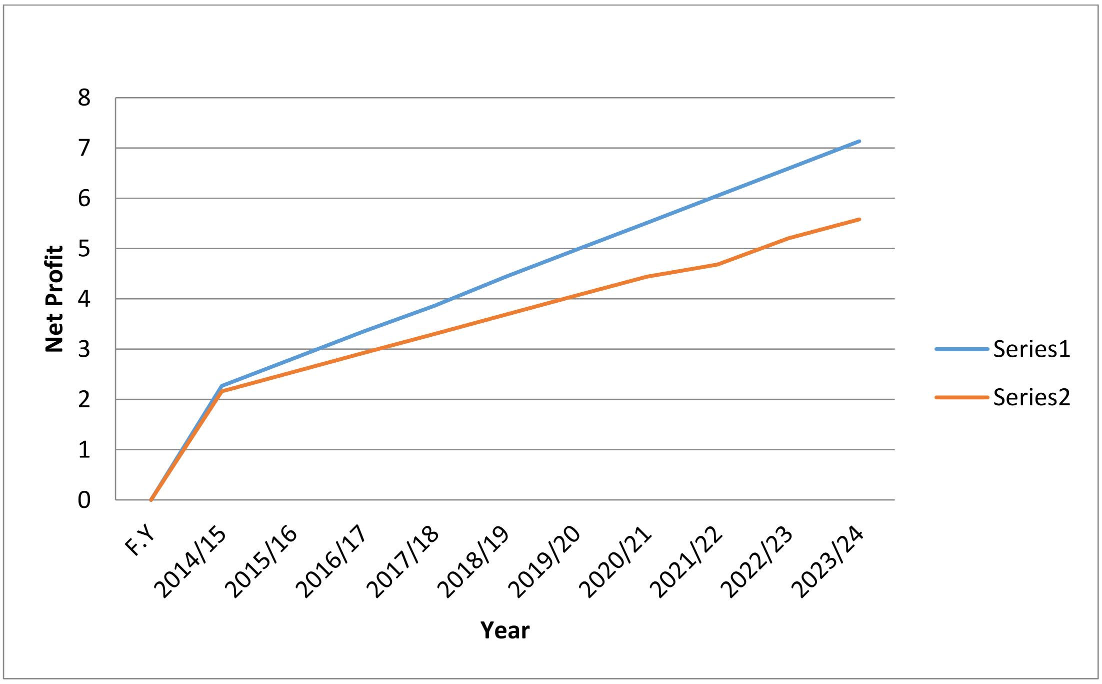
Table .4.22

Trend Analysis of Net Profit

F.Y	Trend Value of Nabil Bank (billion)	Trend Value of NIBL (million)
2014/15	2.27	2.16
2015/16	2.81	2.54
2016/17	3.35	2.92
2017/18	3.86	3.3
2018/19	4.43	3.68
2019/20	4.97	4.06
2020/21	5.51	4.44
2021/22	6.05	4.68
2022/23	6.59	5.2
2023/24	7.13	5.58

Source: Annex 17

Fig. 4.18: Trend Analysis of Net Profit



When analyzing the table 4.22, it is clear that the net profits of both Nabil and NIBL are in increasing trend. Other things remaining constant, the net profit of Nabil and NIBL in FY 2023/24 will be Rs. 7.13 billion and Rs. 5.58 million respectively. From the above trend analysis, it is found of Nabil is in better position in terms of net profit than NSBI.

4.2 Major Findings

The major findings of this study are as summarized as follows:

1. The mean currents ratio of Nabil is higher than NIBL. But Nabil bank coefficient of variation is higher than NIBL It means that Nabil has maintained lower liquidity whereas NIBL has maintained higher liquidity and lower risks in comparison to Nabil.
2. Nabil has maintained a higher cash reserve ratio than of NIBL. Nabil possesses higher ability to meet its deposits than that of NIBL. The co-efficient of variance of NIBL is lower than that of Nabil which shows that the ratios of NIBL are more stable and constant than that of Nabil.
3. The average ratio of cash and bank balance to current assets ratio of NIBL is greater than Nabil which indicates that NIBL is in a better position to maintain its cash and bank balance to meet its daily requirements to make the payments on customers deposit withdrawals.
4. The mean ratio of investment on government securities to current assets of Nabil is lower than NIBL and the variability of NIBL is higher than Nabil. It states the poor position of Nabil in investment on government securities but more consistent in its investment than NIBL.
5. The mean ratio of loan and advances to total deposit of Nabil is higher than NIBL but the consistency in the ratio is lower than that of Nabil. It concludes that Nabil has strong position regarding the mobilization of total deposit on loan and advance than NIBL.
6. The ratio of investment to total deposit of Nabil is higher than that of NIBL whereas the ratios of NIBL are more variable than Nabil. This shows that Nabil has invested higher amount of the total deposits in securities and shares than NIBL

7. The mean ratio of return on loan and advance of Nabil is higher than that of NIBL. But the coefficient of variation NIBL is lower than Nabil. So the return on loan and advances of NIBL are more consistent than Nabil.
8. The return on total assets ratio of Nabil is higher than NIBL on an average, which indicates that the position of bank is better than NIBL; however, Nabil has been able to maintain a stable and consistent return on total assets in comparison to NIBL.
9. The ratio of total interest earned to total operating income of NIBL is lower as well as highly variable than Nabil. It is clear that Nabil has better and stable position regarding the mobilization of interest bearing assets than NIBL. However, the magnitude of interest income in total income of both the banks is high though the investment has more risk than fee based activities.
10. The mean credit risk ratio and the CV ratio of Nabil is higher than NIBL which means that Nabil has higher credit risk in comparison to NIBL as well as unstable credit policy in comparison to NIBL.
11. The growth ratio of NIBL is higher than that of Nabil. The growth ratio of total deposits of Nabil is 11.82% whereas of NIBL is 13.3% which indicates that the performance of NIBL to collect deposit is much better year by year in comparison to Nabil.
12. The growth ratio of loan and an advance of NIBL is lower than Nabil. The growth ratio of NIBL is 17.71% whereas that of Nabil is 23.58%. This depicts that the state of NIBL to grant loan and advances is not as good as Nabil; however, analysis shows that the trend is increasing for both the banks.
13. The growth ratio of total investments of NIBL is higher than that of Nabil. The ratio of Nabil is 4.93% whereas that of NIBL is 5.52%. The growth ratio of both banks is fluctuating.
14. The growth ratio of net profit of Nabil is higher than NIBL. The growth ratio of Nabil is 19.34% whereas that of NIBL is 14.08%. Nabil has a better position of increasing net profit and much satisfying growth ratio than NIBL over the study period.
15. Coefficient of correlation analysis between total deposits and total investments of Nabil and NIBL shows that there is Negative correlation between total deposit and total investment of both Nabil and NIBL. Correlation of Nabil bank has -0.62 and NIBL has -0.64. Coefficient of

determination Nabil bank has 38% and NIBL has 41%.The relationship of two variables is significant.

16. Coefficient of correlation analysis between Nabil and NIBL shows that there is negative correlation between total investment and net profit of both the banks. The coefficient of correlation of Nabil bank has -0.61 and NIBL has -0.69. On the basis of co-efficient of determination, it is found that Nabil has 37% and NIBL has 47%.The relationship between these two variables is significant.
17. Coefficient of correlation analysis between Nabil and NIBL shows that there is negative correlation between total investment and loan and advance of both the banks. Coefficient of correlation of Nabil bank has -0.65 and NIBL has -0.71. On the basis of co-efficient of determination, it is found that when there is a change in total investment, it brings 42% change in loan and advance of Nabil and 50% change in loan and advance of NIBL. The relationship between these two variables is significant.
18. Coefficient of correlation analysis between Nabil and NIBL shows that there is positive correlation between total deposit and loan and advance of both the banks. The coefficient of correlation Nabil bank has 0.83 and NIBL has 0.99 .NIBL has perfect positive correlation. On the basis of co-efficient of determination, it is found that when there is a change in total deposit, it brings 69% change in net profit of Nabil and 98% change in net profit of NIBL. The relationship between these two variables is insignificant.
19. From the trend analysis, it is clear that the total deposits of Nabil and NIBL are in increasing trend, however, it is found that the deposits collection position of Nabil is better than NIBL.
20. The trend of total investments of both Nabil and NIBL are in decreasing trend. From the trend analysis, it is found that the total investments position of Nabil is better than NIBL.
21. The loan and advances of both Nabil and NIBL are in increasing trend. From the trend analysis, it is found of Nabil has mobilized loan and advances well than NIBL.
22. The trend of net profits of both Nabil and NIBL are increasing trend however, it is found that Nabil is in better position in terms of net profit than NIBL.

4.3 Discussions

This study is similar to thirumalai (2014) “Investment policy of commercial banks”. Some objectives of this study and his study both are similar .But this study and his study are contradiction, my findings and his findings are different. Thirumalai, (2014) in his article “investment policy of commercial banking loan” he concluded that commercial banks form the most important part of financial intermediaries. Banks form a significant part of the infrastructure essential for breaking vicious circle of poverty and promoting economic growth. So from my study, it is known that the banks are not investing in the private company. His innovate idea is that it can be allowed up to 10%of its deposits to be invested in those sector too. It will induce the production level of many industries. And it also boosts up the operating profit. It helps in Industrial development and it increases standard of living. And this investment is must for the developing country like us for our development. It will also bring down the inflation rate prevailing in the country. So the money value will increase. This will enhance the development of the country in the nearby future.

The investment policy of commercial banks should accordance with the spirit of the economic advancement of the people and also called it as the life blood of financial institution. A sound investment policy of a bank is such that its fund are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to depositors.

The study would certainly help to the management of the concerned bank to improve their performance and help them to take corrective action. Thus, this study lies mainly in filling a research gap on the study of investment policy of commercial banks.

The main focus of the study is to highlight the investment policies of commercial banks expecting that the study can be bridge the gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks. In the context of Nepal there is less availability of research work, Journal and Articles in investment policy of commercial banks as well as other financial institution. As it is a well known fact that the success and prosperity of the bank relies heavily upon the successful investment of collected resource to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks.

There are various problems in effective investment of commercial banks of Nepal, which affect their performance to a greater extent. Performance of commercial banks does not seem so satisfactory in terms of utilizing its resource efficiently in productive sectors. Hence the main significance of this study of investment portfolio analysis of Nepalese commercial banks is to help how to minimize risk on investment and maximize return through portfolio analysis. Similarly, the study of commercial banks investment trend, risk return pattern, portfolio management, credit management and effect on investment decision on earning will strive to disclose the internal weakness of the banks and furnish the ideas for improvement. Therefore, the researcher has undertaken this study to analyze the existing investment portfolio of Nepalese commercial banks with reference to Nabil & NIBL and point out the various weaknesses of defects inherent in it and provide package of suggestions for its improvement.

The objective of the commercial banks is always to earn more profit by investing or granting loan and advances into profitable, secured and marketable sector. But commercial bank should be careful while performing the credit creation function; the banks should never invest its funds in those securities, which are too much fluctuating. Commercial banks must follow the rules and regulations as well as different directions issued by central bank and ministry of finance while

CHAPTER 5
SUMMARY AND CONCLUSIONS

5.1 Summary

The economic development of a country depends upon the development of the commerce and industry. There is no doubt that banking promotes the development of commerce because banking sector itself is the part of commerce. The process of economic development depends upon various factors. However, economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development. However, after the announcement of liberal and free market economy based policy, Nepalese banks and financial sectors started having greater network and access to national markets. Commercial banks play a vital role, which deals with other people's money, and stimulate saving by mobilizing idle resources to those sectors where the objectives opportunities as available. Modern banks provide various services to their customers in view of facilitating their economic and social life. The objective of the commercial banks is always to earn more profit by investing or granting loan & advances to the profitable, secured and marketable sectors. But they should be careful while performing the credit creation function; the banks should never invest its funds in those securities, which are of fluctuating nature. And, commercial banks must follow the rules and regulations as well as different directions issued by central bank and ministry of finance while mobilizing the funds. For the purpose of the present study two commercial banks namely Nabil and NIBL were taken. In this study, the word investment covers analysis wide range of activities i.e. the investment of income, saving or any other collected fund. If there is no savings, there is no existence of investment. Saving and investment are inter-related. Investment policy is a facet of the overall spectrum of policies that guides banks' investment operations and it ensures efficient allocation of funds to achieve the economic development of the nation. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. Therefore, the investment policy should be carefully planned and analyzed. Some sources of funds for the investment of bank are capital, general reserves, accumulated profit, deposits and internal &

external borrowings. Similarly, some important banking terms, which are frequently used investment this study are loan and advances, investment on government securities, shares and debentures, deposits, etc. For the analysis and interpretation of the data of this study, different financial & statistical tools are used. In the financial tools liquidity ratios, asset management ratios, profitability ratios, risk ratios and growth ratios have been used. The statistical tools such as mean, standard deviation, co-efficient of variation, correlation, and regression.mainly; the secondary data are used for the analysis in this study. The data are obtained annual report of concerned banks; likewise, the financial statement of five years.

5.2 Conclusion

After study and analysis of given data it is concluded that Nabil has invested maximum percentage in securities while NIBL has invested its major portion in other investments of other sector. Investment of NIBL is lower than Nabil in shares, debentures and bonds. Both the banks have not invested in Nepal Rastra Bank Bonds over the study period. Considering liquidity ratios, the mean currents ratio of NIBL is higher than Nabil. Similarly, NIBL has maintained a higher average in cash reserve, cash and bank balance to current assets and investment on government securities to current assets. NIBL is in a better position to maintain its cash and bank balance and investing in government securities while the position of Nabil is more consistent in maintaining the ratios than NIBL.

While analyzing the assets management ratios, it was found that Nabil has strong position regarding the mobilization of total deposit on loan and advance than NIBL. It was also found that Nabil has invested higher amount of the total deposits in securities and shares than NIBL while the performance of NIBL in terms of recovery of loan is weaker in comparison to Nabil. The mean ratio of return on loan and advance of Nabil is higher than that of NIBL. The position of Nabil is better than NIBL in earning good return on total assets; however, Nabil has been able to maintain a stable and consistent return on total assets in comparison to NIBL. Nabil is efficient and more consistent in the utilization of its equity capital than NIBL. Nabil has better position with respect to the income earned from total outside assets and also it has better and stable position regarding the mobilization of interest bearing assets than NIBL but it has paid higher interest on total deposits.

When a firm wants to bear risk, the profitability and effectiveness of the firm increase. As per the analysis of risk ratio, Nabil has higher credit risk as well as unstable credit policy in comparison to NIBL. From the trend analysis, it is concluded that clear that the trend of total deposits, loan and advances and net profit of Nabil are increasing whereas the trend of total investments have been fluctuating Similarly, the trend of total investments of NIBL has also been fluctuating while the trend of total deposits, loan and advances and net profit are following an increasing trend. It is also found that the deposits collection position, total investments position and net profit position of Nabil is better than NIBL. Nabil has also mobilized the loan and advances better than NIBL. From the statistical analysis of financial data of both the banks, it is found that there is negative correlation between the total deposits and total investments, total investment and net profit, total investment and loan and advance as well as total deposit and loan and advance of both Nabil and NIBL.

5.3 Implications

5.3.1 General Implications

1. This study is expected to definitely provide a useful feedback to the policy makers of commercial banks of Nepal and also to the government and the NRB in formulating appropriate strategies for the improvement in the financial performance.
2. This study is also expected to be beneficial for the related persons in the field of investment and institution. And also help to find out the causes of failure and success of the bank by using the various financial and statistical tools.
3. This research reports helps to gain and share some practical knowledge of banking and management of the commercial banks in the perspective of improving financial performance.
4. Similarly, depositors can take decision to deposit on their money, also useful to more people and organization such as trade creditors, investors, academicians, general public, stockbrokers etc. It will prove to be an important value for the entire individual interested in commerce and banking field.

5. This study is expected to definitely provide a useful feedback to the policy makers of these banks.
6. The study would provide information to management of the bank that would help them to take collective actions.
7. This study help for depositors can take decision to deposit on their money. Also useful to more people and organization such as trade creditors, investors, academicians, general public, stock brokers etc.

5.3.2 Implication for Further Studies

This research helps to gain and share some practical knowledge of banding and management of the commercial banks in the perspective of improving financial performance. The study helps financial institution, feedback for other researcher as well as me. It conclusion the implication for further study focuses at following points:

i. It will be helpful to concerned financial institution.
ii. It will be valuable property for decision making.
iii. It will provides various information and data to required persons, economic planners etc.

This thesis has not covered all investment policy. Because of various limitations this study has covered only two bank's comparative investment policy. This study is simply a partial study for the fulfillment of MBS degree. Following research topics may provide for further researcher:

1. Investment theory and practices adopted by commercial banks.
2. Investment management of commercial banks.
3. Investment analysis and management.

REFERENCES

Adhikari, D.R & Pandey, D.L. (2073). *Business research method***.** Kathmandu. Ashmita Publications.

Adhikari, D.R & Pandey, D.L. (2019). *Research methodology*. Kathmandu. Ashmita Publications.

Pant, P.R. (2019). *Research methodology*. Buddha Publications (p) Ltd.

Pant, P.R. (2019). *A Handbook of social science research and thesis Writing*. Kathmandu. Buddha Publications.

Gitman, L.J & Joehnk. (1990). *Fundamentals of investment.*4ed, Harper & Raw new York

Charles, J.P. (1991*). Investment analysis and management* .Bombay.

Singh, P. (1992). *Investment management*. Bombay. Himalayan Publishing House.

Bhattarai, Rabindra (2004). *Investment theory and practice*. Buddha Publication.

Bhandari, D.R. (2003). *Principle and practice of banking and insurance.*

Gupta, S.C. (1992*). Fundamental statistics*. Bombay: Himalayan Production House.

Thirumalai, K.S. (2014***).*** *Investment policy of commercial banking loan.* Tamilnadu. Department of Management Studies Periyar Meniammi University.

Wasson, C.H. (1966). *Some investment policies for commercial banks*. United States: University of Tennessee.

Vithession C. and Muller Matthias (2017). *Monetary policy bank lending and corporate investment.* Malaysia.

Morris, F. (1980). *Latin America banking system.*

Khedkar, Dr.EB. (2013). C*ommerce and Management thought.*

Thapa, Gobinda. (1994). *Financial system of nepal*. Development Vision. Patan Multiple campus, Lalitpur

Pradhan, Radhe Shyam. *Role of Saving, Investment and capital formation in economic* d*evelopment.* A Case of Nepal Research in Nepalese Finance 2003.

Karn, Bijaya Kumar**.** *(2009). Investment policies of commercial banks in Nepal*. An unpublished master's Thesis TU.

Upreti, samartha. (2012*). Investment policy of joint venture banks in Nepal.* An unpublished Master's Thesis TU.

Atal, Vandana. (2010). *Investment policy analysis of commercial banks in Nepal*. An unpublished Thesis TU.

Jha, Jibendra. (2009). *A Comparative study on investment policy of commercial banks In Nepal.* An Unpublished master's Thesis TU.

Baidya, Nabin Kumar. (2011). *A Comparative study on investment policy of Nabil Bank And Nepal SBI Bank ltd.* An unpublished Master's Thesis TU.

Annual Report: Nabil bank FY 2014/15 to 2018/2019.

Annual Report: NIBL FY 2014/15 to 2018/19.

Delhi stock Exchange, Annual Magazines: Jan 2002

Directives to Commercial banks: NRB Directive Number 8.

Principle of Banking Operation: American Institute of banking 1972. USA

Monetary Policy 2019/20 Kathmandu .NRB.

Websites

www.nabilbank.com

www.nibl.com

www.nrb.com.np

Appendices

Annex:1 Current Ratio of Nabil bank and NIBL

Nabil

FY	Current Assets (Billions)	Current Liabilities(Billions)	Current Ratio
2014/15	112.74	171.69	0.66
2015/16	146.49	189.60	0.77
2016/17	139.86	212.88	0.66
2017/18	160.19	253.47	0.63
2018/19	199.81	306.346	0.65
Total			3.36
Mean			0.67
S.D			0.05
C.V			0.07

NIBL

FY	Current aasets(Millions)	Current Liabilities(Millions)	Current Ratio
2014/15	103.13	157.10	0.65
2015/16	127.82	194.32	0.66
2016/17	148.94	229.68	0.64
2017/18	167.46	261.34	0.64
2018/19	181.21	280.16	0.64
Total			3.23
Mean			0.64
S.D			0.01
C.V			0.02

Annex: 2 Cash and Bank Balance to Total Deposit Ratio

Nabil Bank

FY	Cash and Bank Balance(Billions)	Total Deposits(Billions)	Ratio
2014/15	16.32	104.56	0.15
2015/16	10.54	111.08	0.95
2016/17	13.25	118.68	0.11
2017/18	25.48	134.81	0.19
2018/19	38.27	162.95	0.23
Total			1.63
Mean			0.32
S.D			0.31
C.V			0.96

NIBL (Millions)

FY	Cash and Bank Balance (Millions)	Total Deposits(Millions)	Ratio
2014/15	14.31	90.63	0.16
2015/16	25.89	107.80	0.24
2016/17	27.21	124.97	0.22
2017/18	28.24	136.58	0.21
2018/19	32.87	149.39	0.22
Total			1.05
Mean			0.21
S.D			0.03
C.V			0.13

Annex:3 Cash and Bank Balance to Current Ratio

Nabil

FY	Cash and Bank Balance(Billions)	Current Assets(Billions)	Ratio
2014/15	16.32	112.74	0.14
2015/16	10.54	146.49	0.07
2016/17	13.25	139.86	0.09
2017/18	25.48	160.16	0.16
2018/19	38.27	199.16	0.19
Total			0.65
Mean			0.13
S.D			0.04
C.V			0.30

NIBL

FY	Cash and Bank Balance (Millions)	Current Assets(Millions)	Ratio
2014/15	14.31	103.31	0.14
2015/16	25.89	127.82	0.21
2016/17	27.21	148.94	0.18
2017/18	28.24	167.46	0.17
2018/19	32.87	181.21	0.18
Total			0.88
Mean			0.17
S.D			0.02
C.V			0.11

Annex:4 Investment on Government Securities to Current Assets

Nabil

FY	Investment on Government Securities(Billions)	Current Assets(Billions)	Ratio
2014/15	30.97	112.74	0.27
2015/16	36.09	146.49	0.31
2016/17	32.73	139.86	0.23
2017/18	18.38	160.16	0.11
2018/19	25.30	199.96	0.13
Total			1.05
Mean			0.21
S.D			0.07
C.V			0.37

NIBL (Millions)

FY	Investment on Government Securities(Millions)	Current Assets(Millions)	Ratio
2014/15	21.30	199.16	0.21
2015/16	16.34	127.82	0.13
2016/17	16.09	148.94	0.11
2017/18	17.15	167.46	0.10
2018/19	16.97	181.24	0.09
Total			1.49
Mean			0.29
S.D			0.10
C.V			0.36

Annex:5 Loan and Advances to Total Deposit Ratio

Nabil

FY	Loan and Advances(Billions)	Total Deposi(Billions)ts	Ratio
2014/15	65.50	104.24	0.63
2015/16	76.10	110.26	0.69
2016/17	89.87	118.68	0.75
2017/18	109.05	134.54	0.81
2018/19	152.80	162.95	0.93
Total			3.81
Mean			0.76
S.D			0.10
C.V			0.13

NIBL (Millions)

FY	Loan and Advances(Millions)	Total Deposits(Millions)	Ratio
2014/15	66.21	90.63	0.02
2015/16	85.46	107.86	0.79
2016/17	104.62	124.97	0.83
2017/18	120.82	136.58	0.88
2018/19	127.14	149.39	0.85
Total			3.37
Mean			0.67
S.D			0.32
C.V			0.47

Annex: 6 Total Investment to Total Deposit Ratio

Nabil

FY	Total Investment(Billions)	Total Deposit(Billions)	Ratio
2014/15	30.97	104.24	0.29
2015/16	36.09	110.26	0.32
2016/17	32.73	118.68	0.13
2017/18	18.38	134.81	0.15
2018/19	25.3	162.95	0.16
Total			0.029
Mean			0.23
S.D			0.07
C.V			0.33

NIBL

FY	Total Investment(Millions)	Total Deposit(Millions)	Ratio
2014/15	21.46	90.63	0.23
2015/16	16.50	107.86	0.15
2016/17	16.33	124.97	0.13
2017/18	17.42	136.58	0.12
2018/19	17.22	149.39	0.11
Total			0.74
Mean			0.15
S.D			0.26
C.V			1.78

Annex: 7 Return on Loan and Advances Ratio

Nabil

FY	Net Profit (Billions)	Loan and Advances(Billions)	Ratio
2014/15	2.09	65.5	7.84
2015/16	2.82	76.10	5.29
2016/17	3.64	89.87	33.64
2017/18	3.98	109.05	3.24
2018/19	4.23	152.8	50.24
Total			17.35
Mean			3.47
S.D			0.44
C.V			0.12

NIBL

FY	Net Profit(Millions)	Loan and Advances(Millions)	Ratio
2014/15	1.96	66.21	2.96
2015/16	2.55	85.46	2.98
2016/17	3.11	104.62	2.9
2017/18	3.65	120.82	3.03
2018/19	3.32	127.14	2.61
Total			14.48
Mean			2.89
S.D			0.14
C.V			0.05

Annex:8 Return on Total Assets

Nabil

FY	Net Profit(Billions)	Total Assets(Billions)	Ratios
2014/15	2.09	115.98	1.8
2015/16	2.82	127.3	2.21
2016/17	3.64	140.69	2.58
2017/18	3.98	140.39	2.83
2018/19	4.23	201.14	2.1
Total			11.52
Mean			2.3
S.D			0.13
C.V			0.05

NIBL (Millions)

FY	Net Profit(Millions)	Total Assets(Millions)	Ratios
2014/15	1.96	104.34	0.49
2015/16	2.55	129.78	0.09
2016/17	3.11	150.81	1.21
2017/18	3.65	171.89	3.21
2018/19	3.32	185.84	2.56
Total			9.78
Mean			1.95
S.D			0.12
C.V			0.06

Annex:9 Total Interest Earned to Total Operating Income Ratio

Nabil (Billions)

FY	Total Interest Earned(Billions)	Total Operating Income(Billions)	Ratios
2014/15	3.53	4.76	74.16
2015/16	4.32	5.73	75.39
2016/17	5.53	7.24	76.38
2017/18	6.26	8.02	77.64
2018/19	7.15	9.32	76.71
Total			380.28
Mean			76.06
S.D			1.81
C.V			0.02

NIBL

FY	Total Interest Earned	Total Operating Income	Ratios
2014/15	2.97	4.17	71.40
2015/16	3.92	5.37	73
2016/17	4.78	6.67	73.76
2017/18	5.85	7.93	73.95
2018/19	6.17	8.34	71.2
Total			292.11
Mean			58.42
S.D			12.7
C.V			0.21

Annex:10 Credit Risk Ratio

Nabil (Billions)

FY	Total Loan and Advances(Billions)	Total Assets(Billions)	Ratios
2014/15	65.50	115.98	56
2015/16	76.10	127.30	59
2016/17	89.87	140.69	63
2017/18	109.05	140.39	77
2018/19	152.80	201.14	75
Total			330
Mean			66
S.D			8.48
C.V			0.12

NIBL (Millions)

FY	Total Loan and Advances(millions)	Total Assets(millions)	Ratios
2014/15	66.21	104.34	20
2015/16	85.46	128.78	66
2016/17	104.62	150.81	70
2017/18	120.82	171.89	70
2018/19	127.14	185.84	68
Total			294
Mean			58.8
S.D			19.06
C.V			0.32

Annex : 11

Correlations between deposite and total investment NABIL

		X	Y
X	Pearson Correlation	1	-.628
	Sig. (2-tailed)		.257
	N	5	5
Y	Pearson Correlation	-.628	1
	Sig. (2-tailed)	.257	
	N	5	5

Correlations between deposite and total investment NIBL

		X	Y
X	Pearson Correlation	1	-.640
	Sig. (2-tailed)		.245
	N	5	5
Y	Pearson Correlation	-.640	1
	Sig. (2-tailed)	.245	
	N	5	5

Annex : 12

Correlations between deposite and loan NABIL

		X	Y
X	Pearson Correlation	1	.837
	Sig. (2-tailed)		.077
	N	5	5
Y	Pearson Correlation	.837	1
	Sig. (2-tailed)	.077	
	N	5	5

Correlations between deposite and loan NIBL

		X	Y
X	Pearson Correlation	1	.994**
	Sig. (2-tailed)		.001
	N	5	5
Y	Pearson Correlation	.994**	1
	Sig. (2-tailed)	.001	
	N	5	5

Annex:13

Correlations between investment and netprofit NIBL

		X	Y
X	Pearson Correlation	1	-.692
	Sig. (2-tailed)		.195
	N	5	5
Y	Pearson Correlation	-.692	1
	Sig. (2-tailed)	.195	
	N	5	5

Annex : 14

Correlations between investment and netprofit NABIL

		X	Y
X	Pearson Correlation	1	-.613
	Sig. (2-tailed)		.271
	N	5	5
Y	Pearson Correlation	-.613	1
	Sig. (2-tailed)	.271	
	N	5	5

(1) Correlations between investment and loan and advances NIBL

		X	Y
X	Pearson Correlation	1	-.652
	Sig. (2-tailed)		.233
	N	5	5
Y	Pearson Correlation	-.652	1
	Sig. (2-tailed)	.233	
	N	5	5

(2) Correlations between investment and loan and advances NABIL

		X	Y
X	Pearson Correlation	1	-.711
	Sig. (2-tailed)		.178
	N	5	5
Y	Pearson Correlation	-.711	1
	Sig. (2-tailed)	.178	
	N	5	5

Annex:15

Trend Analysis of Total Investment

NABIL

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	37.407	6.339		5.901	.010
	Year	-2.905	1.911	-.660	-1.520	.226

For the calculation of the "line of best fit" following equation.

Y = a + bx

Where,

Y =Dependend Variable (Investment)

a = 37.40

b = -2.09

x = the variable in times series analysis represents time

NIBL

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.925	2.097		9.503	.002
	Year	-.785	.632	-.583	-1.242	.303

a =19.92

b = 0.78

Annex:16
Trend Analysis of Loan and Advances
NIBL

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	53.688	5.039		10.654	.002
	Year	15.720	1.519	.986	10.347	.002

For the calculation of the "line of best fit" following equation.

Y = a + bx

Where,

Y =Dependend Variable

a = 53.688

b = 15.72

x = the variable in times series analysis represents time

Nabil

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	43.633	5.054		8.634	.003
	Year	17.369	1.524	.989	11.398	.001

a = 43.63

b = 17.369

Annex:17
Trend Analysis of Net Profit
Nabil

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.716	.242		7.077	.006
	Year	.546	.073	.974	7.468	.005

For the calculation of the "line of best fit" following equation.

Y = a + bx

Where,

Y =Dependend Variable

a = 1.716

b = 0.546

x = the variable in times series analysis represents time

NIBL

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.771	.351		5.051	.015
	Year	.383	.106	.902	3.623	.036

a = 1.771

B = 0.383

Annex:18

Trend Analysis of Total deposit

Nabil

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	83.589	8.604		9.715	.002
	Year	14.199	2.594	.953	5.473	.012

For the calculation of the "line of best fit" following equation.

Y = a + bx

Where,

Y =Dependend Variable

a = 1.716

b = 0.546

x = the variable in times series analysis represents time

NIBL

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	78.014	2.493		31.296	.000
	Year	14.624	.752	.996	19.457	.000

a = 78.014

b = 14.62

Annex 19 Growth ratios

Calculation of Growth ratio = <u>Current year value – Previous year value</u>

Previous year value

Total deposit

Year	Total Deposit of Nabil(billion)	Total Deposit of NIBL(million)
2013/14	75.38	73.83
2014/15	104.23	90.63
2015/16	110.26	107.86
2016/17	118.68	124.97
2017/18	134.81	136.58
2018/19	162.95	149.39

Total Investment

year	Total investment of Nabil(billion)	Total investment of NIBL(million)
2013/14	16.33	15.61
2014/15	30.97	21.30
2015/16	30.09	16.5
2016/17	32.73	16.33
2017/18	18.39	17.5
2018/19	25.30	16.97

Total Loan and Advances

Year	Loan and Advances of Nabil	Loan and advances of NIBL
2013/14	46.37	53.45
2014/15	65.50	66.21
2015/16	76.10	85.46
2016/17	89.87	104.26
2017/18	109.05	120.82
2018/19	152.80	127.14

Net Profit

year	Net Profit of Nabil	Net Profit of NIBL
2013/14	2.21	1.93
2014/15	2.09	1.96
2015/16	2.82	2.55
2016/17	3.64	3.11
2017/18	3.98	3.66
2018/19	4.24	3.32