INVESTMENT POLICY
OF
JOINT VENTURE BANKS IN NEPAL

A COMPARATIVE STUDY
OF
NABIL BANK LIMITED & EVEREST BANK LIMITED

A THESIS

SUBMITTED BY
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SUBMITTED TO
Office of Dean
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VIVA-VOCE SHEET

We have concluded the viva voce examination of the thesis presented by

PRATIKSHA SHRESTHA

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And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master’s Degree in Business Studies (M.B.S.)

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DECLARATION

I hereby, declare that the work reported in this thesis entitled INVESTMENT POLICY OF JOINT VENTURE BANKS IN NEPAL ‘A COMPARATIVE STUDY ON NABIL BANK LIMITED AND EVEREST BANK LIMITED’ submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master in Business Studies (MBS) under the guidance and supervision of Dr. Shilu Manandhar (Bajracharya) Lecturer of Shanker Dev Campus, Putalisadak.

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Pratiksha Shrestha

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ABBREVIATION

ATM	Any Time Money
BOK	Bank of Kathmandu Limited
BS	Bikram Sambat (Abbreviation of Bikram Era)
CD	Credit Deposit
CR	Current Ration
CV	Coefficient of Variation
DBL	Dubai Bank Limited
DPS	Dividend per Share
EBIL	Emirates Bank International ltd
EBL	Everest Bank Limited
EPS	Earning Per Share
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
MPS	Market Price of Share
NABIL	Nabil Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NGBL	Nepal Grindlays Bank Ltd.
NIBL	Nepal Investment Bank Limited
NICB	Nepal Industrial & Commercial Bank Limited
ROA	Return on Total Asset Ratio
NPA	Non Performing Asset
NPV	Net Present Value
NRB	Nepal Rastra Bank
PE	Price Earnings
PNB	Punjab National Bank
RBB	Rastra Banijya Bank

SCBNL	Standard Chartered Bank Nepal Limited
SD	Standard Deviation

CHAPTER - I

INTRODUCTION

1.1 Background of the study:

Investment policy is the proper management of any fund or wealth to maximize value or to obtain the high or favorable returns with low risk considering the protection of the investment from the inflation and other possible harms. Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In general sense, investment means the payout money to get more. But in the broadest sense, investment means the sacrifice of current rupees and resources for the sake of future rupees and resources. The sacrifice takes place in present which is certain. The reward comes later which is uncertain. Thus, Investment policies are the strategies, which find the answer of questions like where to invest? How much to invest? When to invest and why to invest? Investment promotes economic growth and contributes to nation's wealth.

In the study, the word investment conceptualized the investment of income, savings or other collected fund. The term investment is only possible when 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 saving and investment are interrelated.

Commercial banks play an important role in economic development of a country as they provide capital for the development of industries, trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and their social life. They are the most important ingredients for integrated and speedy development of a country. The primary objective of this commercial bank is always to earn profit by investing or granting loan and advances to people associated with trade, business, industry and etc.

Nowadays there is very much competition in banking market but less opportunity to make investment. In this situation, joint venture banks can take initiation in search of new opportunities so that they can survive in the competitive market and earn profit but Investment is a very risky job. For a purposeful, safe, profitable investment, a bank must follow sound investment policy. The fundamental principals of investment must be followed thoroughly for profitable investment. Investment policy should ensure minimum risk and maximum profit. Good investment policy ensure maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market but it seems no profitable place to invest. Flowing of money hundred times more than required when there were called by the banks and financial institution is the example of high liquidity in the money market. At the same time, the banks and financial institution are offering very low deposit interest rate. In this situation of Nepalese joint venture banks are required to explore new opportunities to make investment if they want to survive in the competitive market.

The mobilization of domestic resources is one of the key factors in the economic development of a county. Commercial banks must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever it needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investments operation efficiently ensuring the maximum return with minimum exposures to risks, which ultimately leads the bank to the path of success.

1.2 Profile of the Subjected Bank

A. NABIL BANK LIMITED (NABIL)

Nabil Bank, the 1st foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 (2041 Ashad 29 B.S.) with Rs. 28 million capital. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. Nabil Bank is the first Joint Venture Bank in Nepal with a 23 years old journey of History.

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. Nabil Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 A.D. as the first joint venture bank, to as a blue-chip stock whenever they are in search of an investment opportunity. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, It wants to be an example for the regulators in terms of professionalism and transparency. Nabil wants to be an actively participating ‘good corporate citizen’ in all the communities that the Bank works. It want to be the first choice as an employer with whom to build a career and finally the entire Nabil Team embraces a set of Values that acronym is referred to as ‘C.R.I.S.P.’ representing the fact that we consistently strive to be

Customer Focused, Result Oriented, Innovative, Synergistic and Professional. By living these values, individually as professionals and collectively as a Team, Nabil Bank is committed to Surge Ahead to be the Bank of 1st Choice in Nepal.

Commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st choice to all of its stakeholders and customers. Customers to think of Nabil Bank is the first Bank to meet their any financial needs. Nabil Bank would like investors to choose the Bank’s share

NABIL bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire scope of financial requirements that is why it prides us in being 'Your Bank at Your Service'.

Nabil Bank Limited was the first joint venture bank established in 1984 A.D. with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. The shares owned by DBL were transferred to Emirates Bank International ltd (EBIL), Dubai. Later EBIL sold its entire holding go National Bank ltd, Bangladesh (NBLB). Hence 50% of equity shares of Nabil Bank ltd are held by NBLB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 28 points of representation across the nation and over 170 reputed correspondent banks across the globe. (www.nabilbank.com)

B. EVEREST BANK LIMITED (EBL)

Everest Bank Limited (EBL) started its operation in 1994 A.D. with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 22 branches. Punjab National Bank (PNB) is the joint venture partner (holding 20% equity in the bank). The bank has been conferred with *"Bank of the Year 2006, Nepal"* by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector.

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System in Nepal EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. The banks performance under all parameters has been outstanding during the fiscal year 2063-64 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 30.06 crore compared to Rs. 23.73 crore last year- an increase of 26.68 %. The bank was able to increase its operating profit by 31.9%, deposit by more than 38% and advances by 39% during the year compared to the corresponding period last year. During the last financial year, the Bank opened the four branches namely Balaju in Kathmandu Valley, Nepalgunj, Birtamod and Baglung. The Bank has further opened a branch at Gwarko. At Present, EBL has Twenty-Three Branches that spread out the nation. Everest Bank is first private commercial bank having largest network. Assets quality has improved by reduction of Non Performing Asset (NPA) to 0.80% from 1.27% in the previous year. This is one of the lowest NPA among the commercial bank in Nepal. Against the Paid-Up Capital by shareholders of Rs. 37.80 crore, the shareholders' funds now amount to Rs. 119.87 crore – with Core Capital base of Rs. 81.67 crore. Earnings per Share have surged to Rs. 62.78 from Rs. 54.22. The local Nepalese Promoters hold 50% stake in the Banks equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public. (www.everestbankltd.com)

1.3 Focus of the study:

The study of investment practices in banking sector provides required information to the management of the banks which helps them to take correct decision and timely action when plans, policies and strategies are being made and liquidity or growth ratio etc. can be obtained. Similar information is required to the concerned banks for selecting the proper sectors for their investment and other benefit as well. Banks have to carry out their activities in this competitive world against risk and uncertainties. They however, are not the game of chance or fate but are the result of competence, skill and wisdom. Therefore, investment activities can create an image or good will if handled with sagacity or destroy them if mishandled.

The proper mobilization of fund always ensures good return and helps to sustain the institution. That also encourages the investors with financial rewards and the government will generate and increase the revenues. Investment policy, therefore, is the most important tool for the economic development of the country. A better investment policy yields more profitability or sustainability in the face of risks and uncertainties. It rewards directly or indirectly the people inside its sphere.

The study of investment policy has an intermediate effect on all those involved in financial activities directly or indirectly. The government, depositors, shareholders, managers; general public and even the researcher feel the need of this study indiscriminately for the information and knowledge necessary to them. Depositors can choose the best or apparent banks or financial institutions of their convenience and interest. Moreover, the study helps the government to formulate rules and policy and implements them in the favor of nation interest. The study might be somewhat limited because it is concerned in only two banks i.e. Nabil Bank Ltd. and Everest Bank Ltd.

1.4 Statement of the problem:

The establishment of commercial banks enforcement of priority sector and productive sectors lending policies of NRB to financial institutions does not seem to have an appreciate impact. Nepal being listed among least developed countries, the commercial banks has played a catalytic role in the economic growth.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They don’t have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way.

Thus, the present study will make a modest attempt to analyses investment policy of Nabil Bank Ltd and Everest Bank Ltd. The problems specially related to investment function of the joint venture banks and commercial banks of Nepal have been presented briefly as under.

The problems specially related to investment function of commercial banks of Nepal have been presented. The questions of the research are as follows:-

- Are they maintaining sufficient liquidity position?
- Are both of the banks mobilizing fund and investment efficiently and effectively?
- What is the relationship between investment and loan, advances with total deposits and total net profit?
- Does the degree of success in investment strategy successful to utilize its available fund of Bank of Kathmandu Ltd and Himalayan Bank Ltd?
- What is the comparative position of commercial banks on fund mobilization and investment policy?

1.5 Objectives of the study:

The basic objectives of the study are to examine and evaluate the investment policy and strategies of NABIL and EBL of Nepal. The Specific objective of the study is as follows:

- To analyze the liquidity, asset management, risk, profitability of NABIL and EBL.
- To assess fund mobilization and investment policy of NABIL and EBL.
- To find out the relationship between deposit and total investment, deposit and loans and advances and net profit.
- To analyze the trends of deposit utilization towards total investment and loan and advances and its projection for next five year.

1.6 Significance of the study:

Nepal is a least developed country and rapid economic development is basic need of the country. It is a poor country containing more than 82% of its population in the rural area 38% of its total population lies under the line of poverty. Poverty alleviation is major step to be taken to develop Nepalese overall economy. The basic foundation of development of Nepalese economy condition starts from such poorest sector.

The commercial bank is vital and powerful in situation serving as the back bone of the economy. It is very important to know how they are functioning in the development of trade, commerce, industry and poverty alleviation programs of the country. Especially this study is concern investment policy of such commercial bank. Thus, this study is owing a deep interest on the various aspect of the poverty focused investment policy programs to know how well the bank is utilizing its fund in the nation and their impact on Nepalese economy that will benefit the planners, policy makers, bankers, international donor agencies, economists who have been endeavoring day and night for the alleviation of poverty in Nepal. Besides, this study can be important for the investors, customers (depositors, loan takers) and other public to know the performance of the bank as well as for the personal of the other bank to take various decisions regarding investment strategy. Due to all these, investment policy of NABIL and EBL limited can be considered to be much significant.

1.7 Limitations of the study:

Every research and critique has some limitation. The main limitations of this study are analyzed most of secondary data. Only a period of five years 2004 to 2008 is considered. Out of numerous affecting factors, only those factors related with investment policy are considered. The truth of research result is based upon the available data from the banks.

1.8 Organization of the Study:

The present study is organized in such way that the stated objectives can easily be fulfilled. The study report is designed in five chapters which are as follows:

This first chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, focus of the study, problems of the study, objectives of the study and need or significance of the study and limitation of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

The third chapter, Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

This fourth chapter describes presentation and analysis the data related with study and presents the finding of the study and also comments briefly on them.

This fifth chapter describes Summary, Conclusion and Recommendation, On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography, annex and other supporting documents have also been incorporated at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the investment policy of commercial banks i.e. NABIL Bank Ltd. and Everest Bank Ltd. So, every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, magazines and concerned commercial banks. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk.

Reviewing and studying process has helped to take adequate feedback to broaden the information bases and inputs to this study. Here mainly two parts conceptual framework & review of related research work are included for the bases and to make the study more purposive.

- Conceptual Review
- Review of related studies

2.1 Conceptual Review:

2.1.1 Concept of Banking

Bank plays a significant role in the development of country. It facilitates the growth of trade and industry of the national economy. However, bank is a resource for economic development, which maintains the self- confidence of various segments of society and extends credit to people.

According to Encyclopedia (1984 A.D.), “A bank is a business organization that receives and holds deposits of funds from others. It makes loan or extends credits and transfers funds by written orders of depositors.” The business of banking is one of collecting funds from the community and extending credit to people for useful purpose. Banks have played a vital role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit motive, it is expected to pay dividends and otherwise add to the wealth of its shareholders.

In Nepalese context, there are three types of banks, operated by performing their activities in different sectors, such as, Central Bank (Nepal Rastra Bank), Commercial banks and Development banks.

A good investment policy can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety and etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society. Seen in this light, the study of investment policy of Nabil Bank and Everest Bank Ltd. assumes special importance. In today's completion market, it has become increasingly important for banks to know about investment policies to get success in competition.

2.1.2 Concept of Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of persons and institutions and giving loans against securities. They provide working capital needs of trade, industry even to agriculture sectors. Moreover, commercial banks also provide technical and administrative assistance to industries, trades and business enterprises.

The American Institute of banking has laid down the four major function of the commercial bank such as receiving and handing deposits, handling payments for its clients, making loans and investments and creating money by extension of credit. A commercial bank is one, which exchanges money deposit, accepts deposit, grants loan and performs commercial banking functions.

Under the Nepal Commercial Bank Act (2031 BS) that has been defined and emphasized about commercial banks they provide short term and long term loan whenever necessary for trade and commerce. They accept deposit from the public and provide loans in different forms. They purchase and discount the bills of exchange, promissory notes and exchange foreign currency.

American Institute of Banking (1972) states that “Commercial bank is a corporation, which accepts demand deposits subject to cheques and makes short-term loans to business enterprises, regardless of the scope of its other services.” A commercial banker is a dealer in money and substitute for money such as cheques, bills of exchange. It also provides variety of financial services. Principally, commercial banks accept deposits and provide loans, primary to business firms. Commercial banks pool together the savings of the community under different account that seems they help in capital formation.

2.1.3 Concept of Joint Venture Bank

A joint venture is an association of two or more people or parties undertaken to make the operation highly effective with their collective efforts. Joint venture bank plays an important role in the economic development of the country. Joint venture means the joining of forces between two or more enterprise for the purpose of carrying out a specific operation (Gupta, 1994).

In Nepal, the history of joint venture bank is not very old. About the history of foreign joint venture banks in Nepal, Nabil Bank Ltd. was established on July 12, 1984 under a technical services agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank Ltd., Dubai. Joint venture banks are working under commercial Bank Act 2031B.S, which are backbones for the economic development of the country. Beside this, joint venture banks have been also creating completion for venture banks of Nepal are in a better position than local commercial banks in terms of profit making and services providing. Joint venture banks play vital roles in attracting foreign investment by familiarizing the foreign investors.

2.1.4 Concept of Investment

The banks are such types of institutions, which deal in money and substitute for money. They deal with deposit, credit and credit instrument. Good circulation of credit is very much important for financial institution and bank Unsteady and unevenly flow of credit harms the economy and profitability of commercial banks. Thus to collect fund and utilize it in good investment is the prime objective of commercial banks.

Investment is any vehicle into which funds can be place with the expectation that will preserve or increase in value and generate positive returns (Gitman and Joehank, 1999).

Investment is the employment of funds with the aim of achieving additional income for the growth in value (Singh, 1992). As per Dr. Singh, the investment is the key factor to achieve additional income for the growth of banks.

Investment, in its broadest sense, means the sacrifice of certain present value for (Possible uncertain) future value (Sharpe and Gordon, 1999). In the view of Sharpe and Garden the investment is the venture that the return is uncertain. So, they have presented their view in the books that bank should look for the safe and less risky investment.

An investment is the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time the funds are committed, for the expended rate of inflation and also for the uncertainty involved in the future flow of funds (Frank and Reilly, 1990).

From the above definitions, it is clear that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return or interest is expected because of uncertainty involved in expected future cash flow. The investment (credit or other investment) is the most important function of commercial banks. It is long-term commitment of bank in the uncertain and risky environment. Investment is a very challenging task of commercial banks. So a bank has to be very careful while investing their funds in various sectors. The success of bank heavily depends upon the proper management of funds.

2.1.5 Meaning of investment Policy

Investment management of a bank is guided by the investment policy adopted by the bank. Investment policies can be varied in bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk.

Investment policies of banks are conditioned, to great extent by the national policy framework; every banker has to apply his own judgment for arriving at credit decision, keeping of course, his banker's credit policy also in mind (Singh and Singh, 1983). According to the above definition, government and central bank have to make a sound policy about the investment of commercial banks. They further state, the field of investment is more challenging as is offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But his higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex.

Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for invest and loan, and establishing responsibility for day to day management of these assets (Baxley, 1987). It is assumed the management should be responsible for the investment decision of banks.

Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies are careful lending practice is essential in a bank to perform its credit creating function effectively and minimizing the risk inherent in any extension of credit (Crosse, 1963).

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a generous profit as well as it should be secured and can be converted in to cash whenever needed. Obviously, a firm that is being considered for commercial loan must be analyzed to find out why the firm need money, how much money the firm need and when and how it will be able to repay the loan. Project or business proposal must be carefully scrutinized. Investment policy provides several inputs to the bank through which they can handle their investment operation efficiently ensuring the maximum exposure to risk, which ultimately leads the bank to provide secured loans and investment.

2.1.6 Characteristics of Sound Investment Policy

Income and profit of the bank depends upon its lending procedure and investment of funds on different securities. The greater the credit by a bank, the greater will be profitability. A sound lending policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some main characteristics of sound lending and investment policies are given below.

a) Safety and Security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once or who may earn million in a minute also. The bank should accept that type of securities, which are commercial, durable, and marketable and have high marketable price.

b) Liquidity

People deposit money at bank in different account with confidence that the bank will repay their money when they are in need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities or at the same time of lending, So that it can meet current short-term obligation, when they become due for payment.

c) Profitability

Commercial banks can minimize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. The profit of commercial banks mainly depends on interest rate, volume of loan, its time period and nature of investment in different securities.

d) Purpose of Loan

The loan should be utilized in purposed plan. Every thing related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will poses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

e) Tangibility

Though it may be considered that tangible property does not yield income apart from direct satisfaction of possession of property, many times intangible securities lost their value due to price level inflation. So, commercial banks should prefer tangible security to intangible one.

f) Legality

Every financial institution must follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of finance and other while issuing securities and mobilizing funds illegal securities will bring out many problems to the investors that may lose reputation and goodwill of the bank.

g) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and maximize profit, a bank must diversify its investment on different sectors or make portfolio investment. Diversification of loans helps to sustain loss as, if securities of some companies deprived then there may be appreciation in the securities of other companies.

2.2 Review of Related Studies

In this section, efforts have been made to examine and review of some related articles in different economics journals, World Bank discussion papers, magazines, newspapers and other related books.

Bajracharya (2047 BS) in the article, “Monetary policy and deposit mobilization in Nepal” has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. Commercial Banks and financial intermediary for a accepting deposit of private sector and providing credit to the investor in different sectors of the economy. The writer added that the public deposit is the major resources of credit and investment of the commercial banks in Nepal.

Similarly, Bista (2048 BS), in the research paper, “Nepalma Adhunik Banking Byabasta” made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks in the field of commercial banks. At the end of the paper the researcher has concluded that the establishment of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation consortium investment in loan and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Similarly, Shrestha (2055 BS), in the article, “lending operation of commercial banks of Nepal and its impact on Gross Domestic Production (GDP)" presented with the objectives to make an analysis of contribution of commercial bank’s lending to the GDP of Nepal. The researcher set hypothesis that there has been positive impact of lending of commercial banks to GDP. In research methodology, the researcher considered GDP as the dependent variable and various sectors of lending like agriculture, industrial, commercial, service and social sectors as independent variables. A multiple regression technique had been applied to analyze the contribution.

The multiple analyses had shown that all the variables except service sectors lending has positive impact on GDP. Thus, in conclusion the researcher accepted the hypothesis i.e. there had been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Shrestha (2055 BS), has given a short glimpse on the “Portfolio Management in Commercial Bank, Theory and Practice,” The portfolio management becomes very important for both individual as well as institutional investors. Investors would like to select best mix of investment assets subject to following aspects:-
Higher return which is comparable with alternative opportunities available according to the risk class of investors.

Good liquidity with adequate safety of investment.
Certain capital gains.
Maximum tax concession.
Flexible investment.
Economic, efficient and effective investment mix.

In view of above aspects, following strategies should be adopted:-
Do not hold any single security i.e. try to have a portfolio of different securities.
Do not pull all the eggs in the one basket i.e. to have a diversified investment.

Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return but with added objective of wealth maximization. The writer presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instrument. The writer suggested that banks having international network can also offer access to global financial markets. The writer pointed out the requirements of skilled Manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in any portfolio management and customer confidence.

According to the writer, the portfolio management activities of Nepalese commercial banks at preset art in growing stage. However, on the other hand, most of banks are not doing such activities so far because of following reasons:-

Unawareness the clients about the service available.
Hesitation of taking risk by the clients to use such facilities.
Lack of proper technique to run such activities in the best and successful manner.

Less developed capital market and availability of few financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such service but because of above-mentioned problems, very limited opportunities are available to the banks for exercising the portfolio management. Mr. Shrestha has also explained and recommends the banks the following order to get success in portfolio management and customer's confidence.

1. Should have skilled personnel.
2. Should do strong and deep research and analysis.
3. Should have proper management information system.
4. Should make portfolio investment for their excess, funds or deposit collection or surplus money.

Pyakuryal (1987), in the article, "Workshop on Banking and National Development" writes, "the present changing context of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits."

Thus is his paper, he has emphasize on proper utilization of mobilization resources and profitability increment. The researcher further indicates that under utilization of resources in an opportunity loss of the banks and commercial bank will not be motivated to collect public deposit.

Morris (1990) in the research paper on "Latin America's banking system in the 1980's" 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 banks investment management has largely been overlooked.

He further added that mismanagement in financial institutions has involved in adequate and overoptimistic loan appraisal, higher risk diversification of loan portfolio and investments, high- risk concentration, related parties lending, etc are major cause of the investment and loan that has gone bad.

Thapa (1994) expresses his views in a research paper, “Financial system of Nepal” that the commercial banks including foreign joining venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds.
Out of all commercial banks (excluding two newly opened commercial banks), Nepal Bank limited and Rastriya Banijya Bank are operating with nominal profit or loss, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operation, these banks have not able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overhead. Similarly, due to accumulated overdue and defaulting loans Profit positions of these banks have been seriously affected. On the other hand, the foreign venture banks have been functioning in all efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

At the end of his article, he concludes that by its very nature of public sector, the domestic banks couldn’t compete with the private sector banks, as the government decided to hand over the ownership as well as the management of these banks to private sector.

Kishi (1996), in the article states," The changing face of the banking sector and the HMG/N recent budgetary policy" concludes that following an introduction of the reform in the banking sectors as an integrate parts of the liberal economic policy, more banks and finance companies have come up as a welcome measure competition.

However, because of poor investment polices and lack of internal control the two governments controlled banks. Nepal Bank limited and Rastriya Banijya Bank's non-performing assets have increased substantially. Now, Nepal Rastra Bank has awarded the management contract to foreign companies to improve the conditions of non-performing assets. The policy of giving management to professional consultant is a part of the financial sector reform policy of NRB.

Similarly, Sharma (2000) found same result that all the commercial bank are establishing and operating in urban areas. In this study, "Banking the future of competition", the writer's achievements are:

1. Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Limited and Rastriya Banijya Bank Ltd. are running in these sectors.
2. Commercial banks are charging higher interest credit lending.
3. They have maximum tax concession.
4. They do not properly analyze the credit the credit system.

According to the writer, due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four or five years. He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

2.2.1 Review of Thesis

Under the topic of Investment Policy, students have conducted several thesis works. Some of them, which are relevant for this thesis, are presented below.

Ojha (1997) has given conclusion in the thesis, “A study on priority sector investment of commercial banks (with reference to Rastriya Banijya Bank)” that bank was unable to meet the 12% of required lending in the priority sector as set under NRB directives. During the five years study period, the researcher further found that low interest rate in priority sector but increasing trend of overdue and miss-utilization. The researcher recommended in improving supervision and evaluation of borrowers paying capacity and reducing the overdue through integrated program of priority sector loan.

The researcher studied about investment on priority sector of RBB and showed that the bank is unable to invest as NRB directive percentage on priority sector. But is should be kept mind that commercial banks are profit oriented organization and they invest more on highly return sector to long life banking business and are responsible to develop economy. So they must invest on other sectors too.

Thapa (1999) has conducted a study entitled “A comparative study on investment policy of Nepal Bangladesh Bank Ltd. and other joint venture banks (Nepal Arab Bank Ltd. and Grindlays Bank Ltd.)”.The researcher’s main objective of study was to examine the fund mobilization and investment policy of NB Bank Ltd. through off balance sheet and on balance sheet activities in comparison to other two banks and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

Ms. Thapa has found that Nepal Bangladesh Bank Limited (NBBL) is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and Nepal Grindlays Bank Limited (NGBL) and its does not seem to follow any definite policy regarding the management the management of its assets. The researcher has stated that NBBL has maintained high growth rates on comparison to other banks though it is not successful to make enough investment and NBBL is success in increasing its sources of funds and its mobilization.

The researcher has concluded that the position of NBBL in regards to utilization of the funds to earn profits is not better in comparison to NABIL and NGBL, NBBL has collected funds in comparatively higher cost and playing 6% to 7.75% interest rate in various deposits. Further NBBL does not seem to have adequate recovery rate.

The researcher has compared Nepal Bangladesh Bank Ltd. with other joint venture banks (NABIL & NGBL). Her study is based on five years period from 1994/95 to 1998/99. It would not be responsible to analyze investment policy of any bank as success or unsuccessful by study of only five years data.

Tuladhar (1999) has conducted a study entitled "A Study Investment Policy of Nepal Grindlays Bank Ltd. in comparison to other join venture banks (NABIL and HBL)." The researcher's main objectives of study was to evaluate liquidity, assets management, efficiency, profitability, and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL through off balance sheet and on balance sheet activities in comparison to the other two banks.

Through his research, Mr. Tuladhar found that NGBL had been successful to maintain in the best way both liquidity position and their consistency among three banks. NGBL had successful to maintain and manages assets towards different income generating activities. Income from loan and advance and total investment is the main income source of NGBL and it can affect the bank's net profit. Profitability position of NGBL is better than NABIL and Himalayan Bank Limited (HBL).

The researcher concluded that joint venture banks of Nepal are not effectively informative to their clients. These banks have given first priority on education sectors while making investment. The poverty stricken and deprived sectors are given second priority. The study found that the reason behind not providing banking facilities to the rural areas is that these banks are profit oriented only.
He has performed a comparison on investment policy of NGBL with NABIL and HBL NABIL and HBL both are successfully operating from more than ten years. So it would not be reasonable to make decision about the condition of investment policy of NGBL only by comparing it's with two successful banks.

Khadka (2000) conducted a study entitled" A study on Investment policy of NABIL in comparison to other joint venture banks of Nepal" The main objective of the study was to evaluate the liquidity, assets management, efficiency, profitability and risk position of NABIL in comparison to other JVBs and to study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on-balance sheet transaction.

The researcher found that liquidity position of NABIL is worse than that of Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd. NABIL has more portions of current assets as loan and advances but less portion as investment on government securities. NABIL is comparatively less successful in on-balance sheet operation as well as off-balance sheet operation than that of other Joint Venture Banks.

NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL.

The researcher has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. The researcher has strongly recommended NABIL to utilize its risky assets and shareholders fund to gain highest profit margin and reduce its expense and collect cheaper fund for more profitability. The researcher has recommended investing its funds in different sectors of investment and administering various deposit scheme, price bond scheme, gift cheque scheme, house building deposit scheme etc. The researcher has recommended following liberal lending policy and investment more percentage of total deposit as loan and advances.

This study is based on five years period 1992 to 1996. He has taken only two banks to compare the investment policy of NABIL with NGBL and NIBL among thirteen commercial banks of Nepal. It would not be to quote investment policy of NABIL as good or bad by only five years data.

Gautam (2001) conducted a study entitled “Investment analysis of the finance companies in context of Nepal.” The researcher has found the investment in government securities of finance companies is decreasing Major source of finance company is utilized as loan and advances. Use of fund towards the hire purchase loan is decreasing in finance companies and investment on housing loan is more.

The researcher has recommended that the overall investment policy of the finance companies should be concentrated on productive sector such as business and industry loan rather than consumer goods such as hire purchase and housing plan. This would contribute on the capital formulation for overall national development. Further, she said that the credit monitoring wind should be strong enough to ensure timely cash inflow from credit generated.

Mr. Gautam has tried to analyze the investment policy of finance companies. His study does not cover the investment analysis of commercial bank and other institution. His study also analyzes the comparative study of the commercial banks and finance companies.

Mr. Sharma (2002), in his study about “Priority Sector Investment of Commercial Banks in Nepal”, with the objective of highlighting the priority sector investment and repayment state of commercial banks in Nepal through intensive banking programmed and to show the repayment position of the sector has concluded, “All the three commercial bank covered in this study have contributed to the credit to priority sector. But the efforts made by different banks are not in the same proportion. NABIL has contributed highest amount of credit to agriculture and cottage industry. NBBL has contributed highest amount to services sectors. So for the loan repayment from priority sector is concerned NABIL has very satisfactory performance where as NBBL has very low performance or loss repayment overdue loan have been observed more in agriculture.”

He has further suggested that, commercial banks should improve the repayment loan by generation the income of rural farmers. Reinvestment and right utilization of bank loan are the cost of the commercial banks since there is a need to increase assets by better arrangement of institution and organization, the manager and loan staff of the branches should be provided with adequate training so that they could identify right borrowers, right project and ensure correct project appraisal. Reinvestment is the available source to increase the paying capacity of the borrowers.

Parajuli, (2003) in his dissertation “Credit management of joint venture banks” states that concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector.

Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it’s on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by Nepal Government in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit. The main objectives of his research are:

procedures of granting loans, examine the level of non performing loan, relevancy of the financial sectors reform program, measure the comparative output of credit management in joint venture bank and government.

Regmi, (2004) Entitled Thesis “Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu (BOK)” states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3millions (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

The main statement of the problem of this research is, Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector. Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRB’s, regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence, the principle “do not put all the eggs in basket” really does not apply in the context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction. The objectives of this research are to analyze the functions, objectives, activities, credits and advances procedure and recovery status of the NB bank and BOK.

Ghimire, (2005) explored in his research “Non-performing Assets of Commercial Banks: Cause and Effect” and found that Nepalese banking sectors in recent days are facing several problems with increasing number of problems. With the level of increasing NPA profitability performances of the bank has been badly affected. To find out the causes of non performing assets increment with commercial banks basis of loan floating procedure follow up practice carried out by the bank for the recovery of overdue loan outstanding, internal responsible factor causing NPA growth have been tried to sort out.

Analysis shows that relationships of borrowers with top management as the most adopted basis for floating loan in Nepalese commercial banks. Similarly respondent identified portfolio management consideration the second basis for floating loan in the certain sectors. Monitoring and control, security offered and financial strength were given average emphasis. It was found that commercial banks are giving least weight on personal integrity of the borrower while giving loan.

In regarding to the internal responsible factor that contributes turning good loan into bad loan. It was found that bad intension, week monitoring and miss management are the most responsible factor for non performing assets. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan into bad. Some factors such as lack of portfolio analysis not having effective credit policy and shortfall on security were identified as having average effect on non performing assets growth. In connection to the external factors, it has been found that recession political and legal issues more relevant factors in turning good loan into bad, likewise, legal provision for recovery as a reason for increment in non performing loan in Nepalese banks was found the factor having least impact. Supervision and monitoring system have been identified as average factor. It is therefore can be generalized that economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major contribution for the increasing level of NPA.

Gurung, (2006) explored in his research "lending policy and recovery management of Standard Chartered Bank Nepal Ltd. (SCBNL) and Nabil bank Ltd" has found out the following result.

The deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. This ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

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Gupta (2007) conducted a research study entitled 'Comparative Analysis of Financial Performance of Commercial Banks in Nepal'. The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal Standard Chartered Bank Limited as sample. The major objective of the study was to evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks. The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-Test in testing the hypothesis.

The researcher study concluded that among three sample bank BOK maintained the highest liquidity position during the research period in comparisons to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders.

The study further stated that there is no significance difference among the commercial banks in terms of net profit of total assets ratio, and dividend payout ratio. The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

Limbu, Ram (2008) in his dissertation “Credit Management of NABIL Bank Limited” highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses’ higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share (EPS) and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and Non-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The main objective of the research study are to evaluate various financial ration of the Nabil Bank, to analyze the portfolio of lending of selected sector of banks, to determine the impact of deposit in liquidity and its effect on lending practices and to offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analysis for Total asset is calculated to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on investment policy, lending practice, credit policy, financial performance and of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring investment policy of bank have focused on the limit ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about investment and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study of investment policy of joint venture commercial bank Nabil and Everest bank Ltd. is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of Regmi (2004) “Credit management of Commercial bank with reference to Nepal Bangladesh Bank and Bank of Kathmandu Limited” and Gurung, (2006) “Lending Policy and recovery management of Standard chartered and Nabil Bank Ltd” has not use correlation, probable error and trend analysis. This study tries to define investment policy by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio other ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of investment policy of Bank and financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Research Methodology:

The topic of the study has been selected as “The investment policy of Nabil Bank and Everest Bank Ltd.” In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter, which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design:

The Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The crux of the research is to analyze NABIL and EBL in relation to credit disbursement and recovery as well overall management.

3.3 Population and Sample:

The objective of the research is to explore and describe the portfolio management in Nepal from the investor’s point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector.

Here, the total 26 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here, Nabil bank Ltd and Everest Bank Limited have been selected as sample for the present study.

Likewise, financial statements of five years are selected as samples for the purpose of it.

3.4 Nature and Sources of Data:

There are two sources of data collection. The research is based on secondary source of data. All the adequate data are collected from secondary sources.
This refers to data that are already used and gathered by others. For the major sources of secondary data are Annual Report of concern Bank, Internet and E-mails, NRB directives and Economy survey of Government of Nepal and Ministry of finance

3.5 Data Collection Procedure:

Different tools and techniques were adopted while collecting the data for this study. Collected secondary information was analyzed during the course of the deskwork. However, during the desk study, an information gap was found. This gap was fulfilled by the discussion with the thesis advisor and finance experts of the security board and the NEPSE.

3.6 Data Analysis Tools:

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are-

3.6.1 Financial Tools

i) Liquidity Ratios: This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations. As a Financial Analytical tools, following liquidity ratios will be used.

a.) Current Ratio: This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities, which can be presented as:

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

Higher ratio indicates the strong short-term solvency position and vice-versa.

b.) 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 can be computed by dividing cash and bank balance by total deposit and can be presented as:

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

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers though different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

c.) Cash and Bank Balance to Current Assets Ratio: This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under;

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

d.) Investment on Government Securities to Total Current Assets Ratio: This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. The ratio is stated as under;

Investment on Govt. securities to total current assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

ii) Assets Management Ratios:

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a.) Loan and Advances to Total Deposit Ratio: This ratio is also called credit-deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

Loan and Advances to total deposit ratio = $\frac{\text{Loan \& advances}}{\text{Total deposits}}$

b.) Total Investment to Total Deposit Ratio: Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

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

c.) Loan and Advances to Working Fund Ratio: Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

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

d.) Investment on Government Securities to Total Asset Ratio: This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

$$\text{Investment on Govt. Securities to total working fund} = \frac{\text{Investment on Govt. Securities}}{\text{Total working fund}}$$

e.) Total outside Assets to Total Deposits Ratio: Loans and advances and investment comprise the total outside assets of a bank. This ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits, which can be stated as under;

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

f.) Loan and Advances to Total outside Assets Ratio: This ratio measures the proportion of loans and advances of total outside assets. The proportion between investment and loans and advances measures the management attitude towards more risky assets and lower risky assets. This ratio is computed by dividing loan and advances by total outside assets as under:

$$\text{Loan and advances to total outside assets ratio} = \frac{\text{Loan and advances}}{\text{Total outside assets}}$$

g.) Investment on Government Securities to Total outside Assets Ratio: This ratio measures the proportion of the bank's investment in risky and risk free areas. This ratio is computed by dividing investment on government securities by total outside assets as under;

Investment on Govt. Securities to total outside assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Total outside assets}}.$$

h.) Total outside Assets to Total Assets Ratio: Loans and advances and investment are total outside assets of commercial banks. This ratio is calculated by dividing total outside assets which can be presented as under;

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

This is the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize the funds into income generating assets.

iii) Activity Ratios:

Activity ratio measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

a.) Loan Loss Provision to Total Loans and Advances Ratio: This ratio describes the quality of assets that a bank is holding. Nepal Rastriya Bank has directed the commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful and loss on the basis of the maturity of principal to make the provision of 1, 25, 50, and 100 percentages respectively. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. This ratio is calculated by dividing the loan loss provision by total loans and advances as presented here under.

Loan loss provision to total loans and advances ratio =

$$\frac{\text{Total loan loss provision}}{\text{Loans and advances}}$$

b.) Non-Performing Loans to Total Loans and Advances Ratio: This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice- versa. This ratio is computed by dividing the non-performing loans by total loans and advances as under;

Non-performing loans to total loans and advances ratio =

$$\frac{\text{Total non - performing loans}}{\text{Total loans \& advances}}$$

iv) Profitability Ratios:

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

a.) Interest Income to Total Income Ratio: This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the lending and investing and vice-versa. This ratio can be completed by dividing interest income by total income presented as under;

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

b.) Total Interest Earned to Total outside Assets Ratio: This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as under;

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

The numerator includes total interest income from loans and advances and investment where as the denominator comprises loan and advances, bills purchased and discounted and all type investment.

c.) Interest Expenses to Total Expenses Ratio: This ratio measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operation efficiency and vice-versa. This ratio is calculated by dividing interest expenses by total expenses, which can be presented as under;

$$\text{Interest expenses to total expenses ratio} = \frac{\text{Interest expenses}}{\text{Total expenses}}$$

d.) Total Interest Earned to Total Asset Ratio: This ratio is computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing total interest earned by total working fund can be presented as;

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

e.) Total Interest Paid to Total Working Fund Ratio: This ratio depicts the percentage of interest paid on liabilities with respect to total working fund, which can be presented as;

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

f.) Total Income to Total Expenses Ratio: The comparison between total income and expenses measures the productivity of expenses in generating income .The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indication of higher productivity of expenses and vice-versa. This ratio is computed by dividing total income by total expenses presented as;

Total income to total expenses ratio = $\frac{\text{Total income}}{\text{Total expenses}}$

g.) Total Income to Total Working Fund Ratio: This ratio measures how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets as stated here under.

Total income to total working fund ratio: $\frac{\text{Total income}}{\text{Total working fund}}$

h.) Return on Loan and Advances Ratio: This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

$$\text{Return on loan and advances ratio} = \frac{\text{Net profit (loss)}}{\text{Loans \& advances}}$$

i.) Return on Total Asset Ratio (ROA): This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

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

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

j.) Return on Equity (ROE): Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on Equity (ROE)} = \frac{\text{Net profit (loss)}}{\text{Total equity capital}}$$

v.) Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization can not achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the NABIL and EBL.

a.) 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. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan and Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

b.) Liquidity Risk Ratio: **-** The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\textit{Cash and Bank Balance}}{\textit{Total Deposit}}$$

c.) Asset Risk Ratio: **-** Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally Asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

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

vi. Other Ratios

a.) Earning per Share (EPS): EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

b.) Dividend per Share

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities , earning, and dividend so; each firm must announce the total dividend and dividend per Share which shows the position of the firm.

A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm’s activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm.

c.) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

d.) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

3.6.2 Statistical Tools

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Mean:

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

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

Where, $\overline{X}$ = Mean of the values

$\sum X$ = Summation of the values

N = No. of Observations

ii) Coefficient of Variation:

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

Coefficient of variation (C.V.) = $\frac{\sigma}{\overline{X}} \times 100$

iii) Measures of Correlation:

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. This tool analyses the relationship between those variables by which it is helpful to make appropriate investment policy for profit minimization. The Karl Pearson coefficient of correlation (r) is given by following formula:

Coefficient of Correlation (r) = $\frac{\sum xy}{N\sigma_1\sigma_2}$

Where, x = $\left(X - \overline{X}\right)$

y = $\left(Y - \overline{Y}\right)$

σ_1 = Standard series of X

σ_2 = Standard series of Y

N = Number of pairs of Observations

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

iv) Trend Analysis:

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

$y = a + bx$

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

Introduction review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed investment practices of Nabil Bank and Everest Bank Different tables and diagrams are shown to make the analysis simple and understandable.

4.1 Financial Analysis

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

Various financials ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. NABIL and EBL. Some important financial rations are only calculated in the point of view of fund mobilization and investment patterns. The ratios 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.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to investment policy of banks.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A) Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

Table No. 4.1

Current assets to current liability (in times)

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	2.10	2.08	2.08	1.83	1.34	1.89	0.321	0.17
EBL	1.17	1.14	1.13	1.16	1.11	1.14	0.024	0.019

Source*: Annex - 1 & 2*

Above table shows the current ratio of selected commercial banks during the study period. The current ratio of NABIL bank is in decreasing trend and EBL is fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short- term obligations. In the case of NABIL C.R. has high ratio in each year except in 2007/08.In an average, liquidity position of NABIL is greater than EBL i.e. 1.89>1.14 due to high mean ratio. So, NABIL is sound in meeting short-term obligation than EBL. Likewise, S. D. and C.V. of NABIL is greater than EBL i.e. 0.321 > 0.024 and 0.17 > 0.019. It can be said that C.R. of EBL is more consistent than NABIL.

Lastly from the above analysis it is known that all these two banks have better liquidity position because the standard ratio is 1:1. They have met the standard ratio.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NABIL and EBL during the study period.

Table No. 4.2

Cash & Bank Balance to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	6.88	3.83	3.26	5.99	8.37	5.67	2.124	0.375
EBL	7.83	10.4	11.25	13.15	11.13	10.75	1.92	0.18

Source*: Annex - 1 & 2*

Table No. 4.2 revels that the Cash and Bank Balance to Total Deposit Ratio of NABIL and EBL are in fluctuating trend. The highest ratio of NABIL is 8.37% in FY 2007/08 and lowest is 3.26% in FY 2005/06. Similarly, the highest ratio of EBL is 13.15% in FY 2006/07 and lowers in 7.83% in 2003/04.

The mean ratio of NABIL and EBL are 5.67% and 10.75% respectively. EBL has higher ratio than the NABIL which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NABIL is 0.375 times and EBL is 0.18 times. S.D. of EBL is lower than the NABIL.

The above analysis has to conclude that the cash and bank balance position of EBL with respect to NABIL is better in order to serve its customer's deposits. It implies the better liquidity position of EBL from the view point of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas.

C) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis.

Following the states the cash and bank balance to current assets NABIL and EBL during the study period.

Table No. 4.3

Cash & Bank Balance to Current Asset Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	8.57	6.33	4.55	8.25	13.27	8.20	3.267	0.398
EBL	6.66	9.05	9.82	11.25	9.91	9.34	1.69	0.19

Source*: Annex - 1 & 2*

The No 4.3 reveals that cash and bank balance to current assets ratio of NABIL and EBL are in fluctuating trend. The mean ratio of NABIL and EBL is 8.20% and 9.34% respectively. The higher mean ratio shows EBL's liquidity position is little better than that of NABIL. Moreover the .S.D and C.V. of NABIL is higher than EBL. The higher C.V. of NABIL indicates that it has more inconsistency in the ratios in comparison to EBL. Regarding the above analysis, it can be concluded that EBL has also good performance about the figure.

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table No 4.4

Investment on Government Securities to Current Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	51.78	34.91	16.60	28.36	23.09	30.95	13.45	0.434
EBL	25.21	16.15	21.02	17.0	12.04	18.28	5.01	0.27

Source*: Annex* - *1 & 2*

The table 4.4 shows investment on government securities to current assets ratio of NABIL and EBL. Both Banks has fluctuating type ratios. The table shows the highest ratio of NABIL is 51.78% in FY 2003/04 and lowest is 16.60% in FY

2005/06.In the same way, the highest ratio of EBL is 25.21% in FY 2004/05 and lowest is 12.04% in FY 2007/08.

The mean ratio of NABIL is 30.95 percent, which is higher than the mean ratio of EBL 18.28 percent. It means NABIL has invested more money in risk free assets than that of EBL. In another words EBL has emphases on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, EBL has also good investment in govt. securities. Similarly S.D. is 13.45 and 5.01 and C.V is 0.434 and 0.676 of NABIL and EBL respectively. The higher C.V. of Nabil shows the more inconsistency in the ratios with compare to EBL.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage it's assets very well to earn high profit, so to satisfy it's customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

Table No. 4.5

Loan and Advance to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	60.55	75.05	68.64	68.13	68.18	68.11	5.137	0.075
EBL	72.79	75.45	71.01	75.14	76.48	74.21	2.19	0.29

Source*: Annex* - *1 & 2*

The above table shows that the loan & advances to total deposit ratio of NABIL and EBL is fluctuating trends. EBL has higher ratio than that of NABIL in each year and mean too. It indicates the better mobilization of deposit by EBL. The mean of NABIL and EBL are 68.11% and 74.21% respectively. So EBL has higher ratio than that of NABIL. It reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loan and advances to total deposit according to NRB. So in all of the year the EBL has met the NRB requirement or it has utilized its deposit to provide loan. But NABIL has not met the NRB requirement or it has not utilized its deposit to provide loan properly. The S.D. and C.V of NABIL is 5.137, 0.075 similarly EBL has 2.19, 0.29.

B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of NABIL and EBL are calculated and presentation below.

Table No. 4.6

Total Investment to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	41.33	29.25	31.94	38.32	31.14	34.40	5.163	0.15
EBL	31.45	31.08	30.43	27.41	21.10	26.29	4.97	0.18

Source*: Annex - 1 & 2*

The above table shows that total investment to total deposit ratio of NABIL and EBL. Both banks have fluctuating trend total investment to total deposit ratio. Higher ratio of NABIL is 41.33% percent in FY 2003/04 and lowest ratio is 29.25 percent in FY 2004/05 in the same way the highest ratio of EBL 31.45% percent in FY 2003/04 and lowest ratio is 21.10% in FY 2007/08.Investment volume of EBL is lower than that of NABIL because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of NABIL and EBL are 34.40% and 26.29% respectively so NABIL has higher ratio. It signifies NABIL has successfully allocated its deposit in investment portfolio to get higher investment return. it also implies that EBL has lower investment opportunities.

The S.D and C.V. of NABIL is 5.163 and 0.15 and EBL has 4.97 and 0.18 respectively.

C) Loan & Advances to Total Assets Ratio

A commercial bank’s working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of NABIL and EBL as follows.

Table No. 4.7

Loan & Advances to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	48.90	61.60	57.87	57.04	57.54	56.59	4.66	0.082
EBL	72.97	75.45	71.01	75.14	67.54	72.42	3.26	0.048

Source*: Annex- 1 & 2*

The above table shows the loan & advances to total assets ratio of NABIL and EBL are in fluctuating trend during the study period. While observing their ratios; EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year in comparison of NABIL.

The mean of NABIL and EBL are 56.59% and 72.42% respectively. So EBL has higher ratio than that of NABIL. It reveals that in total assets, EBL has high proportion of loan and advances. EBL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of NABIL states that it has less uniformity in these ratios throughout the study period than that of EBL. S.D. and C.V. of NABIL and EBL have 4.66, 3.26 and 0.082 and 0.048 respectively.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table No. 4.8

Investment on Government Securities to Total Assets ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	35.03	17.91	10.31	17.64	12.51	18.68	9.71	0.52
EBL	31.45	21.08	30.43	27.41	21.10	26.29	4.98	0.19

Source*: Annex* - *1 & 2*

Above table shows that the investment on government treasury bills to Total assets of NABIL and EBL are in fluctuating trend. The highest ratio of NABIL is 35.03% in 2003/04 and EBL is 31.45% in 2003/04. And the lowest ratio of NABIL and EBL are 10.31% in 2005/06 and 21.08 % in 2004/05 respectively.

From the table we notice that mean ratio of NABIL and EBL are 18.68% and 26.29% respectively. EBL has higher ratio in every year and mean too. It means EBL has invested more money in risk free assets than that of NABIL out of its total assets.

There is more inconsistent in the ratio of EBL during the study period, which is indicated by higher S.D. and C.V. of Nabil is riskier than EBL

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NABIL and EBL.

A) Return on Loan & advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

Table No. 4.9

Return on Loan & advances

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	5.56	4.91	4.92	4.34	3.49	4.64	0.77	0.17
EBL	2.44	2.24	2.42	2.17	2.46	2.34	0.13	0.05

Source*: Annex - 1 & 2*

Above table shows that return on loan and advances ratio of NABIL is in decreasing trend and EBL is also in decreasing trend except in 2005/06 and 2007/08. The highest ratio of NABIL is 5.56% in the year 2003/ 2004 and lowest ratio 3.49% in year 2007/2008. The mean ratio is 4.64%.Whereas highest ratio of EBL is 2.46% in year 2007/2008 and lowest ratio is 2.17% in 2006/2007. The mean ratio is 2.34%. NABIL bank shows the good earning capacity in loan and advances then EBL.

From the table we notice that NABIL has higher Ratios in all year and mean too. It can be concluded that NABIL bank has utilized the loan and advance for the profit generation purpose in proper way.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table No. 4.10

Return on Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	2.72	3.02	2.84	2.47	2.01	2.61	0.39	0.15
EBL	1.5	1.46	1.49	1.38	1.66	1.49	0.10	0.07

Source*: Annex - 1 & 2*

Above table shows the Return on Total Assets of NABIL and EBL. Both banks have decreasing trend of return on its total assets except in 2004/05 of NABIL and except in 2005/06 of EBL. However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.61% of total assets in an average which is higher than that of EBL(i.e. 2.61%>1.49).NABIL has also higher ratio in each years.

Where as S.D. and C.V .of NABIL and EBL are 0.39, 0.15 and 0.1 and 0.07 respectively. Higher C.V of EBL shows that it has relatively high incontinences in the ratios.

C) Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and there by, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects, the extend to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of NABIL and EBL during the study period.

Table No. 4.11

Return on Equity Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	30.76	31.34	33.91	32.79	30.60	31.88	1.43	0.045
EBL	20.22	20.51	24.65	24.67	23.48	22.71	1.52	0.047

Source*: Annex - 1 & 2*

The above listed table shows Return on Equity Ratio of NABIL and EBL. Above calculated statistic indicate that NABIL in 1st three years and decreasing trend in last two years whereas EBL has increasing trend except in 2007/08. NABIL has higher ratios in each year and it has also higher mean ratio (i.e.31.88%>22.71%)

Despite stiff competition and an adverse macro economic environment, NABIL is currently generating higher ROE in comparison with EBL. In brief, it signifies that the shareholders of NABIL are getting higher return but in case of EBL, they are getting lesser. It can be concluded that NABIL has better utilized the equity for the profit generation. It proves to be a good strength of NABIL in attracting future investment also while EBL shows its weakness regarding efficient utilization of its owner's equity in comparison with NABIL. NABIL has homogeneous return in each year. It is the strength point of NABIL.

EBL has relatively more inconsistency through out the study period because it's S.D. and C.V is higher. Nabil seems to be good position.

D) Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of NABIL and EBL

Table No. 4.12

Total Interest Earned to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	5.98	6.22	5.87	5.83	5.33	5.85	0.33	0.056
EBL	6.84	6.13	5.66	5.34	5.70	5.93	0.57	0.096

Source*: Annex - 1 & 2*

Table No.4.12 shows that both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in NABIL, it seems less conscious about managing its assets in order to earn more interest ratio. NABIL shows the decreasing trend of the interest earned ratio except in year 2004/05 and its average ratio is 5.85% whereas EBL shows fluctuating trend and it has maintained average ratio 6.22%.EBL has higher ratio in each year except in year 2004/05. The mean ratio of EBL is more than that of NABIL. In comparison, EBL seems effective in earning interest to some extent than that of NABIL.

Moreover, NABIL also has higher inconstancies in the ratios during the study period. It can be concluded that EBL has successfully mobilized their fund in interest generating assets.

E) Total interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2003/04 to 2007/08 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table No. 4.13

Interest Earned to Operating Income Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	98.72	93.83	96.36	107.27	118.45	102.93	10.04	0.098
EBL	207.5	191.69	199.35	191.41	188.24	159.63	7.79	0.048

Source*: Annex* - *1 & 2*

Above table shows Interest Earned to Operating Income Ratio of NABIL and EBL. Both banks has fluctuating ratio during study period. EBL has greater share of total interest earn in its total operating income in each year and mean too. The mean ratio of NABIL and EBL are 102.93 % and 164.63% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).NABIL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, NABIL is in good condition. In overall, NABIL has managed sound interest earned to operating income ratio.

The S.D. and C.V of NABIL is 10.04, 0.0.98 similarly EBL has 7.79, 0.048 It indicates NABIL has relatively inconsistent in interest earned to total operating income as it has higher C.V than that of EBL.

F) Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of NABIL and EBL.

Table No. 4.14

Interest Paid to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	1.69	1.42	1.60	2.04	2.04	1.76	0.277	0.16
EBL	3.29	2.55	2.52	2.41	2.34	2.62	0.38	0.15

Source*: Annex* - *1 & 2*

Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. Both banks show fluctuating trend. NABIL has average ratio of 1.76% whereas EBL has maintained average ratio 2.62%. The mean ratio of EBL is more than that of NABIL and EBL has also higher ratio in each year. In comparison, EBL seems ineffective in getting cheaper fund The C. V. of NABIL is less than the EBL it indicate low risk and insignificant of NABIL rather than EBL

4.1.1.4 Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization can not achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So, the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the NABIL and EBL.

A) Credit Risk Ratio/Non-Performing Loan to Total Loan 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. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total Loan & Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of non-performing assets in total Loan & Advances. Higher ratio indicates more risky assets in the volume of Loan & Advances of the bank and vice-versa.

Table No. 4.15

Non performing loan to total loan and advances

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	3.35	1.32	1.38	1.12	0.74	1.58	1.09	0.69
EBL	1.70	1.60	1.30	0.8	0.68	1.22	0.83	0.68

Source*: Annex - 1 & 2*

Above table shows that NPL to total loan and advances of NABIL is in decreasing trend except in 2005/06 and EBL is in decreasing trend in all years. Decreasing trend is the good sign of the efficient credit management. EBL seems effective in all years. From mean point of view, non-performing loan to total loan and advances ratio of NABIL and EBL are1.58 % and 1.22% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. However, in comparison, EBL has efficient operating of credit management than that of NABIL from the mean point of view and individual ratios of each year.

(B) Liquidity Risk Ratio: **-** The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposit}$$

Table No: 4.16

Liquidity Risk Ratio

Name of Banks	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	6.88	3.83	3.26	5.99	8.37	5.67
EBL	7.83	10.40	11.25	13.15	11.13	10.73

Source*: Annex - 1 & 2*

The above Table No. 3.17 revels that the Cash and Bank Balance to Total Deposit Ratio of NABIL and EBL are in fluctuating trend. The highest ratio of NABIL is 8.37% in FY 2007/08 and lowest is 3.26% in FY 2005/06. Similarly, the highest ratio of EBL is 13.15% in FY 2006/07 and lowers in 7.83 in 2003/04.

The mean ratio of NABIL and EBL are 5.67% and 10.73% respectively. EBL has higher ratio than the NABIL. This shows its greater ability to pay depositors money as they want.

4.1.1.5 Other Ratios

A) Earning Per Share

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank’s earning power on per share basis has changed over that period or not but it doesn’t reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table No. 4.17

Earning Per Share

Name of Banks	Fiscal Year				
	2003/04	2004/05	2005/06	2006/07	2007/08
NABIL	93	105	129	137	108
EBL	31.57	32.97	45.81	57.22	78.4

Source*: Annex* - *1 & 2*

Table No 4.17 shows that earning price per share of NABIL and EBL. NABIL has increasing trend of EPS except in 2007/08 and EBL has continuous increasing trend of EPS. While observing their ratios in overall; NABIL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. It is quite satisfying to state that NABIL has been able to maximizing shareholder wealth from the view pointy of EPS.

B) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

Table No. 4.18

Market price per share (in Rs)

Name of Banks	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	740.00	1000	1505	2240	5050	2107
EBL	680	870	1379	2430	3132	1698.2

Source*: Annex* - *1 & 2*

This table shows market price of the share of NABIL and EBL. Both banks have increasing trend of Market price. It indicates better performance of company and high expectation by shareholder. Average mean price of NABIL is greater than that of EBL (i.e. 2107 > 1698.2). It indicates that shareholder of NABIL are getting higher price.

C) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table No. 4.19

Price Earning Ratio

Name of Banks	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	10.80	14.27	17.34	36.84	48.70	25.59
EBL	14.92	16.05	21.97	42.47	39.94	27.07

Source*: Annex - 1 & 2*

Above table shows that price earning ratio earning of NABIL and EBL are in increasing trend. From the mean point of view, mean ratio of the NABIL and EBL are 25.59 and 27.07 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 27.07 in EBL. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of NABIL. But from the long term view and sustainable fair price, investor of NABIL will get better profitability and they will be in safe side in comparison with EBL as low ratio is preferable for fair and sustainable market price.

4.2 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is used following convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan & advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan & advances and net profit NABIL and EBL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit & Loan & Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

Table No. 4.20

Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.989	0.978	0.00662	0.0397
EBL	0.993	0.986	0.00422	0.0253

Source: BY SPSS Data Editor

From the above table, it is found that coefficient of correlation between deposits and loan & advances of NABIL and EBL is 0.989 and 0.993. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan & advances of NABIL and EBL move together very closely. Moreover, the coefficient of determination of NABIL is 0.978. It means 97.80 percent of variation in loan & advances has been explained by deposit. Similarly, value of coefficient of determination of EBL is 0.986. It refers that 98.6 percent variance in loan & advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table No. 4.30 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R^2) of NABIL and EBL during the study period.

Table No. 4.21

Correlation between Deposit and Total Investment

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.926	0.857	0.0429	0.257
EBL	0.965	0.931	0.0208	0.125

Source: BY SPSS Data Editor

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of NABIL is 0.926 It shows the high degree positive correlation. In addition, coefficient of determination of NABIL is 0.857 It means only 85.7 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of NABIL.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of EBL, which is indicator by correlation coefficient of 0.965. The value of coefficient of determination is found 0.931 this refers that 93.1 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of EBL

From the above analysis, the conclusion can be drawn in the case of NABIL and EBL that both have high degree positive correlation. It indicates that both are successful to mobilize its deposit to provide investment.

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NABIL and EBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the ‘r’, R^2, P.Er. and 6 P. Er. between those variables of NABIL and EBL for the study period.

Table No. 4.22

Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criterions			
	R	R^2	P.Er.	6 P.Er.
NABIL	0.955	0.912	0.0265	0.1589
EBL	0.855	0.731	0.0374	0.224

Source: Through SPSS Data Editor

Above table shows correlation coefficient between, Loan and advance and net profit is 0.955 of NABIL. It refers that there is positive correlation between these two variables. Here, 91.2 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.912 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise EBL also positive correlation i.e. 0.0855 between Loan and advance and net profit. The coefficient of determination R^2 is 0.731 which indicates that 0.224 percent variability in net profit is explained by Loan and advance. Moreover, less correlation coefficient than 6P.Er. In conclusion, NABIL has little significant relationship between Loan and advance and net profit than that of EBL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2003/04 to 2007/08.

Table No. 4.23

Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criterions			
	R	R^2	P.Er.	6 P.Er.
NABIL	0.847	0.717	0.085	0.511
EBL	0.998	0.996	0.0012	0.0072

Source: Through SPSS Data Editor

Above table shows correlation coefficient between total investment and net profit of NABIL is 0.847 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of NABIL is 0.717. It means only 71.7 percent of Profit is contribute by total investment. Obviously, this correlation is significant at all due to coefficient of correlation is higher than 6P.Error. On the other hand EBL has high positive correlation between total investment and net profit i.e. 0.998. The coefficient of determination of EBL is 0.996 It means 0.996 percent of Profit is contribute by total investment. Investment and net profit of EBL is poor than the NABIL. This correlation coefficient indicates that the EBL has poor performed in order to generate net profit through investment.

4.2.2 Trend Analysis

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

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of Nabil bank and Everest Bank Ltd for further eight year

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

Yc = 20662 + 4434.7 X of NABIL

Yc = 14825.32 + 3991.335 X of EBL

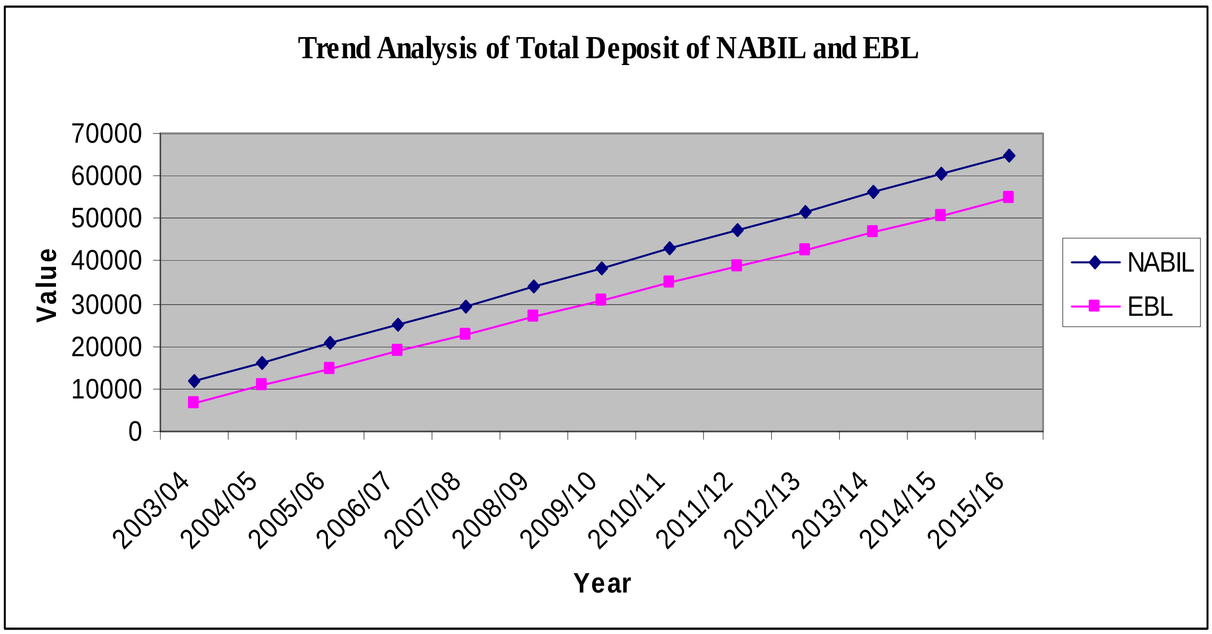
Table No. 4.24

Trend analysis of Total Deposit of NABIL and EBL		
Year(x)	NABIL	EBL
2003/04	11792.6	6842.65
2004/05	16227.3	10834
2005/06	20662	14825.3

2006/07	25096.7	18816.7
2007/08	29531.4	22808
2008/09	33966.1	26799.3
2009/10	38400.8	30790.7
2010/11	42835.5	34782
2011/12	47270.2	38773.3
2012/13	51704.9	42764.7
2013/14	56139.6	46756
2014/15	60574.3	50747.3
2015/16	65009	54738.7

Source: Annul Report of Concern Bank

Figure No 4.1



Above table and figure shows that total deposit of NABIL and EBL. Both Banks is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of EBL. The increasing trend of total deposit of NABIL is more aggressive and high rather than EBL. It indicates NABIL has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2015/16. From the above trend analysis it is clear that NABIL has higher position in collecting deposit than EBL.

B) Trend Analysis of Loan & advances

Here, the trend values of loan & advances Between NABIL and EBL have been calculated for further Eight year. The following Table shows the actual and trend values of NABIL and EBL.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Yc = 13721.91 + 3130.973 X of NABIL

Yc= 11061.46 + 3095.539 X of EBL

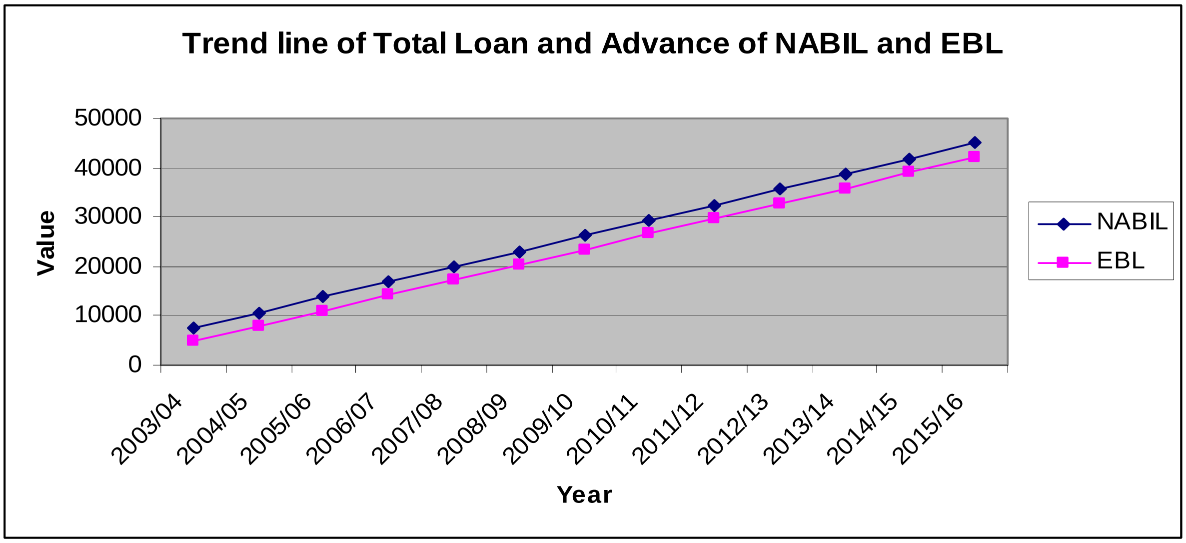
Table No. 4.25

Trend line of Total Loan and Advance of NABIL and EBL		
Year(x)	NABIL	EBL
2003/04	7459.96	4870.37
2004/05	10590.9	7965.91
2005/06	13721.9	11061.5
2006/07	16852.9	14157
2007/08	19983.9	17252.5
2008/09	23114.8	20348.1
2009/10	26245.8	23443.6
2010/11	29376.8	26539.1
2011/12	32507.7	29634.7
2012/13	35638.7	32730.2

2013/14	38769.7	35825.8
2014/15	41900.7	38921.3
2015/16	45031.6	42016.8

Source: Annul Report of Concern Bank

Figure No 4.2



Above table depicts that loan & advances of NABIL and EBL. Both Banks has in increasing trend. The increasing trend of NABIL is little higher than EBL. The actual value of loan & advances for EBL is quite fluctuating in relation to NABIL. The trend projected for father eight year FY 2007/08 to FY 2015/16 From the above analysis, it is clear that both NABIL and EBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the NABIL has highly mobilizing loan & advances than the EBL.

C) Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of NABIL and EBL for further eight years

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Yc = 7033.358 + 1288.572 X of NABIL

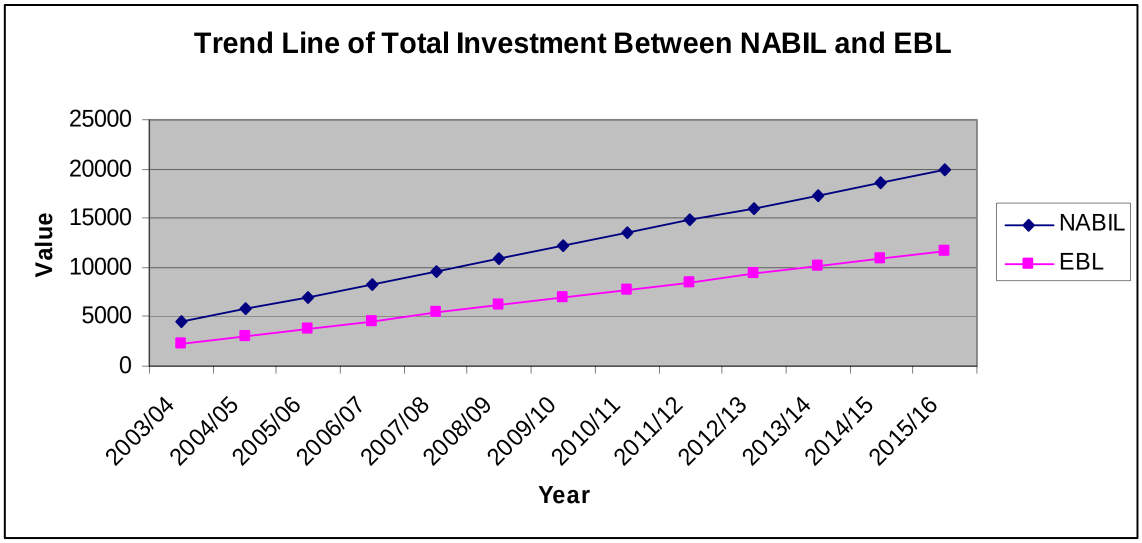
Yc = 37281.802 + 790.328 X of EBL

Table No. 4.26

Trend Line of Total Investment Between NABIL and EBL		
Year(x)	NABIL	EBL
2003/04	4456.21	2201.15
2004/05	5744.79	2991.47
2005/06	7033.36	3781.8
2006/07	8321.93	4572.13
2007/08	9610.5	5362.46
2008/09	10899.1	6152.79
2009/10	12187.6	6943.11
2010/11	13476.2	7733.44
2011/12	14764.8	8523.77
2012/13	16053.4	9314.1
2013/14	17341.9	10104.4
2014/15	18630.5	10894.8
2015/16	19919.1	11685.1

Source: Annul Report of Concern Bank

Figure No 4.3



Above table shows the Trend of Total Investment between NABIL and EBL. Both Bank NABIL and EBL have increasing trend in making investment. NABIL has little high and upward trend of increasing, but EBL has moderately increasing trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the NABIL has greater increment rate in total investment than the increment rate of EBL. The figure indicates NABIL has highly mobilized the total investment rather than EBL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of NABIL and EBL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 2015/16.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Yc = 606.048 + 73.712 X NABIL

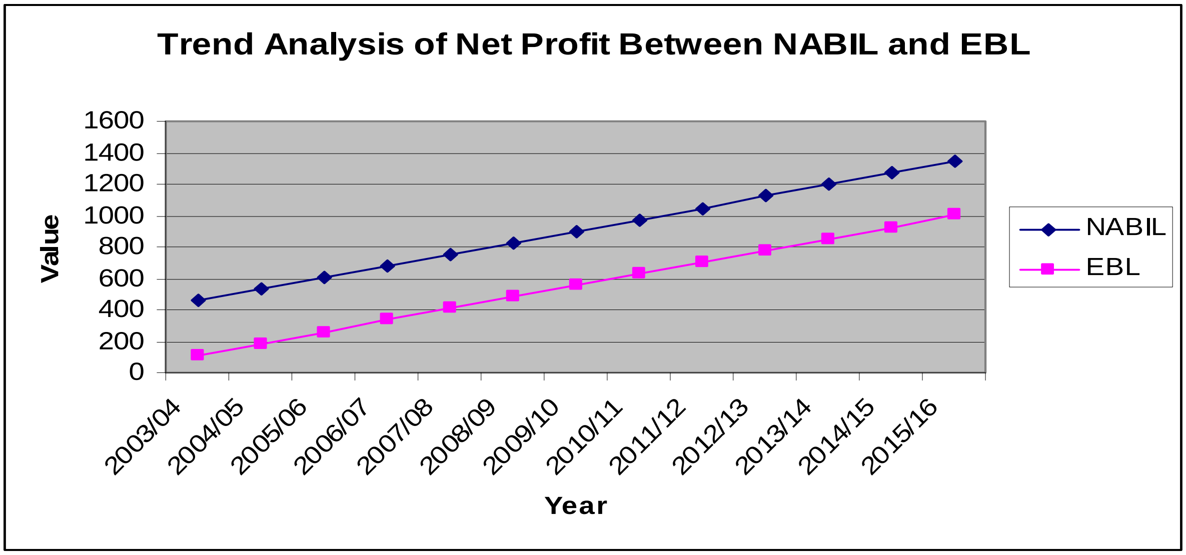
Yc= 259.874 + 74.069 X EBL

Table No. 4.27

Trend Analysis of Net Profit Between NABIL and EBL		
Year(x)	NABIL	EBL
2003/04	458.624	111.736
2004/05	532.336	185.805
2005/06	606.048	259.874
2006/07	679.76	333.943
2007/08	753.472	408.012
2008/09	827.184	482.081
2009/10	900.896	556.15
2010/11	974.608	630.219
2011/12	1048.32	704.288
2012/13	1122.03	778.357
2013/14	1195.74	852.426
2014/15	1269.46	926.495
2015/16	1343.17	1000.56

Source: Annul Report of Concern Bank

Figure No 4.4



The above table reveals the trend of Net profit of NABIL and EBL. Net profit both bank NABIL and EBL forecasted in increasing trend. The trend of increasing value of net profit of NABIL is higher and aggressive than EBL. The net profit of NABIL and EBL has been increasing every year by Rs.73.712 million and Rs. 6.852 million respectively. The trend of Net profit projected to FY 2015/16 i.e. further Eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, NABIL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of NABIL is high than the EBL.

4.3 Major Findings

From the above research study, following findings are drawn on the selected commercial banks.

- Generally, banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 1:1. The mean current ratio of NABIL is 1.89 and EBL is 1.14 the current ratio of NABIL is higher than EBL. It is indicate better liquidity position of NABIL
- Cash and bank balance to total deposit ratio of EBL has higher than NABIL i.e. 10.75%>5.67% which indicates that the bank has higher liquidity of EBL as compare to NABIL. A high ratio of cash and bank balance may be undesirable which indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity, which will help the bank to improve its profitability. But liquidity position is good.
- Cash and bank balance to current assets ratio of EBL is higher than NABIL i.e. 9.34%. > 8.20%. Regarding the analysis, it can be said that Both Bank has a better ability to meet daily cash requirements of their customers.

- Investment on government securities to current assets of NABIL has higher than EBL i.e. 30.95% > 18.28%. It shows NABIL has invested more fund in government securities. EBL has also invested better in government securities. But in comparison, NABIL has invested more funds in government securities out of its current assets.
- The loan & advances to total deposit ratio of NABIL is lower than EBL 68.11% < 74.21%. It indicates the better mobilization of deposit by EBL. So, NABIL has little efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.
- The total investment to total deposit of NABIL is higher than EBL i.e. 34.40% > 26.29%. It shows the NABIL is mobilizing its funds on investment in various securities efficiently. It can be said that NABIL is more successful in utilizing its total deposit by investing in marketable securities and other investment areas.
- The loan & advances to total assets ratio of EBL is greater than NABIL i.e. 72.42% > 56.59%. It refers EBL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.
- Investment on government securities to total assets ratio of EBL is higher than Nabil i.e. 26.28% >18.68%. This indicates that EBL has invested more portions of total assets on government securities. It means EBL has invested more money in risk free assets than that of Nabil out of its total assets.
- Return on loan & advances ratio of NABIL is higher than that of EBL i.e. 4.64%> 2.34%. It refers that NABIL. It can be concluded that NABIL bank has utilized the loan and advance for the profit generation purpose in proper way.

- Return on total assets ratio of NABIL is higher than EBL i.e. 2.61% > 1.49%. However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue.
- Return on equity of NABIL is higher than EBL i.e.31.88% > 22.71% which shows that NABIL is more successful to earn high return through the efficient utilization of its equity capital.
- Total interest earned to total assets ratio of EBL is relatively slightly greater than that of NABIL i.e.5.93> 5.85% and also has higher variability in the ratio. It indicates that EBL has efficiently used its total assets to earn higher interest income in comparison to NABIL.
- Total interest earned to total operating income ratio of NABIL is lower than EBL i.e. 102.93% < 159.25. It means the greater portion of total operating income is occupied by total interest for EBL. It reveals EBL has successful mobilizing their fund in interest generating assets. And NABIL has earned more through other sources like commission and discount, exchange gain and other operating income. From the long term and sustainable view, NABIL is in low risk as it has low proportion interest in total operating income.
- Total interest paid to total assets ratio of EBL is higher than NABIL i.e. 2.62 % > 1.76%. It shows EBL has high interest expenditure to total assets. As, EBL has high ratio, it seems low conscious about borrowing cheaper fund.
- From mean point of view, non-performing loan to total loan and advances ratio of NABIL and EBL are1.58 % and 1.22% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. However, in

comparison, EBL has efficient operating of credit management than that of NABIL from the mean point of view and individual ratios of each years.

- Average liquidity risk ratio of NABIL and EBL are 5.67% and 10.73% respectively. EBL has higher ratio than the NABIL. This shows its greater ability to pay depositors money as they want.
- Average earning per share of NABIL is greater than that of EBL i.e. Rs. 108 > Rs78.4 NABIL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too.
- Average market price of the share of NABIL is greater than that of EBL i.e.2107 > 1698.2. It indicates that shareholder of NABIL are getting higher price It shows NABIL has better financial performance than EBL in order to increase market price per share.
- The mean price-earning ratio of EBL is little higher than that of NABIL i.e. 27.07 is greater than 25.59. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 27.07 in EBL. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of NABIL and in long run investor of NABIL will get better profit and they will be in safe side.
- Both NABIL and EBL have high positive co-relation between total deposit and loan & advances because NABIL and EBL have 0.989 and 0.993 of co-relation coefficient between deposit and loan & advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks. The correlation coefficient of both bank is significant
- There is positive correlation between total deposit and total investment of NABIL and EBL. Where as NABIL has little low degree of positive co-

relation i.e.0.926 than EBL i.e. 0.965. EBL has high degree positive correlation where as NABIL has little low degree positive correlation. Both bank's correlation coefficient is significant because the correlation coefficient is more than 6 P.Er.

- There is positive correlation between Loan and advance and net profit. Correlation between Loan and advance and net profit of NABIL is 0.955 and EBL is 0.457. EBL has little low degree of positive co-relation. The relationship between Loan and advance and net profit of NABIL has significant and EBL has insignificant due to more and less than 6 P.Er.
- The degree of relationship between total investment and net profit of EBL is poor than NABIL i.e. correlation coefficient between total investment and net profit of NABIL and EBL is 0.847 and 0.535 respectively. It refers that NABIL is comparatively successful to generate net profit due to high positive correlation. The relationship between Loan and advance and net profit of NABIL has significant and EBL has insignificant due to more and less than 6 P.Er.
- NABIL and EBL have increasing trend in collecting deposit the rate of increment of total deposit for NABIL seems to be higher than that of Here NABIL has better position in collecting deposit than EBL.
- The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for NABIL seems high growing than EBL. It refers that NABIL is more aggressive in mobilizing its loan and advance.
- The total investment trend line of NABIL and EBL is upward slopping where as NABIL has aggressive upward slopping of total investment trend line. It refers that NABIL has better increasing trend of total investment than EBL.

- The trend line of Net profit for NABIL and EBL is upward slopping But NABIL has aggressively and EBL has smoothly. The position of NABIL is better in order to generate profit than EBL.

Above analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NABIL is higher than the EBL. It indicates better performance of NABIL rather than EBL.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about investment Policy of Nabil Bank Limited and Everest Bank limited. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which, consists current ratio, liquidity ratio, assets management ratio, profitability ratio, risk ratio and other ratios. Other ratio includes EPS, MPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary. The major findings of the study are also included in the final section of the presentation and analysis chapter.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

Investment practice of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

5.2 Conclusion

The overall aspect of liquidity position of EBL is comparatively better than NABIL. But the current ratio and investment on government securities to total assets of NABIL are slightly higher than EBL. NABIL has utilized its liquid assets in more profit generating sectors.

An asset management aspect of NABIL is better than EBL which is justified by little higher loan & advances to total deposit ratio, loan & advances to total assets ratio for NABIL.

Overall profitability ratios show that NABIL has earned higher profit in relation to every aspects of the bank than EBL.

Earning per share, dividend per share and market price per share is higher for NABIL in comparison to EBL. It gives good signal of financial performance of the bank in the market. Price-earning of NABIL is higher than EBL which is considered better in security analyzing in order to make investment decision.

Both commercial banks NABIL and EBL have positive correlation between deposit and loan & advances, deposit and total investment, total assets and net profit total investment and net profit. Comparatively both banks have strong relationship between these variables. It is also found that there is positive correlation between total deposit of NABIL and EBL, between loan & advances of both banks and between net profits of both banks.

Total Investment, loan & advances, net profit of NABIL and EBL are in increasing trend. It shows positive trend of both banks.

Both NABIL and EBL have high positive co-relation between total deposit and loan & advances, total deposit and total investment.

Correlation between total assets and net profit, total investment and net profit shows both the banks have positive relationship but NABIL has greater correlation coefficient than Correlation coefficient of total deposit, total investment, loan & advances and net profit between NABIL and EBL shows positive correlation. It refers that all the variable of both bank moves in the same direction some are closely in the same direction and some are less proportionately.

NABIL and EBL have increasing trend in collecting deposit the rate of increment of total deposit for NABIL seems to be higher than that of EBL. NABIL has better position in collecting deposit than EBL.

The trend line of loan & advances and total investment trend line for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances.

The trend line of Net profit for NABIL and EBL is upward slopping. The position of NABIL is better in order to generate profit than EBL.

The trend analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NABIL is higher than the EBL.

From the entire research study, overall all financial performance of NABIL is better than EBL. But EBL is operating smoothly and success in becoming the profitable bank as well.

The profile of financial executives and customers reveals that more Nepalese investors have not knowledge about investment practice adopted by commercial banks. Similarly, NABIL and EBL are adopting investment practices. Commercial banks are not providing investment priority to the rural sectors but being a developing country it is very necessary to give investment priority to the rural area. Therefore, the banks should formulate sound investment policies. Good investment practices ensures maximum amount of investment to all sectors with proper utilization.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the investment policy of NABIL and EBL effective and efficient but comparatively better NABIL. This would help to draw some outline and make reforms in the respective banks

- Generally, banks have to maintain liquid assets. The current ratio of the two banks, NABIL and EBL is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NABIL and EBL.

- Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks, NABIL and EBL have made some amount of fund in Government securities. But NABIL and EBL are recommended to invest more funds in Government securities instead of keeping them idle.

- To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found that loan & advances to total deposit ratio of EBL is lower than that of NABIL. It means EBL has not properly used their existing fund as loan & advances. So EBL is recommended to follow liberal lending policy and to invest more deposit in loan & advances.

- NABIL and EBL have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

- EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks

- Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.

- Last political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

Keeping all these in consideration, the EBL has little less performance than that of NABIL. Therefore, in the future ahead, the EBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector both bank NABIL and EBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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Web sites:

www.everestbankltd.com

www.sebon.com

www.Nepalstock.com

ANNEXES

Annex - 1

NABIL BANK LIMITED (NABIL)

Liquidity Ratio:

(1) Current ratio:

(In million)

Year	Current assets	Current liabilities	Current ratio (in %)
2003/2004	11329	5387.5	2.10
2004/2005	8819.2	4246.6	2.08
2005/2006	13857.5	6661	2.08
2006/2007	16954	9258.5	1.83
2007/2008	20122.1	14923.6	1.35
Mean			1.89

(2) Cash and bank balance to total deposit ratio:

(In million)

Year	Cash and bank balance	Total deposit	Ratio (in %)
2003/2004	971	14025.94	6.88
2004/2005	559	14853.4	3.83
2005/2006	630	19101.07	3.26
2006/2007	1399	24491.09	5.99
2007/2008	2671	31304.82	8.37
Mean			5.67

(3) Cash and bank balance to current assets ratio

(In million)

Year	Cash and bank balance	Current assets	Ratio (in %)
2003/2004	971	11329	8.57
2004/2005	559	8819.2	6.34
2005/2006	630	13857.5	4.55
2006/2007	1399	16954	8.25
2007/2008	2671	20122.1	13.27
Mean			8.20

(4) Investment on Govt. securities to current assets ratio:

(In million)

Year	Investment on Govt. securities	Current assets	Ratio (in %)
2003/2004	5819.55	11329	51.78
2004/2005	3078.78	8819.2	34.91
2005/2006	2300.35	13857.5	16.60
2006/2007	4808.15	16954	28.36
2007/2008	4646.19	20122.1	23.09
Mean			30.95

Assets management ratio:

(1)Loan and Advance to total deposit:

(In million)

Year	Loan and advances	Total deposit	Ratio (in %)
2003/2004	8189.99	14025.94	60.55
2004/2005	10586.17	14853.4	75.05
2005/2006	12922.54	19101.07	68.64
2006/2007	15545.78	24491.09	68.13
2007/2008	21365.05	31304.82	68.18
Mean			68.11

(2)Total investment to total deposit:

(In million)

Year	Total investment	Total deposit	Ratio (in %)
2003/2004	5835.95	14025.94	41.33
2004/2005	4267.23	14853.4	29.25
2005/2006	6178.53	19101.07	31.94
2006/2007	8945.31	24491.09	38.32
2007/2008	9939.77	31304.82	31.14
Mean			34.40

(3) Loan and advance to total working fund:

(In million)

Year	Loan and advances	Total assets	Ratio (in %)
2003/2004	8189.99	16745.49	48.90
2004/2005	10586.17	17186.33	61.60
2005/2006	12922.54	22329.97	57.87
2006/2007	15545.78	27253.39	57.04
2007/2008	21365.05	37132.76	57.54
Mean			56.59

(4) Investment to govt. securities to total working fund:

(In million)

Year	Investment to govt. securities	total assets	Ratio (in %)
2003/2004	5819.55	16745.49	35.03
2004/2005	3078.78	17186.33	17.91
2005/2006	2300.35	22329.97	10.31
2006/2007	4808.15	27253.39	17.64
2007/2008	4646.19	37132.76	12.51
Mean			18.68

Profitability ratio:

(1) Return on loan and advance:

(In million)

Year	Net profit	Loan and advances	Ratio (in %)
2003/2004	455.23	8189.99	5.56
2004/2005	519.32	10586.17	4.91
2005/2006	635.26	12922.54	4.92
2006/2007	673.96	15545.78	4.34
2007/2008	746.47	21365.05	3.49
Mean			4.64

(2) Return on total assets ratio:

(In million)

Year	Net profit	Total assets	Ratio (in %)
2003/2004	455.23	16745.49	2.72
2004/2005	519.32	17186.33	3.02
2005/2006	635.26	22329.97	2.84
2006/2007	673.96	27253.39	2.47
2007/2008	746.47	37132.76	2.01
Mean			2.61

(3) Return on equity:

(In million)

Year	Net profit	Total Equity	Ratio (in %)
2003/2004	455.23	1479.88	30.76
2004/2005	519.32	1656.88	31.34
2005/2006	635.26	1873.2	33.91
2006/2007	673.96	2055.12	32.79
2007/2008	746.47	2439.82	30.60
Mean			31.88

(4) Total interest income to total assets ratio:

(In million)

Year	Interest income	Total assets	Ratio (in %)
2003/2004	1001.62	16745.49	5.98
2004/2005	1068.75	17186.33	6.22
2005/2006	1309.99	22329.97	5,87
2006/2007	1587.76	27253.39	5.83
2007/2008	1978.7	37132.76	5.33
Mean			5.85

(5) Total interest earned to Total outside assets ratio:

(In million)

Year	Interest earned	Total outside assets	Ratio (in %)
2003/2004	1001.62	14025.94	7.14
2004/2005	1068.75	14853.4	7.20
2005/2006	1309.99	19101.07	6.86
2006/2007	1587.76	24491.09	6.48
2007/2008	1978.7	31304.82	6.32
Mean			6.80

(6) Total interest earned to Total operating income ratio:

(In million)

Year	Interest earned	Total operating income	Ratio (in %)
2003/2004	1001.62	1014.56	98.72
2004/2005	1068.75	1138.97	93.83
2005/2006	1309.99	1359.51	96.36
2006/2007	1587.76	1480.16	107.27
2007/2008	1978.7	1670.43	118.45
Mean			102.93

(7)Total interest paid to total assets ratio:

(In million)

Year	Interest paid	Total assets	Ratio (in %)
2003/2004	282.95	16745.49	1.69
2004/2005	243.54	17186.33	1.42
2005/2006	357.16	22329.97	1.60
2006/2007	555.71	27253.39	2.04
2007/2008	758.44	37132.76	2.04
Mean			1.76

Risk ratio:

(1) Credit risk ratio

(In million)

Year	Non performing loan	Loan and advance	Ratio (in %)
2003/2004	274.36	8189.99	3.35
2004/2005	139.74	10586.17	1.32
2005/2006	178.33	12922.54	1.38
2006/2007	174.11	15545.78	1.12
2007/2008	158.10	21365.05	0.74
Mean			1.58

Other ratios:

(1)EPS:

Year	Profit after tax	No. of common shares	EPS(in Rs)
2003/2004	455.23	4916544	92.61
2004/2005	519.32	4916544	105.49
2005/2006	635.26	4916544	129.21
2006/2007	673.96	4916544	137.08
2007/2008	746.47	6892160	108.31
Mean			114.54

(2) DPS:

Year	DPS (in %)
2003/2004	65
2004/2005	70
2005/2006	85
2006/2007	100
2007/2008	60
Mean	76

(3) MPS:

Year	MPS(in Rs)
2003/2004	1000
2004/2005	1505
2005/2006	2240
2006/2007	5050
2007/2008	5275
Mean	3014

(4) Price earning ratio:

Year	EPS (in Rs)	MPS(in Rs)	Price earning ratio(in times)
2003/2004	92.61	1000	10.8
2004/2005	105.49	1505	14.27
2005/2006	129.21	2240	17.34
2006/2007	137.08	5050	36.84
2007/2008	108.31	5275	48.7
Mean			25.59

Annex - 2

Everest bank ltd (EBL)

Liquidity Ratio:

(1) Current ratio:

(in million)

Year	Current assets	Current liabilities	Current ratio (in %)
2003/2004	9490.20	8085.94	1.17
2004/2005	11598.45	10138.99	1.14
2005/2006	15807.2	13932.91	1.13
2006/2007	21262.48	18296.45	1.16
2007/2008	26788.83	24276.30	1.11
Mean			1.142

(2) Cash and bank balance to total deposit ratio:(in million)

(in million)

Year	Cash and bank balance	Total deposit	Cash and bank balance total deposit(in %)
2003/2004	631.80	8063.90	7.83
2004/2005	1050.00	10097.70	10.40
2005/2006	1553.00	13802.44	11.25
2006/2007	2391.42	18186.25	13.15
2007/2008	2667.97	23976.30	11.13
Mean			10.752

(3) Cash and bank balance to current assets ratio

(in million)

Year	Cash and bank balance	Current assets	Cash and bank balance to current assets ratio(in %)
2003/2004	631.80	9490.20	6.66
2004/2005	1050.00	11598.45	9.05
2005/2006	1553.00	15807.2	9.82
2006/2007	2391.42	21262.48	11.25
2007/2008	2667.97	26895.35	9.91
Mean			9.34

(4) Investment on Govt securities to current assets ratio:

(in million)

Year	Investment on Govt securities	Current assets	Investment on Govt securities to current assets ratio (in %)
2003/2004	2392.10	9490.20	25.21
2004/2005	1873.71	11598.45	16.15
2005/2006	3322.44	15807.2	21.02
2006/2007	3614.54	21262.48	17.00
2007/2008	3237.98	26895.35	12.039
Mean			18.2838

Assets management ratio:

(1)Loan and Advance to total deposit:

(in million)

Year	Loan and advances	Total deposit	Loan and advance to total deposit(in %)
2003/2004	5884.12	8063.90	72.97
2004/2005	7618.67	10097.7	75.45
2005/2006	9801.30	13802.44	71.01
2006/2007	13664.08	18186.25	75.14
2007/2008	18339.108	23976.30	67.54
Mean			72.422

(2)Total investment to total deposit:

(in million)

Year	Total investment	Total deposit	Total investment to total deposit(in %)
2003/2004	2535.65	8063.90	31.45
2004/2005	2128.93	10097.7	21.08
2005/2006	4200.52	13802.44	30.43
2006/2007	4984.31	18186.25	27.41
2007/2008	5059.6	23976.30	21.10
Mean			26.294

(3) Loan and advance to total working fund:

(In million)

Year	Loan and advances	Total assets	Loan and advance to total working fund(in %)
2003/2004	5884.12	9608.57	61.24
2004/2005	7618.67	11732.51	64.93
2005/2006	9801.30	15959.28	61.42
2006/2007	13664.08	21432.57	63.75
2007/2008	18339.108	27149.34	67.54
Mean			63.77

(4) Investment to govt. securities to total working fund:

(in million)

Year	Investment to govt securities	total assets	Investment to govt securities to total working fund(in %)
2003/2004	2392.10	9608.57	24.89548
2004/2005	1873.71	11732.51	15.97024
2005/2006	3322.44	15959.28	20.81823
2006/2007	3614.54	21432.57	16.86471
2007/2008	3237.98	271493.34	1.192655
Mean			15.95

(5)Loan loss ratio (Loan loss provision to loan and advances)

(in million)

Year	Loan loss	Loan and advances	Loan losss ratio (in %)
2003/2004	81.8	6095.8	1.34
2004/2005	88.9	7900.0	1.13
2005/2006	70.5	10136.2	0.70
2006/2007	89.7	13664.1	0.66
2007/2008	99.3	18339.08	0.54
Mean			0.874

Profitability ratio:

(1) Return on loan and advance:

(in million)

Year	Net profit	Loan and advances	Return on loan and advances ratio (in %)
2003/2004	143.66	5884.12	2.44
2004/2005	170.80	7618.67	2.24
2005/2006	237.30	9801.30	2.42
2006/2007	296.41	13664.08	2.17
2007/2008	451.2	18339.08	2.46
Mean			2.346

(2) Return on total assets ratio:

(in million)

Year	Net profit	Total assets	Return on total assets ratio (in %)
2003/2004	143.66	9608.57	1.50
2004/2005	170.8	11732.51	1.46
2005/2006	237.30	15959.28	1.49
2006/2007	296.41	21432.57	1.38
2007/2008	451.2	27149.34	1.66
Mean			1.498

(3) Return on equity:

(in million)

Year	Net profit	Total Equity	Return on total equity (in %)
2003/2004	143.66	710.31	20.22497
2004/2005	170.8	832.61	20.51381
2005/2006	237.30	962.8	24.64686
2006/2007	296.41	1201.51	24.66979
2007/2008	451.2	1921.24	23.48483
Mean			22.70805

(4) Total interest income to total assets ratio:

(in million)

Year	Interest income	Total assets	Interest income to total assets ratio (in %)
2003/2004	657.25	9608.57	6.84
2004/2005	719.29	11732.51	6.13
2005/2006	903.41	15959.28	5.66
2006/2007	1144.41	21432.57	5.34
2007/2008	1548.66	27149.34	5.70
Mean			5.934

(6) Total interest earned to Total operating income ratio:

(in million)

Year	Interest earned	Total operating income	Interest earned to total operating income (in %)
2003/2004	657.25	316.36	207.50
2004/2005	719.29	375.23	191.69
2005/2006	903.41	453.17	199.35
2006/2007	1144.41	597.87	191.41
2007/2008	1548.66	822.7	188.24
Mean			195.638

(7) Total interest paid to total assets ratio:

(in million)

Year	Interest paid	Total assets	Interest paid to total assets (in %)
2003/2004	316.36	9608.57	3.29
2004/2005	299.57	11732.51	2.55
2005/2006	401.39	15959.28	2.52
2006/2007	517.17	21432.57	2.41
2007/2008	632.61	27149.34	2.34
Mean			2.622

Risk ratio:

(1)Credit risk ratio (Non-performing loan to total loan and advances):

(in million)

Year	Non performing loan	Loan and advance	NPL to total loan and advances ratio (in %)
2003/2004	104.7	6095.8	1.72
2004/2005	128.8	7900.0	1.63
2005/2006	129.2	10136.2	1.27
2006/2007	113.18	13664.1	0.94
2007/2008	127.31	18339.08	0.69
Mean			1.25

Other ratios:

(1)EPS:

(in million)

Year	Profit after tax	No. of common shares	EPS(in Rs)
2003/2004	143.66	3.15	31.57
2004/2005	170.8	3.15	32.97
2005/2006	237.30	3.78	45.81
2006/2007	296.41	3.78	57.22
2007/2008	451.2	4.914	91.82
Mean			51.878

(2) DPS:

Year	DPS (in %)
2003/2004	20
2004/2005	-
2005/2006	25
2006/2007	40
2007/2008	50
Mean	33.75

(3) MPS:

Year	MPS(in Rs)
2003/2004	680
2004/2005	870
2005/2006	1379
2006/2007	2430
2007/2008	3132
Mean	1698.2

(4)Price earning ratio:

(in million)

Year	EPS (in Rs)	MPS(in Rs)	Price earning ratio(in times)
2003/2004	45.58	680	14.92
2004/2005	54.22	870	16.05
2005/2006	62.78	1379	21.97
2006/2007	57.22	2430	42.47
2007/2008	78.4	3132	39.94
Mean			27.07