INVESTMENT PATTERN ANALYSIS
OF
COMMERCIAL BANKS OF NEPAL

(A Comparative Study of Himalayan Bank and Nepal Industrial and Commercial Bank)

A THESIS

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VIVA VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented by

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<u>Viva-Voce Committee</u>

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DECLARATION

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I hereby declare that this thesis work entitled " **INVESTMENT PATTERN ANALYSIS OF COMMERCIAL BANKS OF NEPAL (A Comparative Study of Himalayan Bank and Nepal Industrial and Commercial Bank) "** submitted to Nepal Commerce Campus Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfilment of the requirements for the Master's Degree of Business Studies which is prepared under the supervision of respected supervisors Prof. Dr. Bihair Binod Pokharel and Mr. Madan Kandel of Nepal Commerce Campus.

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ABBREVIATIONS

A/C	:	Account
ATM	:	Automatic Teller Machine
B.S.	:	Bikram Sambat
C.V	:	Coefficient of Variation
CRR	:	Current Reserve Ratio
e.g	:	For Example
e.t.c	:	Etcetera
F.c	:	Foreign Currency
Govt.	:	Government
HBL	:	Himalayan Bank Limited
i.e	:	That is
Invt	:	Investment
JVBS	:	Joint Venture Banks
KBL	:	Kumari Bank Limited
Ltd.	:	Limited
MISC	:	Miscellaneous
N.G	:	Nepal Government
NBL	:	Nepal Bank Limited
NEPSE	:	Nepal Stock Exchange
NIC	:	Nepal Industrial and Commercial Bank
NIDC	:	Nepal Industrial Development Bank
NRB	:	Nepal Rastra Bank
P.Er	:	Probable Error
PF	:	Provident Fund

Rs	:	Rupees
S.D	:	Standard Deviation
T.T	:	telegraphic Transfer
T.U	:	Tribhuvan University
TWF	:	Total Working Fund
VIZ	:	Such as

CHAPTER –I

INTRODUCTION

1.1   Background of the Study

The economic growth of under developed country is widely depends upon the utilization of available natural human economic and financial resources. The rapid pace of economic development and self-economic reliance are the must in today's world, these can only be achieved through the accelerate rate of investment and capital formation in the country.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy .A key factor in the development in the country is the mobilization of domestic resources and their investment for productive use to the various sectors .To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country .The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development.

Investment-policy is an important-ingredient of overall national economic development because it ensure efficient also allocation of fund to achieve the material and economic well being of the society as a whole .In this regards joint venture bank investment policy push drives to achieve priority of commercial sector in the context of Nepal's economic development .The general principle is that the investment can be retired when cash is needed. The decision to investment now is the most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate saving. Therefore, both saving and investment are interrelated.

Decision of investment is very tough one for any business mole. For this they have to pay a lot of consideration before taking any action .A healthy development of any bank depends heavily upon its investment policy. A good investment policy attracts borrows and lenders, which helps to increase the volume and quality of deposit ,loan and investment .Several principal have to be followed for providing loan in a commercial bank such as length of time, purpose of loan ,profit margin ,security etc. These fundamental principal of commercial banks investment are fully considered while making investment policy. Every financial institution should take full care while preparing investment functions. Investment

policy should insure minimum risk & maximum profit. Commercial banks play important role in removing problems like inflation & deflation of monetary trade, tread defeat, budget deficit (created by economic problem) by capital formulation for deficits spending units. They also finance in small cottage industries and agricultural sector under priority sector investment scheme to serve the marginal people.

Every commercial bank should consider government & central bank i.e. Nepal Rastra Bank instructions & their interest as well before preparing the investment policies. Nepalese commercial bank however lags far behind in consideration of good investment opportunities. They are more insecure & don't want to take risk by investing in crucial sectors. But formulation of good investment policy may boost their interest on different investment opportunities that may lead for the enlistment of the national economy.

Investors invest their income for future use or to satisfy the individual investor's expectations. In the market, there are three types of investment alternatives, preferred by investors. So it says there are three types of investors. First those who want to take risk or risk taker, second those who doesn't want to take risk and the third one, who only invest for small return. In the context of Nepal, we can mostly find the third type of investors. Investing is one of the very sensitive parts for investors. Only an individual saving is not enough, because this saving means fixed deposits, which will only be single utilization. As we know drop of water makes full of pot, similarly small amount of saving makes large amount of investment. We should very careful while investment, because there is always risk and return characteristics behind investment policy. Without return investment become ineffective. Investment can help various sector of the nation like society, business, organization, and infrastructure and so on.

Investing is being used for describing all kinds of activities in financial world. Some of these activities are antithesis of investing; some have nothing to do with investing while very few actually are investing. People have among many motivates for investing. Some people invest in order to gain sense of power or prestige while others invest for monetary advantage. In the former motive, often the control of corporate empires is a driving motivate. According to William N Geotzmann, people are willing to "invest to make something happen that might not, otherwise people could invest to build a museum, to finance low income housing or to re-claim urban neighborhoods which has not an economic value. For most investors, however, their interest in investments is largely pecuniary to earn a return on their money.

Bank is one of the financial institutions, which regularly involved in finance, in simply Bank collects savings from individuals, and invests in different sectors. Nepal has a central Bank, which coordinates industrial banks, commercial banks & other financial institutions, which directly or indirectly involved in investment. All the financial institutions have their own investment policy as their convenient.

Better proceeding forward, it is, nevertheless, better to know the history of origin and development of commercial bank in the world and development of financial sector, especially commercial banking in Nepal.

1.2   Origins and Development of Bank

The earliest evidence of banking is found in Mesopotamia between 3000 & 2000 B.C. when temples were used to store gain and other v valuable used in trade. Babylon is credited with the birth of banking and finance at the level of sophistication that rivals our own, with the expectation of the timing advantages that modern communication has allowed.

The word bank is derived from the Italian word 'banco' meaning the portable benches or counters over which the moneychanger comes from. A bank is an Institution, which deals with money and credit. Broadly speaking, banks draw surplus money from the people who are not using it at the time, and lend to those who are in a position to use it for productive purposes. Thus, the bank accepts deposits from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another. In general, a bank is an institution with the following features.

- It deals with money, it accepts deposits and advances loan.

- It also deals with credit; it has the ability to create.

- It is a commercial institution, it aims at earning profit.

The origin of commercial banking can be traced back to the early times of human history .In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purposes on interest was prevalent. In England, banking had its origin with the London goldsmiths who in the 17th century began to accept deposits from merchant and others for safekeeping of the money and other valuables. As public enterprise, banking made its first appearance Italy in 1157 AD when the Bank of Venice was founded. Crowther observed that the modern banking has three ancestors who are

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the merchant, the goldsmith, and the moneylender. The merchant banker forms the earliest stage in the evolution of modern banking. Merchants in those days required remittances of money from one place to another while trading which is an important function of a bank. This gave rise to the institution of 'hundi' or the letter of transfer, which these days are done through drafts, cheques, travelers' cheque etc. to remit money to different places. The goldsmith ancestry of the modern banks is purely an English affair.

In England, the goldsmiths were the original representatives of private bank. They charge for safekeeping the money consisting of gold and silver. The bank of England was established in 1694 AD. The next stage in the development of banking arises when the goldsmith becomes a moneylender. The goldsmith realizes that only a contingency reserve was required for the period when withdrawals exceeded deposits. Thus, goldsmith became a banker; he started performing the two major functions of a bank. Napoleon founded the Bank of France in 1800 AD. The 19th century comes with the vast scope of development of commercial banking. It with ended not only the phenomenal development of modern problems enabling banks to turn their attention away from old money changing business to many new important jobs that comes in the wake of industrial progress. The 20th century observed the development of various banking institutions highly specialized and sophisticated particularly in advanced countries like USA, UK, and others. Today various international organization like IMF, IBRD (now popularly known as the World Bank), ADB etc. have been developed which are influencing the whole business of the modern world.

Commercial banking in India began in 1770 AD with establishment of the first joint stock bank, named the Bank of Hindustan' by an English Agency in Calcutta, lots of developments in the banking sector have occurred after the independence.

Nepal being a developing country is trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy. Even though, the process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role." The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economic development.

The network of well organized financial system of the country has great bearing in these regards. It collects scattered financial resources from the masses and invests them among

those engaged in commercial and economic activities of the country. In this way the financial institutions provide savers highly liquid divisible assets at a lower risk while the investors receive a large pool of resources. Integrated and speedy development of the country is possible only when competitive financial service reaches nook and corner of the country. It has been well established that the economic activities of any country can hardly be carried forward without the existence and support of financial institutions. Financial institution have catalytic role in the process of economic development.

Banking plays a significant role in the development of nations. Economy bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions Therefore it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word 'Bank' in different ways. A commercial bank is declared in money and its substitutes for money such as cheques or a bill of exchanges, it also provides a variety of financial sectors.

Commercial bank mainly undertakes measure such as organizational reforms of banks, maximum utilization of resources and increase in non-cash reserve transaction to reduce the spread between interest rates on deposits and credit. They deploy funds raised from different sources into different assets with a primary objective of profit generation. They also play an important role for the economic development and poverty alleviation of the country through providing credit facilities, quality banking services to a people both business community as well as common man. Concerted efforts of all type of banks and financial institution support by a dynamic policy of central bank are needed to achieve the desired economic growth.

"Economic growth can be compared with the construction of good house which can only be erected on a solid foundation however it is not sufficient, they must further initiate and activate the necessary resources needed to be acquired to complete the buildings. We, bankers therefore have a key responsibility in the building task for economic growth." Policy is an important ingredient of overall national economic development because it ensure efficient also allocation of fund to achieve the material and economic well being of the society as a whole. In this regard, joint venture bank investment policy push drives to achieve priority of commercial sector in the context of Nepal's economic development. Investment is defined simply to be the sacrifice of current consumption for future consumption takes place at present with certainty and the invest or accepts desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to investment now is a must crucial decision as the future level of

wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternatives fall into two categories: real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds, and debenture. Financial assets are bought and sold in organized security markets. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate savings. If all the income and savings are consumed to solve the problem hand to mouth and to the other basic needs then there is no existence of investment. Therefore, both saving and investment are interrelated.

"A distinction is often made between investment and savings. Saving is defined as foregone consumption investment is restricted to real investment of the sort that increases national output in the future."*(NRB Bulletin)*

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most important one. Credit being the most important function of commercial banks, affects overall development of the country. In consideration of economic development, it is directly related to the quality and quantity of the credit, which is carried out from different financial institutions, especially commercial banks.

The 'American Institute of Banking' has laid down the four major functions of the commercial banks as receiving and handling deposits, handling payments for its clients. Making loans and investments and creating money by extension of credit.'

Nepal Commercial Bank Act 2031 B.S. has defined commercial bank as stated earlier and it has also emphasized on their functions. Majors of them are as follows.

- They accept custody of funds with or with out interest and open fixed accounts, current accounts and saving accounts in the name of depositors.
- They supply loan / short term as well as long term depts. whatever necessary for trade and commerce or make investment.
- They help to issue shares and debentures of any company or any other corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.

- Conduct transaction in bonds, provisionary notes or bills of exchange, foreign exchange relating to commerce or corporation as are redeemable with in the Kingdom.

- They grant overdraft.

- They issue letter of credit, drafts, and traveler's checks.

- They remit or transmit fund to different place within or outside the Kingdom.

- They purchase, sell, or accept the securities of HMG.

Nepal Rastra Bank (NRB) the central bank of the Kingdom of Nepal, was established in 1956 to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Since then, there has been a huge growth in both the number and the activities of the domestic financial institutions. To reflect this dynamic environment, the functions and objectives of the bank have been recast by the new NRB Act of 2005, the preamble of which lays down the primary functions of the Bank as: to formulate necessary monetary and foreign exchange policies to maintain the stability in price and consolidate the balance of payments for sustainable development of the economy of the Kingdom of Nepal; to develop a secure, healthy and efficient system of payments to make appropriate supervision of the banking and financial system in order to maintain its stability and foster its healthy development, and to further enhance the public confidence in Nepal's entire banking and financial system.

The bank is eminently aware that, for the achievement of the above objectives in the present dynamic environment, sustained progress and continued reform of the financial sector is of utmost importance. Continuously aware of this great responsibility, NRB is seriously pursuing Various policies, strategies and actions, all of which are conveyed in the annual report on monetary policy which provides a comprehensive review and evaluation of the previous monetary policy and justification and the analysis of the following year's monetary policy. The reengineering of the NRB itself is one of the critical components of the reform agenda. To improve the financial sector legislative framework, some new acts have already come out and there have been amendments to some existing Acts. Enactments of the draft legislation on bank and financial institutions, secured transactions, insolvency, Assets. Management company and anti money laundering are expected to be soon materialized, all with the goal of strengthening the financial sector through building on its healthy development and improved stability. These activities convey the commitment of the NRB for addressing the present and future challenges of the financial system, especially with its

increasing openness and competitive process in the context of growing global financial environment should ensure sustained progress and stability of the financial system under NRB's guidance and leadership. For contributing substantially to the sustained development of the economy of Nepal.

Every commercial bank should consider Government and central bank's i.e., 'Nepal Rastra Bank' instructions and their own interest as well before preparing the investment policies. Nepalese commercial bank however lags for behind in consideration of good investment opportunities. They are more insecure and do not want to take risk by investing in crucial sectors. But formulation of good investment policy may boost their interest on different investment opportunities that may lead for the enlistment of the economy.

1.2.1 Himalayan Bank Limited

Himalayan Bank Limited is one of the reputed commercial bank which is a culmination of a comprehensive vision of the promoters to take the Nepalese economy to a newer realm in the global market. Each promoter of **Himalayan Bank Limited** has successfully demonstrated leadership skills, business acumen and entrepreneurial talents in his/her respective field .Incorporated in 1991 **Himalayan Bank Limited** came into operation in march 1995 with the following predominant objectives.

1.2.2 Nepal Industrial and Commercial Bank Ltd.

Nepal Industrial and Commercial Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1078.272 million, of which 70 % is contributed from promoters and remaining from public.

Nepal Industrial and Commercial Bank Ltd has been providing wide - range of modern banking services through 16 points of representations located in various urban and semi urban part of the country, 11 outside and 5 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been

providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services. Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 18 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customer.

Table No. 1.1

List of Commercial Bank

S.N.	Name of Bank	Established	Operation Date	Head Office
1	Nepal Bank Ltd.	1994/07/30	1994/07/30	Kathmandu
2	Rastriya Banijya Bank	2022/10/10	2022/10/10	Kathmandu
3	Nepal Investment Bank Ltd.	2042/11/16	2042/11/16	Kathmandu
4	Standard Chartered Bank Nepal	2043/10/16	2043/10/16	Kathmandu
5	**Himalayan Bank Ltd.**	**2049/10/05**	**2049/10/05**	**Kathmandu**
6	Nepal SBI Bank Ltd.	2050/03/23	2050/03/23	Kathmandu
7	Nepal Bangladesh Bank Ltd.	2050/02/23	2050/02/23	Kathmandu
8	Everest Bank Ltd.	2051/07/01	2051/07/01	Kathmandu
9	Bank of Kathmandu Ltd.	2051/11/28	2051/11/28	Kathmandu
10	Nepal Credit and Commerce	2053/06/28	2053/06/28	Kathmandu
11	**NIC Bank**	**2055/04/05**	**2055/04/05**	**Biratnagar**
12	Machhapuchhre Bank Ltd.	2057/06/	2057/06/	Pokhara
13	Kumari Bank Ltd.	2056/08/24	2057/12/21	Kathmandu
14	Laxmi Bank Ltd.	2058/06/11	2058/12/21	Birjung
15	Siddhartha Bank Ltd.	2058/06/12	2059/09/09	Kathmandu
16	Agriculture Development Bank	2024	2024	Kathmandu
17	NABIL Bank	2041/04/01	2041/04/01	Kathmandu
18	Lmbini Bank	2055/04/03	2055/04/03	Kathmandu
19	Global Bank Ltd.	203/18/18	2063/18/18	Birjung
20	Citizens Bank International Ltd.	2064/01/06	2064/01/06	Kathmandu
21	Prime Commercial Bank Ltd.	2064/06/04	2064/06/04	Kathmandu
22	Bank of Asia Nepal Ltd.	2064/06/28	2064/06/28	Birat nagar
23	Sunrise Bank Ltd.	2064/06/28	204/06/28	Kathmandu
24	Development Credit Bank Ltd.	2057/10/09	2057/10/09	Kathmandu
25	NMB Bank Ltd.	2053/08/02	2053/08/02	Kathmandu

| 26 | Kist Merchant Bank | 2066/01/24 | 2066/1/24 | Kathmandu |

(Source: NRB)

1.3. Statement of the Problem

The economic development of the country is mainly based on the different financial sectors established in the country. The success of these institutions will lead to the development of the economy of the country. Nepal being listed among least developed countries, commercial banks has played a catalytic role in the economic growth. Its investments range from small-scale cottage industries to large-scale industries. In making investment in loans and government securities are may always wonder which investment is better.

It can be therefore hypothesized that bank portfolio like loans, investment, cash reserve deposit and borrowing affects the national income. And also how the government policy affects these variables, such as the affects of an interest on the bank portfolio variables is of great concern. Therefore, when monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behavior.

The term loan plays a crucial role in the development of the any commercial bank .The problem of lending has become very serious in the country like Nepal. This is due to lack of sound investment policy of commercial banks. Commercial banks are nowadays investing only in less risky business. They are not investing in proportion to that of their deposit amount is much higher than that of investment opportunities. They are being safety minded rather considering the profit margin, Nowadays commercial banks mainly focus on non performing assets, that means they invest the fund as giving loan for non performing activities like house loan, land loan, educational loan, traveling loan etc. So they don't seem to be capable to invest their funds in more profitable sectors i e. Treasury bills, development bonds and other securities. They dip high liquid assets and flow lower funds to the productive sectors, which results into lower profitability to commercial banks and ignorance to the national economic growth process. This is due to the effect of the economical, political, demographical & geographical condition of the nation, so this is the main reason for crisis in the commercial banks and in the whole national economy as well.

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 their own investment policy. Furthermore, the implementation of policy is not practiced in an effective way. Lack of farsightedness in policy formulation

and absence of strong commitment towards its proper implementation has caused many problems to commercial banks.

Thus, the present study will make a modest attempt to analyze investment policy of HBL. Some of the research questions relating to investment function of the commercial bank of Nepal have been presented briefly as under.

- Is it maintaining sufficient liquidity position?
- Is fund mobilization & investment policy of the bank effective & efficient?
- What is the relationship of investments & loans & advances with total deposits and total net profits?
- Do the degree of success in investment strategy successful to utilize its available fund of HBL and NIC?

1.4. Objectives of the Study

Based on the problem identified the following objectives have been set for the objective. Investment decision is one of the major decision functions of financial management. The main objective of the study is to assess the investment policy and strategies followed by the bank .The specific objectives are as follows:

- To study and examine the fund mobilization pattern of commercial bank and under study.
- To analysis the investment pattern of Himalayan Bank and Nepal Industrial and Commercial Bank.
- To evaluate liquidity, profitability and risk of Himalayan Bank and Nepal Industrial and Commercial Bank.
- To examine the relationship between deposits and investment and suggest concerned banks on the basis of study findings.

1.5. Rationale of the Study

The financial sector plays an important role for every country .The economic development of the country highly depends upon the financial institutions. The success and prosperity of the bank relies heavily up in the successful investment of collected resources to the important sector of economy. Successful formation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice versa.

Therefore the effort is made to highlight the investment policy of commercial banks expecting that the study can be bridge gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Similarly, from the study the shareholders would get information to make decisions while making investment on shares of various banks.

So with the study of existing investment policy of the Bank of Kathmandu helps to analyze the truth position of the Bank among the commercial banks to invest and provide package of suggestions for its improvement. Customers saving should be invested in proper field to return like business, industries, development infrastructure, which directly or indirectly influences the economy of the country, so it's very important to study the investment policy of the Bank.

1.6. Limitations of the Study

The research will have some limitation, which weaken the heart of study. Basically, the study is done for the partial fulfillment for masters of business studies. Inadequate coverage of industries, Time constraints, Lack of research experience asymmetry, reliability of financial and statistical tools used   and financial problems are the main limitations.

Other limitations are:

- There are many factors that effects investment decision and valuation of the firm. However, this study will concentrate only on the factors that are related with investment.

- Mostly secondary data will be analyzed and only a period of 5-years trend will consider i.e. from 2003 to 2008 hence the conclusion drawn confines only to the above period.

- The truth of research result will base upon the available data from the bank.

- Two banks are taken to study of the investment policy.

1.7 Organization of the Study

The study will be organized into five chapters:

Chapter I: Introduction

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

Chapter II: Review of literature

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

Chapter III: Research Methodology

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

Chapter IV: Data presentation and analysis

This chapter deals with analysis and interpretation of the data using financial and statistical tools describe in chapter three. Similarly this chapter also includes the major findings of the study.

Chapter V: Summary, Findings, Conclusion and Recommendations

This chapter deals with summary of the study held, the conclusion made ultimately and the possible suggestion.

The main part of research is Data Presentation & Analysis, which is shown in fourth chapter.

Lastly the fifth chapter includes Summary conclusion and recommendations, which shows the success or failure of the research done. And thereafter, a bibliography and appendices also are included.

CHAPTER – II
REVIEW OF LITERATURE

In this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. Every possible effort has been made to grasp knowledge and information that is available from the libraries, document collection centers, other information managing bureaus and concerned commercial bank. This chapter helps to take adequate feed back to broaden the information base and inputs to my study. Conceptual framework has given by different authors, research scholars and articles etc, which are arranged into the following order.

Review of literature comprises of previous research study articles concerned with this study and other study with a view for supplement the present research and such review adds to the dimension of the study. This chapter deals with the following:

- Review of Books
- Review of Articles
- Review of Thesis

2.1 Conceptual Review

Commercial Bank Act,2031 has defined commercial bank in following way, "Commercial Bank means a bank which operates currency exchange transactions, accepts deposits ,provide loan and performs dealing relating to commerce, and other than those books which have been specified for the co-operative ,agriculture, industry of likely any other specific objective"(Khadka,2008:204) .The commercial banks are established under the commercial bank act 2031 in Nepal that has been amended regularly .It has been Mended for six times till today .Now commercial bank act, 2049 is activate.

Banks play vital and important role in economic growth of a country. Banking ,when properly organized ,aids and facilitative the growth of tread and industry and hence of national economy .In the modern economy ,banks are to be considered not as dealers of money but as the leader of development .Banks are not just the share houses of the country's wealth but are the reservoirs of resources necessary for economic development.

"A banker is one who in the ordinary course of business honors cheque drawn up on him by persons from and for whom it receives money on current account."
(Herbert, 2004:521)

"Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In this anxiety to make profit, the bank can not afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash properly and fully. The banker can not afford to keep a large possession of his assets in the form of cash. Cash brings in no incomes to the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity." " *(Thapa and Neupane, 2008:24)*

Commercial bank act,2031 BS of Nepal has defined that "A commercial bank is one which exchanges money ,accepts grant loans and performs commercial banking functions and which is not a bank meant for co-operative agriculture, industries or for such specific purpose."

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a hand-some profit as well as it should be secured and can be converted into cash whenever 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 investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.1.1. Characteristics of Good Investment Policy:

There are some of the main characteristics of good investment policy, which helps to measure its efficiency. These are as follows:

a. Liquidity

b. Profitability

c. Safety and security

d. Suitability

e. Diversification

a. Liquidity

Liquidity refers to the capacity of the bank to pay cash against deposits. Having confidence that the bank will repay their money whenever it is needed people deposits money at the bank in different accounts. In other to maintain the confidence to the depositors, bank must be prepared with sufficient degree of liquidity of its assets.

Once the confidence is lost in view of depositors, they may withdraw all their deposits within a brief period without giving any chance to the bank to manage. So, to maintain the confidence of depositors, the bank must keep this point while investing its excess fund in different securities or at time of investment as it can meet the readily demands for cash made by customers.

b. Profitability

Bank should invest their fund where they earn maximum profit. Banks built up their capital accept deposits from depositors and issued of share and debenture from shareholders who contribute interest and dividend. The profit of banks mainly depends on the interest rate, volume of loans, time period and nature of investment in different securities.

c. Safety and Security:

While investing its funds the bank should recognize those people who are speculative businessman, who may be bankrupt at once and who may earn million in a minute also. The bank must not finance its fund to those people at all. Only commercial, durable, marketable and high market valued securities should be accepted. The bank should never investment its fund in those securities that are too volatile since a little difference may cause the great loss.

d. Suitability:

Bank should know that why a customer needs loan or it is for appropriate purpose or not. If the borrower misuse the loan granted by bank, he will never to be able to repay the loan which posses heavy bad debts to bank. In order to avoid such situation advances should be allowed to selected and suitable borrowers and necessary all detailed information about

the scheme of the project or activities should be demanded and it should be examined before investing. Therefore suitability is the important factor for investment.

e. Diversification:

Diversification of loan helps to sustain loss to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. This can minimize the loss. So in order to minimize risk a bank must diversify its investment on different sectors.

2.1.2 Himalayan Bank Limited

Introduction

Himalayan Bank Limited is one of the reputed commercial bank which is a culmination of a comprehensive vision of the promoters to take the Nepalese economy to a newer realm in the global market. Each promoter of **Himalayan Bank Limited** has successfully demonstrated leadership skills, business acumen and entrepreneurial talents in his/her respective field .Incorporated in 1991 **Himalayan Bank Limited** came into operation in march 1995 with the following predominant objectives.

- Identify business prospects not yet catered by then existing commercial banks and offer new banking products and services.

- Introduce modern banking technology facilitating bank and business operations and transactions.

Himalayan Bank Limited's activities globe around deposit mobilization, advancement of various credits, international banking including trade financing, inwards and outwards remittances and funds and portfolio management. **Himalayan Bank Limited** is committed to providing products and services of the higher standards .Bank of Kathmandu has state of art technology for appropriate and efficient management information system (M.I.S.) and rendering quality services ,VSAT radio modem for networking, SWIFT for international trade and transfer of funds around the world correspondent banking relationships with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities ,gamut of corporate and retail banking products and services and centralized banking operations for better risk management ,consistent service deliveries lowering operating cost.

In spite of a number of programmed undertaken by Nepal Government for financial reforms in the country.

With an intention of providing efficient service to customers by reducing the total processing time, HBL has entered into a paperless environment and has implemented DOC BLITZ software. The software helps in processing documents without the movement of paper and accelerates the decision making process.

2. Policies and Strategies

The bank has formulated and applied various policies and strategies according to the time and their need. Some of the main strategies of the bank are

a. Procurement & application of least technologies & switching equipment.
b. Attract more remittance through the bank.
c. Introducing and development of new products & services.
d. Attract low cost deposits.
e. Expansion of branches.
f. Give customer satisfaction through prompt services.
g. Increase the quality & capability of the bank's human resources.
h. Revision of credit policies according to time & situation.

3. Present Activities

Himalayan Bank Limited is doing all the banking activities that a commercial bank has to do. Here, present activities try to represent the extra activities that HBL is doing, which are done in course of rendering services to the customers and in course of showing an outstanding the bank. Some activities are:

a. It has provided visa debit card at the lowest price in the market, which annual and membership cost Rs.1000.
b. The bank has increased its banking services by establishing branches in different parts of country.
c. The bank has started 12 hours remittance service i.e. From 8 Am to 8 Pm and it has also given services in public holidays.
d. The bank has conducted many training program for staff.
e. The network of ATMs & debit cards.

4. Extra Activities

With a vision of contributing towards the economic development of Nepal, HBL sponsored a photo exhibition by Devendra S. Rana , Intended to focus on the remoteness the rigid social structure of feudal relationship, the heavy work burden of woman and poverty I Thalara western Nepal . On the recommendation of TEWA, the innovative Nepal Woman's' Fund, HBL has handover the proceeds of the exhibition to Mahila Utthan Samaz Kendra. It is a group that supports rural woman of the western Nepal region and is run by Ms. Krishna Bista.

5. Future Plans

The bank has following plans relating to the future:

    a. To establish new branches in the course of branch extension.

    b. To start Internet banking services.

    c. To make available locker facilities even on holidays.

    d. To introduce new loans under the loan diversification plan.

    e. To improve and implement the loan write-off policy & procedure.

    f. To provide any branch banking facilities.

    g. To give continuity to staff training.

7. Brief Status of Bank

The status of the bank up to F/Y-2007/08 is as follows.

Table No. 2.1

Status of Bank

S.N.	Particulars	Rs. in Million
1.	Total Assets	17,721.93
2.	Loan OverDrafts and Bills purchased and discounted	12,462.64
3.	Investments	3,204.06
4.	Operating Profit	862.96
5.	Deposits	15,833.74

Sources: Annual Report of HBL

8. Services Providing by HBL.

a. Deposit Account Services:

Under this service, bank provides various accounts such as current, margin; call, saving, fixed deposit accounts to operate money transaction. These types of account create the habit of saving money even for a small amount saver and short-term period saver.

b. Loan and Advances Facilities:

Under this service, bank provides loan and advance facilities to individuals and corporate bodies/companies for the following reasons:

- To increase the business of individuals, and corporate bodies by efficient amount.
- To develop the priority sector like agriculture, small cottage industry etc.
- For miscellaneous purpose.

It purchases shares and debentures of companies or corporations. It also purchases treasury bills and securities issued by government. It also works as an underwriter.

c. Letter of Credit:

It serves its customers by dealing with other banks of foreign countries in export and import through letter of credit that helps customers to run their business well with safety, low cost and spending little time.

d. Remittances (Funds transfer):

It also serves its customers by transferring money from one place to another through drafts and telegraphic transfer both within and outside the country. HBL remittance a web-based service has made fund transfer to Nepal a few minutes job. All transactions are carried through a secured extranet, enabling fund transfer service more efficient and reliable, Further, the bank is expanding its agency network to avail the service to the rural communities in the country.

e. Miscellaneous:

There are many other services such as,

- Collects and discounts national & international bills.
- Purchases & sells travelers' cheque and maintains monetary exchange services.
- Provides bank guarantee & co-ordination with different countries' bank in relation to business transaction.

- Provides safe deposit vault within bank.
- Collects profit/bonus.
- Pays various bills and also collects bills to serve customers etc.
- Provides facilities of debit and credit cards.
- Introduce Queue management system.
- Introduce the scheme of Mero Bachat Yojana.

9. Significant Accounting Policies

A. Basis of Accounting

The Financial statements have been prepared in conformity with generally accepted accounting principles, company Act 2053, Bank & Financial Institution Ordinance and Nepal Rastra Bank directives.

B. Fixed Assets and Depreciation

Fixed assets have been shown in accordance with historical cost convention. Fixed assets have depreciated on diminishing balance method as per income tax act 2058, by applying following rates:

Table No 2.2

S.No.	Group	Asset detail	Depreciation rate
1.	"B"	Computer, furniture, fixture & equipments	25%
2.	"C"	Vehicle	20%

Leasehold improvements are amortized over the period of lease.

C. Provision for income tax:

Provision for income tax has been made as per the income tax act 2058 and all inadmissible expenses as per the act have been adjusted.

The bank has filed petition at revenue Tribunal against the excess assessment order of Rs. 4,111,063.00 for FY 1997/98 & Rs. 1,165,174.20 for FY 2000/01 (Total Rs:5,276,237.20) by Inland Revenue Office.

D. Investment

Investment is valued at cost or market value whichever is lower.

E. Foreign Exchange Transaction

Assets and liabilities have been translated at the prevailing buying rate of exchange as on 15th July 2007. Income realized from difference between buying and selling rates of foreign currencies are accounted for and shown as "Exchange Profit or Loss".

Gains and Losses arising due to change in exchange rate of foreign currencies are accounted for and shown as "Revaluation Gains/ 9Losses)" and 25% of the same have been transferred to foreign Exchange Equalization Reserve.

F. Non-Banking Assets

Non-banking assets have been accounted as per the directives of Nepal Rastra Bank i.e. total outstanding interest and principle amount due against the security of the assets or market value of the assets whichever is lower. Appropriate provisions over Non-banking Assets have been applied as per the Nepal Rastra Bank's directives.

G. Non-capitalized Assets:

Assets costing up to Rs. 10,000 have charged directly into expense account.

H. a. Interest Income

Interest income from loan and advances has been recognized in cash basis as per the directives of Nepal Rastra Bank where as interest income from investment has been recognized on accrual basis.

b. commission

Commission income is accounted on cash basis. However, commission from bank guarantee above Rs. 100, 00 (per guarantee) is accounted for on accrual basis.

c. Interest Expense

Interests on interest bearing deposits and borrowings have been accounted for on accrual basis.

H. Provision for Loan Loss and Write off of Bad Debts

a. Provision for loan and loss has been made on the outstanding amount of loans, advances and bills as per the overdue period and other provisions laid-down in the directives of Nepal Rastra Bank.

b. Bad debts have been written –off from the provision held for loss on the respective loans.

2.1.3 Nepal Industrial and Commercial Bank Ltd.

The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

2. Policies and Strategies

The bank has formulated and applied various policies and strategies according to the time and their need. The bank should be the preferred provider of financial services to its target clients by embracing good governance, service excellence and professional culture in order to achieve sound business growth and maximize shareholders value. The central focus of the bank remains on the customer's desire of convenience and flexibility on accessing banking Services. The bank has been pursuing an integrated, multi-channel strategy in order to address customer's needs. Branch network expansion is one of the continuous strategies of the bank to serve the customers, having unfulfilled Banking needs, located in various geographical areas of the country. Similarly, the bank is also adopting various technologies such as Debit Card, Internet Banking, SMS banking in order to serve their needs without forcing them to come on to the bank premises. Further, the strategic alliance made by the bank with various business partners has also increased the choices for the customers to get the services of Nepal Industrial and Commercial Bank Limited.

3. Present Activities

Nepal Industrial and Commercial Bank Ltd has been providing wide - range of modern banking services through 16 points of representations located in various urban and semi urban part of the country, 11 outside and 5 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services, which are done in course of rendering services to the customers and in course of showing an outstanding the bank. Some activities are:

a. It has provided visa debit card at the lowest price in the market, which annual and membership cost Rs.200.

b. The bank has increased its banking services by establishing sixteen branches in different parts of country.

c. Human resources strength is the very vital factors for the bank's success, which needs to be continuously developed for long term benefit. Human Resources Committee is involved on matching the staff intellectual portfolio to the business requirement through attracting, taining and developing the workforce.

d. The bank has adopted centralized banking system, which made possible for the customers to transact in any branches regardless of having account to particular branch. It has made very convenient regarding availability of funds to the people traveling in various cities.

e. the bank has increased the accessibility of the bank's card through introducing VISA Dollar card, which can be accessed globally in all visa linked ATM and POS.

4. Extra Activities

Creating long-term value is one of the main objectives of the bank. The bank fulfills this purpose by providing value-added products and services to the

client, promoting a corporate culture that adheres to high ethical standards and transparency, shouldering on social issues and requirements beyond what laws and regulations require. The bank has actively participated on various social and humanitarian events.

Donation to Flood Victim

In order to support the victims of natural calamities, Nepal Industrial and Commercial Bank Limited in cooperation with Kantipur Group has launched a campaign to collect fund for the Flood victim. Total Rs.12,679,238.49 was collected in the campaign, which was handed to Prime Minister Relief Fund. The staff of the bank also contributed Rs. 1, 00,000 in this fund.

Blood Donation

On the auspicious occasion of 6th year of excellence in banking, the bank has organized blood donation program on 3rd April 2007 at the head office of the bank. The program was overwhelmingly responded with 63 staffs and other outsiders have been participated.

Health Camp

Nepal Industrial and Commercial Bank Limited organized a Health Camp at Sindhupalchowk, where a team of 15 doctors and 20 nursing staffs provided medical assistance to 1,800 patients of them 1,200 were female

Money laundering prevention

Extensive and constant efforts to prevent money laundering and terrorist financing are important Contributions to society. The bank has been continuously shouldering this responsibility seriously. The Know Your Customer Policy and Anti Money laundering Policy consistent with international standard are already devised by the bank, which are strictly followed.

5. Future Plans

Service excellence, boosting business, adding new products in the portfolio, enlarging the service delivery center to tap new businesses, compliance and risk management are the fundamental objectives. Consistence with these objectives, the bank has planned to establish 7 new branches in various part of the country for which the action has already been initiated. Likewise, for sustaining the future growth of the asset, the bank has

planned to increase capital base through issuing bond called "NIC Bond 2069". The expansion of ATM network will be steady as well, which will further add convenience to the customers. Similarly, the bank has also planned to offer various need centered products in the days ahead that will certainly fulfill the unsatisfied needs of the existing as well as new customers. Besides, the bank will also actively involve in social and humanitarian issues maintain high standard of corporate governance. We believe that "We do it"

7. Brief Status of Bank

The status of the bank up to 15th July, 2008 is as follows.

Table No. 2.3

Status of NIC

S.N.	Particulars	Rs. in Million
1.	Total Assets	15026.60
2.	Loan overdrafts & Bills purchased & Discounted	11335
3.	Investments	2138.79
4.	Operating profit	209.96
5.	Deposits	12774.28

Source: Annual Report of NIC

8. Services Providing by NIC.

i. Retail Product

Individual needs have been best understood and served by the bank providing topmost priority. The bank has been offering various retail products customized to customer's individual specification. Various products under saving account such as Card Account, Normal Saving, Saving Plus, Advantage Plus and Kumari Saving etc have been introduced by the bank which has received overwhelming response from the valued customer. The scheme on saving account "Bank ma Balance Haat Ma Ghar" was widely acclaimed and encouragingly responded by the public. Besides, the bank has also been offering retail loans such as Home loan, Education loan, Vehicle loan and Personal loan etc. which has met the needs of the customers.

iii. Internet Banking

Nepal Industrial and Commercial Bank Limited is known as the pioneer bank for launching Internet and mobile banking services in the country. Customers can check their

account balances, view account statement, pay utility bills through the Internet Banking services.

ii. Visa Electron Debit Card

The demand for plastic money in modern days has been well served by the bank through offering VISA Electron Card to all the saving account holders. The VISA Debit Card is accessible in all VISA linked ATM counter and Point of Sale (POS) throughout Nepal and India. Similarly, the bank has increased the accessibility of the bank's card through introducing VISA Dollar card, which can be accessed globally in all visa linked ATM and POS.

iv. Mobile Banking

Knowing balance and viewing mini statement of the account through SMS has been possible through NIC Mobile Banking Facilities.

v. Remittance

Nepal Industrial and Commercial Bank Limited has been involved in remittance business that has eased customers remitting money across the globe. The bank has been providing remittance services through various ways such as SWIFT arrangement, Demand Draft, Traveller's Cheque and agency relationship with various remittance companies. The bank has arranged bilateral key exchange with more than 35 correspondent banks, which have made it possible to remit money conveniently throughout the globe. Besides, Nepal Industrial and Commercial Bank has strategic alliances with various banks and financial institutions across the globe for making remittance services faster, safer and more convenient. Similarly, the bank has launched own remittance product called Kumari Remit.

Services

a. Centralized Banking System

The bank has adopted centralized banking system, which made possible for the customers to transact in any branches regardless of having account to particular branch. It has made very convenient regarding availability of funds to the people traveling in various cities.

b. Evening Counter

With an objective to provide extended hours banking services, the bank has started banking operation from 4 PM to 7 PM in Head Office, Putalisadak, Kathmandu , from 4 PM to 6 PM in New road, Kathmandu and from 4 PM to 6 PM in Gongabu, kathmandu in order to provide both deposits and withdrawal facilities. The bank has plans to provide banking services for longer hours in future.

c. Holidays Banking

NIC provide 365 days banking services to our valued customers. NIC are open in the holidays from 12 to 3 PM.

d. Utility bill payment

Worry for the long queue in the utility bill payment counters has now been relieved with NIC's facilities. NIC act as bridge between customers and the bill payment counters. NIC have accepted bill payment facility of Water, Electricity, telephone and Mobile Phones.

e. Safe Deposit Locker

Insecurity to keep valuables at home is solved through the bank's safe deposit locker facilities. The bank has been providing safe deposit lockers of different sizes customized to customer preference.

9. Significant Accounting Policies

Principal Accounting Policies

The Financial Statements have been prepared in conformity with generally accepted accounting principles, Nepal Rastra Bank directives, Nepal Accounting Standards and International Accounting Standard. The significant accounting policies are summarized below:

A. Fixed Assets, Depreciation and Amortization

a.   Fixed assets have been shown in accordance with historical cost convention.

b.   Fixed assets are depreciated on according to Nepalese Income Tax Act 2058 except

c.   for Lease Hold development expenses.

d. Assets are depreciated only after their full capitalizations.

e. Computer software cost (included in fixed assets) is amortized over the period of five years in equal installments.

f. Assets purchased without full payment is booked as Asset in Process. Lease Hold development costs are amortized over the period of 5 years or lease period whichever is earlier.

B. Provision for Income Tax

Provision for income tax has been calculated as per Nepalese Income Tax Act and Rules.

C. Investments

Investments in Government Securities are valued at cost. Placements with maturity period more than 7 days are classified as Investment and valued at cost. Similarly, investment in the shares of Credit Information Bureau is valued at cost since it has not been listed yet.

D. Translation of Foreign Currency Transactions

a. Foreign currency assets and liabilities as on 15 July 2008 have been translated at

b. the prevailing mid (average of buying and selling) rate of exchange prevalent as on 15 July 2008.

c. Gain/Loss realized on foreign currency transaction is accounted for and shown as "Trading Gain" under "Exchange Fluctuation gain/Loss".

d. Revaluation gain arising due to fluctuation in exchange rate of foreign currencies is accounted for and shown as "Revaluation income\ (Loss)".

E. Non Banking Asset

Non-banking Asset is booked at lower of market price or principle outstanding on the day before booking and provision for the asset has been provided as per NRB directives.

F. Assets not capitalized

Non-consumable items having life less than one-year and/ or worth less than Rs 10,000 has been expensed off during the year of purchase.

G. Basis of Accounting

1. Income - Expense Recognition

Interest on interest bearing deposits is accounted on accrual basis

a   Interest income on loans and advances is recognized on cash basis.

a   Interest on Investment is accounted on accrual basis

a   Expenses on performance appraisal of staffs have been booked in the year in which the

2. Appraisal is finally approved.

a   All other income and expenses are accounted for on accrual basis.

a   Commission income of the bank is accounted for on cash basis. However bank guarantee

3. Commission above Rs. 100,000 is accounted for on accrual basis.

H. Provision for Possible Losses

Provision for possible losses on loans and advances and bills discounted has been made as per Nepal Rastra Bank directive to cover the risk inherent to bank's lending portfolio.

I. Others

a) Share issue expenses

The entire share issue expenses have been fully amortized in the year of the share issue.

b) Basis of Interest Computation

Interest expense on interest bearing deposits and interest income on loan are computed on the basis of 365 days a year.

c) Staff Loan

Staff Loan has been provided as per bank's rule and shown under the head of other assets.

d) Retirement Fund

Contribution to retirement fund i.e. Provident Fund and Gratuity is made as per

Bank's policy. Retirement contribution is booked as expense on accrual basis.

e) Staff Bonus has been provided as per the Bonus Act.

f) Figures are rounded to nearest rupees. Previous year's figure has been regrouped or Re-arranged where necessary

2.2 N.R.B. Directives Based on Investment Policy

According to the N.R.B. act 2058 and its sub section 79, following directions are issued for the source of financial investment of the permitted organization (permission granted by Nepal Rastra Bank)

1.Application of Investment policy & Work process with only acceptance.

Permitted organization should apply the investment policy & work process in the government securities, N.R.B. securities, organizational shares and debentures with   accepting through organizational committee.

2. Investment Management in Government Securities and N.R.B. Securities.

There is no prohibition to permitted organization to invest government securities and   N.R.B. securities.

3. Investment Management of Share and Debenture of Organization.

- Permitted organization should sale the shares to the public and should invest in shares and debentures of that organization which is listed in the share market. If the organization invests in shares and debentures of non listed organization in share market then these investments i.e. share and debenture should be listed within one year otherwise equal amount of investment should be collected in corporate fund. The amount in this fund should not be used until or unless the share and debenture is listed.

- While investing in shares and debentures of any organization by the permitted organization should not greater than 10% of own primary capital and shares and debentures of all organization should not greater than 30% of own primary capital in maximum. If the investment is greater than the limit then the more amount of investment will be deducted by the primary capital and rest become capital fund. But the financial company should invest up to 20%of its primary capital. The capital fund

of financial company is the deduction of investment in shares and debentures by primary capital.

4. Share and Debenture issued Management

- Permitted organizations have been three categorized. In category 'A' there is no limitation of issuing the shares and debentures.

Permitted organization	Any one organization	All organization
'B'	20%	100%
'C'	10%	50%

- On the sub section (10) if the permitted organization itself has to purchase its issued shares without sales either these shares have to sales within one year or equal amount of investment should be subtracted by primary capital for capital fund. "Investment corporate fund should not be attracted on the condition of share issued."

5. Reanalyzation Management of Investment.

2.3 Review of Related Studies

It may be said that a bank must strike balance between liquidity, profitability and safety. "The secret of successful banking is to distribute resumes between liquidity and profitability so that there is cash (on hand modifiable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its shareholders."*(Peter Ross; 2004:245)*

"The business in banking is one of the collecting funds from the community and extending credit making loans, to people for useful purpose. Banks have played a pivotal role in moving money role the lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit seeker it is expected to pay dividends and otherwise add to wealth of its shareholders"*(Saunder;2004:234)*

"A bank is a business organization that receives and holds deposits of funds from other makes loan or extends credits and transfer funds by written orders and depositors".*(NRB)*

"Principally commercial banks accept deposits and provide loan, primary to business firms, there by facilitating the transfer of funds in the economy".(Thapa;2008:220)

"Commercial bank is a corporation which accept demand deposits subject to check and make short term loans to business enterprises, regardless of the scope of its other services"'M

"Commercial banks are required to lend 12% of their loan portfolio to the sector out of which a ratio of 2.5 to 3% should be diverted to the deprived sector. The commercial banks are being penalized for short fall on priority and deprived sectors lending requirement by their maximum lending interest rate" *(Commercial Bank Act)*

"Default risk arises firms may eventually go bankrupt. Some default risk is un diversifiable because it is systematically related to the business cycle, which affects almost all investments. However some default risk may be diversified away in a portfolio of independent investment"12 LV chandler says in this regard, "A bankers seeks optimum combination of earning liquidity and safety, while formulating investment policy"*(Peter Ross; 2004:450)*

Many theses were reviewed in course of preparation of this thesis. Among them, some were relevant and some were not. Here the researcher has tried to include only the relevant theses that are significant for this research. Every research thesis has a long list of its findings, summary, conclusion and recommendations. However, the researcher has tried to edit them for brevity.

2.4 Review of Previous Theses

A Study done by **Kedar Prasad Poudyal** (1984) entitle with, ***"Investment in Priority Sector with Special Reference to Nepal Bank Ltd."*** has the following major objectives.

- To analyze the repayment position of the priority sectors.
- To find trends of priority sectors loan.
- To analyze how far Nepal Bank Ltd. Is able to grant credit priority sectors.
- To examine the impact of loan on priority sectors.

- To analyze the impact of loan probable cost of miss utilization of the loan by the borrows.

- The major findings of the study were as follows:

- The procedure of loan sanction is rather slow and clumsy.

- Bank was not able to fulfill the proposed target of corresponding loan to the priority sector.

- Banking procedures are so complicated that the laymen are unable to understand it completely.

- Loan repayment was more satisfactory from agriculture sector than the cottage industries & service sector.

- Loan repayment was mainly due to the misutilization of loan, other important courses are linked with high social expenses in marriage ¸ceremony, medical treatment etc.

- Loan in priority sector has increased the rural banking system in the rural areas and bank branch expansion.

- The investment amount and percentage of priority sectors investment on total deposit have up growing trend.

- A sort of premier groups like local people, politicians and administrators etc. effect in local granting process.

A Study done by **Prem Bahadur Shahi** (2005) entitle with *"Investment Policy of Commercial Bank in Nepal"* with the main objectives,

- To evaluate the liquidity, assets management efficiency and the profitability and risk position of Nepal Bank Ltd.

- To discussion fund mobilization & investment policy of Nepal Bank Ltd. In respect to its fee based off balance sheet transaction and fund based on balance sheet transaction in comparison to joint venture bank.

- To find out the empirical relationship between various important variables i.e. deposits loans and advances, investment, net profit, etc and compare them with the joint venture bank.

- To analyze the deposit utilization and its projection for next five years of the Nepal Bank Ltd. And compare it with other joint venture bank.

- To provide a package of workable suggestions and possible guidelines to improve investments policy of Nepal Bank Ltd. And joint venture banks based on the findings

of the analysis, for the improvement of financial performance of Nepal Bank ltd. In future.

The research was conducted mainly on the basis of secondary data.

The findings of the study were as follows.

- The liquidity position of NBL is comparatively better than that of joint venture banks. Highly fluctuating liquidity position shows that the bank has not formulated any stable policy. It can also be concluded that NBL has more portion of current assets as loan and advances but less portion or investment on government securities.

- The mean ratio of total investment to total deposit of NBL is lower than that of the joint venture banks. The mean ratio of total off balance sheet operation to loan and advances of NBL is found significantly lower than that of joint venture banks. So it is concluded that NBL is comparatively less successful in on balance sheet as well as off balance sheet operations than that of the joint venture banks. It hasn't followed by any definite policy with regard to the management of its assets.

- There is comparatively higher risk in NBL than that of the joint venture bans regarding various aspects of banking function.

- It has been found that there is significant relationship between deposits and loans and advances. There is negative relationship between deposits and investment in case of NBL and positive in case of the joint venture banks.

A Study done by **Dillip Roy** (2007) entitle *with **"An Investment Analysis of Rastriya Banijya Bank (in Comparison with Nepal Bank Ltd.)"*** with the main objectives.

- To evaluate liquidity, activity & profitability ratio of RBB in comparison with NBL & industry average.

- To use trend analysis to compare loan and advances, total investment, total deposits and net profit of RBB and compare the same with others two.

- To analysis relationship of loan and advances and total investment with total deposits and net profit of RBB and to compare it with that of NBL and industry average.

- To examine the loan loss provision of Rastrya Banijya Bank & NBL.

- To provide suggestion and recommendation on the basis of findings.

The findings of the researcher were as follows:

- RBB has good deposit collection enough loan and advances and small investment in government securities.

- The assets management ratio of RBB is not better than that of NBL.

- The profitability position of RBB is worse in comparison with NBL due to low return on working fund, loans and advances and outside assets.

- The fund collection of mobilization position of RBB is satisfactory in comparison to NBL while considering growing rate.

- In relation to fund flow analysis; the RBB has poor loan and advance issued.

- RBB has better positive relationship between net profit, return on loan and advances and return on investment but RBB has worse performance in income as commission and discount and exchange income.

- There is significant relationship between deposit and loan and advances, where there is no signification relation between deposit and investment of both banks RBB and NBL. And this is no relationship between outside assets and net profit.

A Study done by **Rabindra Joshi** (2008) entitle with ***"Comparative study on Investment Policy of Standard Chartered Bank Nepal Limited and Everest Bank Limited"*** has highlighted the main Objectives:

- To compare investment policy of concern banks and discusses the fund mobilization of the sample bank.

- To find out empirical relationship between total investment, deposit and loan & advance, and net profit and outside assets and compare them.

- To analyze the deposit utilization and its projection for next five years of SCBNL and EBL.

- To evaluate comparatively the profitability and risk position, liquidity asset management efficiency of SCBNL & EBL.

- To provide a package of possible guidelines to improve investment policy, it's problems and way to solve some problems and provide suggestions and recommendation on the basis of the study.

The findings of the researcher were as follows:

- It can be concluded that both have good deposit collection. EBL has the highest cash and bank balance to total deposit, cash and bank balance to current ratio; this may make the bank to be in good position to meet the daily cash requirement.

- SCBNL has successfully maintained and managed its assets towards different income generation activities. SCBNL has made high portion of total working fund in investment on government on share and debentures of other companies.

- The profitability procession of SCBNL is comparatively better than EBL. It indicate that SCBNL has maintain its high profit margin regarding profitability position and EBL does not have a better position in comparison. It must maintain high profit margin for the well being in future. The finding shows EBL even though paying high interest to the customers for different activities.

- There is comparatively lower risk in SCBNL than EBL regarding various aspects of banking function.

- The SCBNL has not been more successful to increase in source of funds i.e. deposit and mobilization of i.e. loan and advances and total investment. It seems SCBNL has not made any effective strategy to win the confidence of shareholders, depositors and its all customers.

2.4 Research Gap

This research is comparatively different from other researches, which I followed while preparing it. The other researches of investment policy are mainly based on comparison of two banks i.e. commercial bank with joint venture bank. Therefore I have taken only one single bank i.e. Bank of Katmandu Ltd. as sample bank for research, which makes my research different with others. Similarly period of time is also vary cause I have followed 7 years period till current fiscal year and the research methodology I have kept is quite different.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying a problem with certain objectives. It includes construction of research design, nature of data, data gathering procedure, population and sample and data processing procedure. The main purpose of this chapter is to focus on different research methods and conditions used to conduct the study. Each and every study needs a systematic methodology to show the better results of the research. Here also, investment policy of Himalayan Bank and Nepal Industrial and Commercial Bank needs to appropriate research methodology.

3.2 Research Design

A plan of study or blue print for study that presents a series of guide posts to enable the researchers to progress in the right direction in order to achieve the goal is called a research design or strategy. (Joshi, 2001:12) A well settled research design is necessary to fulfill the objectives of the study. It means definite procedures and technique that guides to study and propound way for research variability. The study aims to evaluate to managerial efficiency and performance regarding investment policy of HBL and NIC.

3.3 Population and Sample

Currently there are 26 commercial banks operating under the approval of Nepal Rastra Bank. Out of twenty six commercial bank only two are taken for sample by random sampling method. Banks selected for the study are Himalayan Bank and Nepal Industrial and Commercial Bank. The study duration is five years that is from 2003/04 to 2007/08.

3.4 Nature and Sources of Data

This research is mainly based on the secondary data but some additional required information has been collected through and personal interview with key personal and employees. The secondary data have been collected from financial statement annual

report, unpublished official records of concerned companies, journals and from the official web site of NRB and individual sampled companies

3.5 Data Collection Procedures

Data collection procedures depend upon one's study and data can be collected from different sources. Among the various sources, secondary source has been used to collect the data. That's why it can be said only one secondary data collection procedures is applied.

Secondary Sources:

The study is mainly based on secondary data. The data collected by some one else, used already and is made available to other in form of published statistic are secondary data.

The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are balance sheet, P & L Account of concerned Banks, annual report & literature publication of the concerned banks. Some supplementary data and information have collected from the authoritative sources like Nepal Rastra Bank, Central Library T.U., Shankar Dev Campus libray, Nepal commerce campus Library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, Different Journals Magazines and other published and unpublished reports documented by the authorities.

The data for the study are collected from record available of Security Board and Annual Reports of concerned Banks. The various stock exchange publications formed an important supplementary source of the data for this study, particularly on investment policy. The data is collection of raw information taken in stateside manner and prerequisites of any project study.

3.6 Data Analysis Tools

Analysis of data involves a number of closely interrelated operations that are performed to get answers to the research questions Analysis and presentation of data is the core of the project study. This study needs some financial and statistical tools to accomplish the objectives of this study. The financial and statistical tools are most reliable. To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study.

Data collected are to be processed and analyzed for a scientific conclusion and for ensuring that all relevant data are used for making contemplated comparisons and analysis. Processing of data implies editing, coding, classification and tabulation of collected data.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different heading. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the purpose.
1) Financial Tools
2) Statistical Tools

1) Financial tools

Financial tools basically help to analyze the strength and weakness of a firm. Ratio analysis is one of the important financial tools has been used in the study. It helps to show the mathematical relationship between two accounting items or figure. Ratio analysis is the only tools that can collect the financial performance and status of a firm with the other firms. Ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Although there are various types of ratios to analyze and interpret the financial statements, only four ratios have been taken in this study, which are mainly related to investment policy of banks. They are as follows.

A. Liquidity Ratio

Liquidity ratios are applied to measure the ability of the firms to meet short-term obligations. It measures the speed of firms assets into cash to meet deposit withdraws and other current obligations. Various types of liquidity ratios are applied in the study, which is explained below.

I. **Current Ratio**

It refers to the relationship between current assets and current liabilities of a firm that also measures the short-term solvency of the firm. Current assets involve cash and bank balance, money at call or short notice, loans and advances, overdrafts, bill purchased and discounted investment on government securities and other interest receivables and miscellaneous current assets. Similarly, current liabilities involve deposit and other short-

term loans, tax provision, dividend payable, bills payable, staffs bonus, and sundry liabilities.

2:1 standard of current ratio is widely acceptable but accurate standard depends on circumstances and nature of business. Current ratio can be measured as,

Current Ratio =   Current Assets

Current liabilities

I. **Cash and Bank Balance to Total Deposit Ratio**

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

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

Where, total deposits consist of deposits on current account; saving account; fixed account, money at call and other deposits.

II. Cash and Bank Balance to Current Asset Ratio

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

Cash and Bank Balance = $\dfrac{\text{Cash and bank Balance}}{\text{Current Assets.}}$

to current assets ratio

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

III. Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the

amount of investment on government securities by the total amount of current assets and can be stated as follows,

Investment of Government Securities   = Investment on Government securities

         to Current Assets Ratio   Current asset

Where, investment on government securities involves treasury bills and development bonds etc.

B. Asset Management Ratio

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

I. Loan and Advance to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collection/ Deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better advances by total deposit, which can be obtained dividing loan and advances by total deposit, which can be shown as,

Loan and advances to total deposits ratio =   Total loan and advances

                                                Total deposits

II. Loan and advances to total assets ratio

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

     Loan and advances to total assets ratio =Total loan and advances

                                            Total assets

Where, Total assets includes total amount of assets given in balance sheet which refers to current assets, Net fixed assets, Total loan for development banks and other sundry assets except off balance sheet items ie. Letter of credit, Letter of guarantee etc.

III. Total investment to total deposit ratio

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

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

Total deposit.

IV. Investment on Government securities to total assets ratio

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

Investment on government securities = $\underline{\text{Investment on government securities}}$

to total asstets   Total assets

I. **Investment on shares and debenture to Total assets ratio**

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

Total assets ratio=$\underline{\text{Investment on shares and debenture}}$

Total assets

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

C. Profitability Ratio

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

I. Return on Loan and Advances Ratio

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

Return on loan and advances ratio= Net profit (loss)

Total loan & advance.

II. Return on Total Assets (Total Working Fund)

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

Return on Total Assets (total working fund) =Net Profit (Loss)

Total Assets

III. Total Interest Earned to Total Assets Ratio

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

Total interest earned to total assets ratio=Total interest earned

Total assets

IV. Interest Earned to Total Operating Income Ratio

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

Interest earned to total operating income ratio=<u>Total interest earned</u>

Total assets

I. **Total Interest paid to Total assets Ratio**

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

This ratio is calculated by dividing total interest paid by total assets and is mentioned as below,

Interest paid to total working fund ratio=<u>Total interest paid</u>

Total assets

D. Risk Ratio

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

I. Liquidity Risk Ratio

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

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

Liquidity risk ratio= Cash and bank balance

Total assets

II. Credit Risk Ratio

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

Credit risk ratio=Total loan and advances

Total assets

E. Growth Ratio

Here, the growth ratios represent how well the commercial banks are maintaining their economic and financial condition. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growth of the selected banks the following growth ratio are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

a. Growth ratio of total deposits
b. Growth ratio of total investment
c. Growth ratio of loan and advances
d. Growth ratio of net profit

2) Statistical Tools

Some important statistical tools have been used, to present and analyze the data for achieving the objective of this study. Co-efficient of variance, co-efficient correlation analysis, Standard deviation, least square, linear trend analysis etc. have been used for the purpose. The basic statistical analysis related to this study is discussed below:

A. Karl's Pearson's correlation co-efficient analysis

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

a. Co-efficient of correlation between deposit and loan and advances.
b. Co-efficient of correlation between deposit and total investment.
c. Co-efficient of correlation between outside assets and net profit.
d.

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

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

Where,

N=number of observations in series X & Y

ΣX=sum of observations in series X

ΣY= sum of observations in series Y

ΣX^2= sum of squared observations in series X

ΣY^2= sum of squared observations in series Y

ΣXY= sum of the product of observations in series X & Y

B. Trend Analysis

This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of HBL from 2000/01 to 2005/06.The following trend value analysis has been used in this study.

a. Trend analysis of total deposits.

b. Trend analysis of loan and advances.

c. Trend analysis of total investment.

d. Trend analysis of net profit.

CHAPTER – IV
DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

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

4.1.1 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For example of this study, ratio analysis has been mainly used any with the help of it, data have been analyzed. Various financial ratios related to the investment and the fund mobilization are presented and discussed to evaluate and analyze the performance of the bank. Financial ratios are calculated and data will be analyzed with the help of those ratios. Some important ratios are only calculated from the point of view of the fund mobilization and investment policy. The ratios are designed and calculated to highlight the relationship between financial items and figures, it is kind of mathematical relationship and procedure dividing one item by another .all these calculations are based on financial statements of the bank. The important and needed financial ratios, which are to be calculated for the purpose of this study, are mentioned below:

- Liquidity ratio
- Asset Management ratio
- Profitability ratio
- Risk ratio

A. Liquidity ratios

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

to cash to satisfy immediate without any loss to bank and consequent impact on long run profit.

I. Current Ratio

This ratio indicates the ability of the bank to meet its current obligation. It measures the liquidity position of financial institutions. Current ratio is calculated by dividing current assets by current liabilities.

Current ratio= <u>Current assets</u>
                    Current liabilities

The current ratio of the bank is given below table.

Table No. -4.1

Current ratio (Times)

F/Y	HBL	NIC
2003/2004	0.758	0.901
2004/2005	0.762	0.901
2005/2006	0.764	0.912
2006/2007	0.820	0.916
2007/2008	0.864	0.929
Mean	0.794	0.911
S.D	0.047	0.012
C.V.	5.91%	1.31%

Source: Annual Report of HBL and NIC

From the above table it is clear that the current assets of HBL is more in F/Y 2007/2008 where as in f/y 2003/2004 to 2007/2008 the current liabilities is more than current assets. Similarly NIC has more current assets in 2007/2008 which is more than HBL.

Here the liquidity position of HBL is better than NIC i.e. the coefficient of variance of it is 5.91% only where as NIC has only 1.31%.

Though, the optimal standard of current ratio should be 2:1 but 1:1 is considers for the bank. This ratio represents the relationship between cash and other current assets to its current obligation. Current ratio can be measured as:

II. Cash and Bank Balance to Total Deposit Ratio

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

Cash and bank balance to total deposit ratio=<u>Cash and bank balance</u>

Total deposit

Table No. 4.2

Cash & bank balance to total deposit ratio (Times)

F/Y	HBL	NIC
2003/2004	0.101	0.0143
2004/2005	0.083	0.071
2005/2006	0.069	0.050
2006/2007	0.106	0.064
2007/2008	0.091	0.073
Mean	0.09	0.0802
S.D	0.013	0.0324
C.V.	14.63%	39.53%

Source: Annual Report of HBL and NIC

The above table shows that the cash & bank balance to total deposit ratio, which is fluctuating trend for HBL and NIC .HBL higher ratio is 10.6% in F/Y 2006/2007 and lower is 6.9% in F/Y 2005/2006.The NIC has higher ratio 7.3% in F/Y 2007/2008 and lowest is 1.43% in F/Y 2003/2004.The above analysis helps to conclude that the cash and bank balance position of HBL and NIC with respect to deposit is better .The average ratio of HBL is grater than NIC i.e.9%.8.02%.The variability of NIC is more than HBL.

B.Cash and bank balance to current assets ratio

This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the bank to make the quick payment of its customer's deposits. A high ratio indicates the sound ability to meet their daily cash requirement of their customers deposit and vice-versa.

However; the both higher and lower ratio are not desirable because if a bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost and if a bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customers. So sufficient and appropriate cash reserves should be maintained properly.

This ratio is calculated by dividing cash and bank balance by current asset.

    i.e.,

    Cash and bank balance to current assets= <u>cash and bank balance</u>

                                              Current assets

The ratios are presented in the following table.

Table No. 4.3

Cash and bank balance to current assets ratio (Times)

F/Y	HBL	NIC
2003/2004	0.117	0.158
2004/2005	0.106	0.0723
2005/2006	0.085	0.0524
2006/2007	0.119	0.0673
2007/2008	0.103	0.076
Mean	0.106	0.0852
S.D	0.012	0.037
C.V.	11.47%	43.75%

Source: Annual Report of HBL and NIC

The above table reveals that both banks cash and bank balance to current assets ratio is in fluctuating trend. The trend of HBL is increased up to the F/Y 2003/2004 and then decreased till F/Y 2007/2008. HBL has the highest ratio is 0.119 in F/Y 2003/2004 and the lowest ratio is 0.085 in F/Y 2005/2006. on the basis of mean ratio , it is 0.106 and the co-efficient of variation is 11.47%.NIC has highest ratio is 0.158 in F/Y 2003/2004 and lowest in 0.0524 in F/Y 2005/2006.The mean ratio of HBL is greater than NIC i.e. 10.65>8.52% and variability is lesser than NIC.

Figure No. 4.1

Cash and bank balance to total assets.
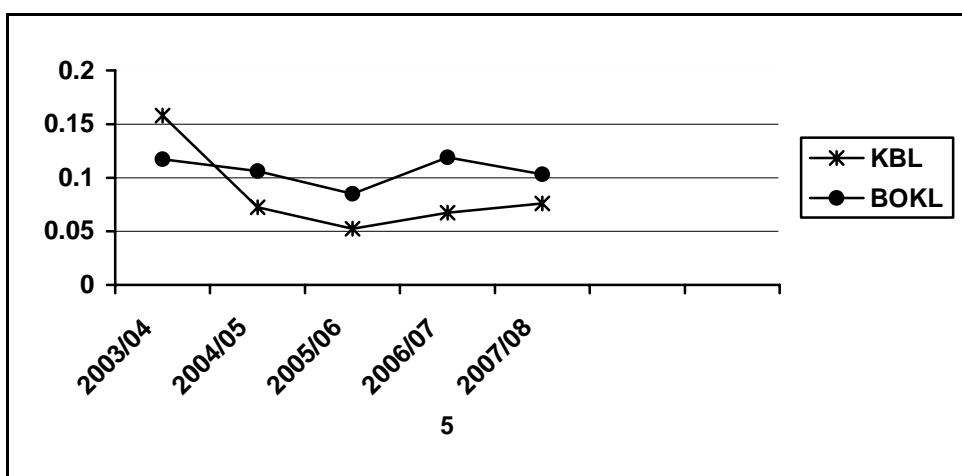
IV. Investment on government securities to current assets ratio

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

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

Investment on government securities = <u>Investment on government securities</u>
to current assets ratio   Current assets

The ratios are presented in the following table.

Table No. 4.4

Investment on government securities to current assets ratio (Times)

F/Y	HBL	NIC
2003/2004	0.014	0.138
2004/2005	0.307	0.649
2005/2006	0.309	0.150
2006/2007	0.001	0.130
2007/2008	0.0151	0.012
Mean	0.129	0.215
S.D	0.146	0.222
C.V.	88.35%	56.30%

Source: Annual Report of HBL and NIC

The above table reveals that the bank's investment on govt. securities to current assets ratio has a flucting trend during the study period. The lowest ratio of it is 0.014 in F/Y 2003/2004 and the highest ratio is 0.309 in F/Y 2005//2006. In overall, the mean ratio of investment on govt. securities to current assets of the bank is 0.129 and the co-efficient of variation is 88.35%where as NIC has highest ratio is 0.0649 in F/Y 2004/05 and lowest is 0.012 in F/Y20007/08.The mean ratio of HBL and NIC bank are 0.129 and 0.215.

From the above analysis we can conclude that the banks have made big amount of investment on govt. securities, this is because of usability of other secured and profitability investment sector.

Figure No.4.2

Investment on Govt. securities to Current ratio of HBL and NIC
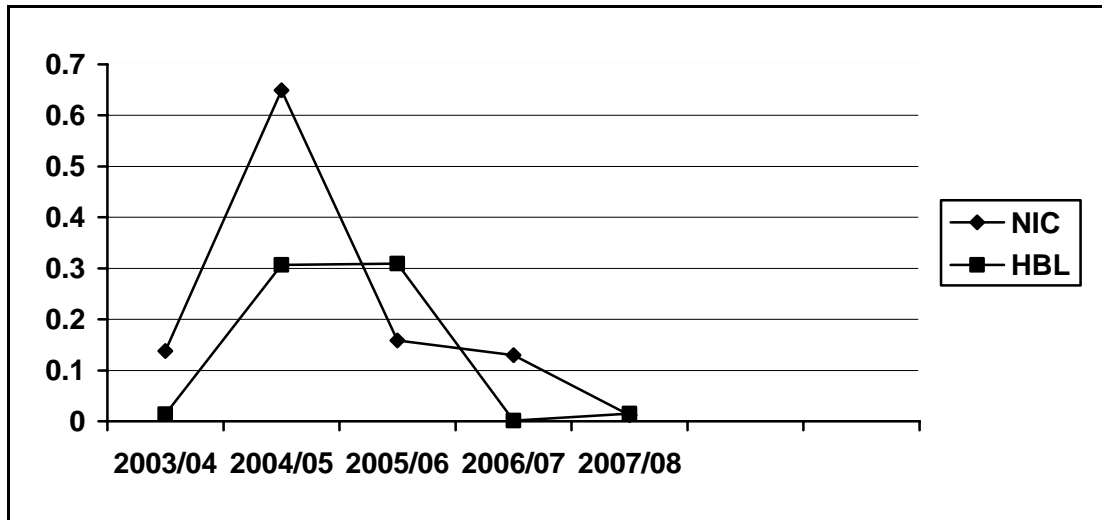
B. Assets management ratio

A commercial bank must be able to manage its assets very well to earn high profit to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manage the resources its commands.

The following ratios measure the assets management ability of the HBL and NIC.

I. Loan and advances to total deposit ratio

This ratio actually measures the bank success to mobilize the deposit on loan and advances for the purpose of profit generation. This ratio is calculated dividing loan and advances by total deposits. i.e.

Loan and advances to total deposit ratio= Loan and advances
                                                                    Total deposit

The following table shows the loan and advances to total deposit ratio of HBL and NIC

Table No. 4.5

Loan and advances to total deposit ratio (Times)

F/Y	HBL	NIC
2003/2004	0.729	0.758
2004/2005	0.658	0.890
2005/2006	0.6920	0.887
2006/2007	0.758	0.845
2007/2008	0.787	0.887
Mean	0.725	0.853
S.D	0.045	0.050
C.V.	6.32%	5.29%

Source: Annual Report of HBL and NIC

The table listed above shows that HBL has in fluctuating trend during the study period. It has the highest ratio is 0.787 in F/Y 2007/2008 and the lowest ratio is 0.658 in F/Y 2004/2005.The NIC has highest ratio is 0.890 in F/Y 2004/2005 and lowest ratio is 0.758 in F/Y 2003/2004, this table also shows NIC ratio are increasing order .

On the basis of mean ratio, HBL is 0.787 and the co-efficient of variation is 6.32%% only where as NIC mean ratio is 0.853 and coefficient of variation is 5.29%. From the above description it can be concluded that the banks are mobilized their total deposit as loan and advances and acquiring high profit .Loan and advances of the bank considered so many factors like risk analysis, diversification, social responsibility, bank's credit policy and limits of lending policy etc.

Figure No.3

Loan and advance to total deposit
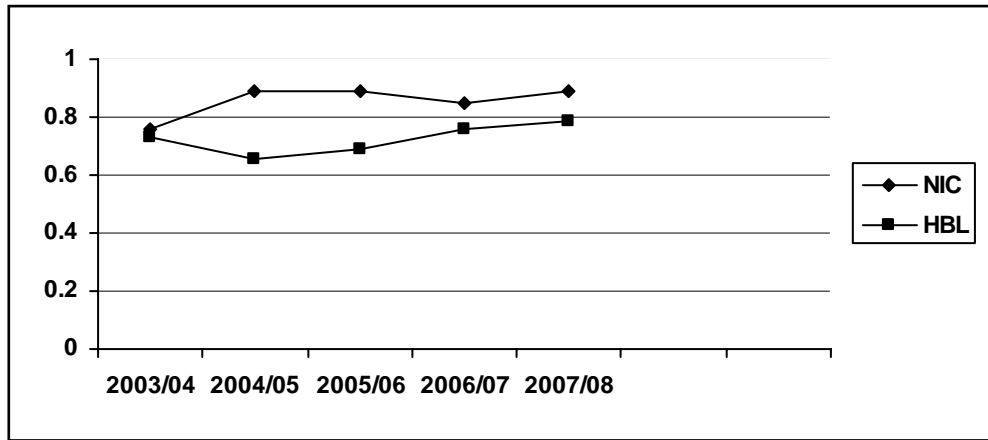
II. Total investment to total deposit ratio

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

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

This ratio is calculated by dividing total investment by total deposit. i.e.

Total investment to total deposit ratio= <u>Total investment</u>

Total deposit

The ratio is presented in the following table.

Table No. 4.6

Total investment to total deposit ratio (Times)

F/Y	HBL	NIC
2003/2004	0.320	0.204
2004/2005	0.289	0.189
2005/2006	0.322	0.179
2006/2007	0.241	0.158
2007/2008	0.202	0.167
Mean	0.275	0.179
S.D	0.046	0.016
C.V.	16.98%	9.03%

Source: Annual Report of HBL and NIC

The above table reveals that the bank's total investment to total deposit ratio has in fluctuating trend during the study period. Where the highest ratio of HBL is 0.322 in F/Y 2005/06 and the lowest ratio is 0.202 in F/Y 2007/2008 .Similarly NIC has highest ratio 0.189 in F/Y 2004/05 and lowest in 0.158 in F/Y 2006/07.

On the basis of mean ratio, it is 0.275 and the co-efficient of variation 16.98%, it can be said that the bank has not great capacity to mobilize its deposit on total investment. Where as NIC has mean ratio 0.179 and coefficient of variation is 9.03%. This mean NIC ha better capacity than HBL.

Figure No.4.4

Total investment to total deposit ratio
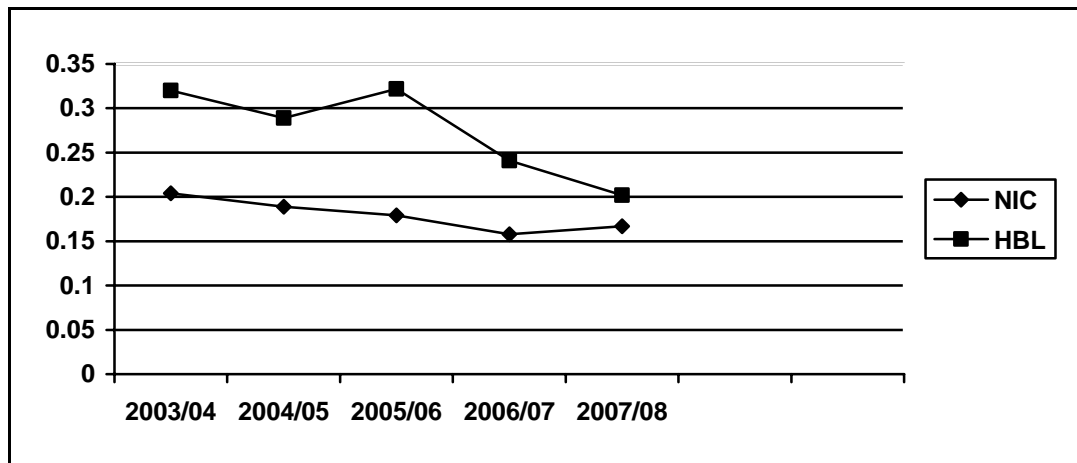
III. Loan and advances to total assets ratio

A commercial bank's total assets should play very significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation.

This ratio is computed by dividing loan and advances by total working fund (total assets) i.e.

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

The following table exhibits the ratio of loan and advances to assets fund of HBL during the study period.

Table No. 4.7

Loan and advances to total assets ratio (Times)

F/Y	HBL	NIC
2003/2004	0.594	0.664
2004/2005	0.597	0.751
2005/2006	0.591	0.764
2006/2007	0.644	0.749
2007/2008	0.703	0.754
Mean	0.6258	0.7364
S.D	0.0432	0.036
C.V.	6.90%	4.88%

Source: Annual Report of HBL and NIC

The above table shows that the loan and advances to total assets ratio is in fluctuating trend .HBL has maintained the highest ratio of 0.703 in F/Y 2007/08 and the lowest ratio is 0.59195 in F/Y 2005/06.Where as NIC has highest in 0.764in F/Y 2005/06 and lowest is 0.664 in F/Y 2003/04.When observing the mean ratio, it is 0.625 and 0.7364 and the co-efficient of variation are 6.90% and 4.88% only, which reveals that the bank is in strong position to mobilize its totals assets fund as loan and advances.

Figure No.5 (NIC)

Loan and advance to total assests
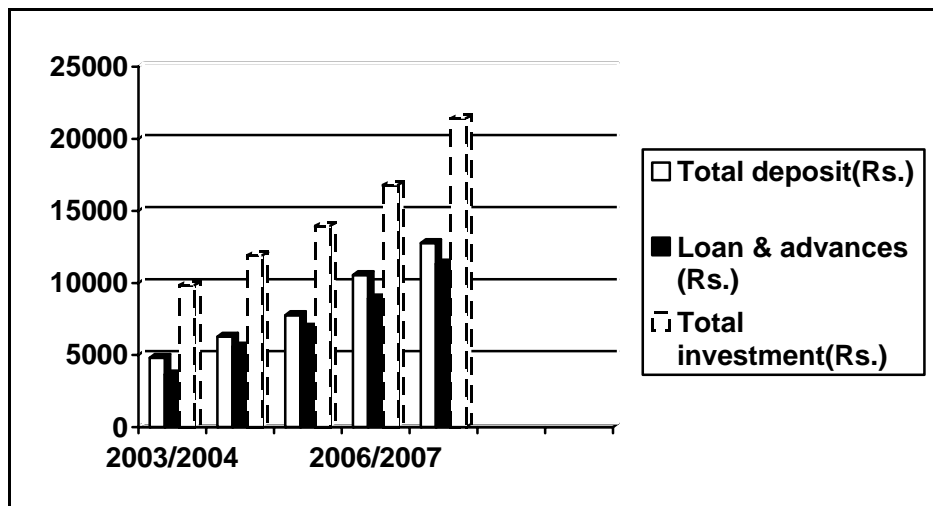
IV. Investment on government securities to assets fund ratio

This ratio reveals that the banks are successful in mobilizing their assets fund on different types of government securities to maximize the income. The bank should not utilize its all deposits in loan and advances and other form of credit, from securities and liquidity point of view. Therefore commercial banks seem to be interested to utilize their deposit by purchasing government securities.

This ratio is calculated by dividing investment on government securities by total working fund which is shown in the following table i.e.

Investment on government securities = Investment on government securities
to total working fund   Total assets

Table No. 4.8

Investment on government securities to total assets ratio (times)

F/Y	HBL	NIC
2003/2004	0.249	0.109
2004/2005	0.217	0.150
2005/2006	0.216	0.123
2006/2007	0.159	0.108
2007/2008	0.119	0.0977
Mean	0.192	0.117
S.D	0.047	0.018
C.V.	24.47%	15.38%

Source: Annual Report of HBL and NIC

The above table reveals that the banks have an fluctuating trend of the investment on government securities to total assets ratio except in F/Y 2004/2005. HBL has the lowest ratio is 0.119 and the highest ratio is 0.249 in F/Y 2003/2004. The mean ratio is 0.192 and the co-efficient of variation is 24.47%, which seems weak to mobilize its total assets as investment in government securities. NIC has highest ratio is 0.150 in F/Y 2004/05 and lowest ratio is 0.0977 in F/Y 2007/08.

Figure No.4.6

(Investment on government securities to total assets ratio)
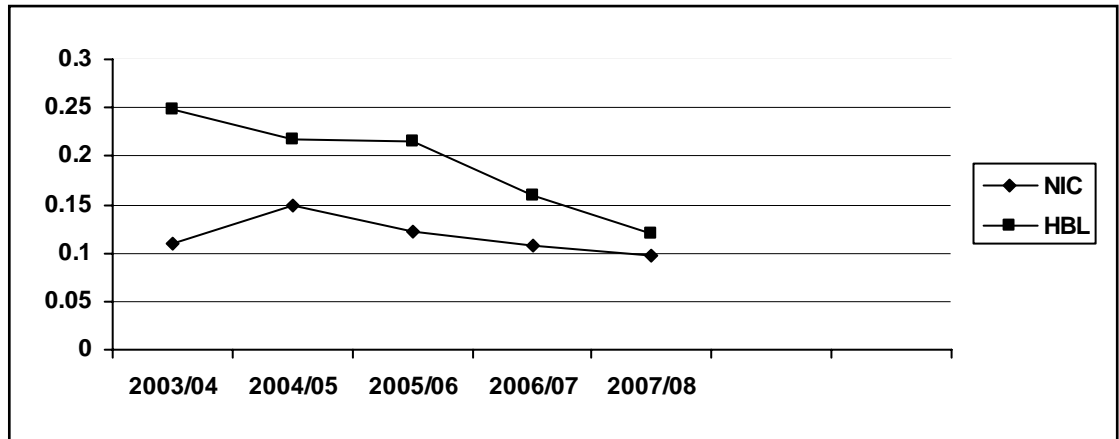
V. Investment on share and debentures to total assets ratio

Nowadays a commercial bank is interested to invest on share and debentures of other different types of companies but not only government securities. During the study period, most of the commercial banks of Nepal including HBL and NIC have purchased the share of other companies too.

Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their total working fund on purchase of share and debentures of other companies to generate income and utilize excess fund, A high ratio indicates more portion of investment on shares and debentures out to total working fund and vice versa.

The ratio is calculated by dividing investment on share and debenture by total assets i.e.

Investment on Share & Debenture = Investment on Share & Debenture
to total assets=   Total assets

Table No. 4.9

Investment on Share & Debenture to total assets ratio (Times)

F/Y	HBL	NIC
2003/2004	0.0024	0.00006
2004/2005	0.009	0.00004
2005/2006	0.007	0.00003
2006/2007	0.006	0.00002
2007/2008	0.006	0.00121
Mean	0.0061	0.0003
S.D	0.0021	0.0005
C.V.	35.10%	166.67%

Source: Annual Report of HBL and NIC

From the above table, it has been found that the banks have invested nominal amount of total assets into shares and debentures of other companies, in all cases the ratio is less than 1 during the study period. Anyway the banks have in fluctuating trend of investment on share and debenture to total assets ratio. The highest ratio HBL is 0.009 in F/Y 2004/2005 and the lowest ratio is 0.0024 in F/Y 2003/04 where as NIC has highest ratio is 0.0021inF/Y2007/08 and lowest ratio is 0.00006 in F/Y 2003/04.

On the basis of mean ratio, it is 0.0061 and 0.0003 and the co-efficient of variation is 35.10% and 166.67%. The C.V. of this ratio indicates the risk percentage is higher which more than 50% it is due to lack of efficient and uniform investment policy to regard investment on other company's shares and debentures.

Investment on Share & Debenture to total assets ratio
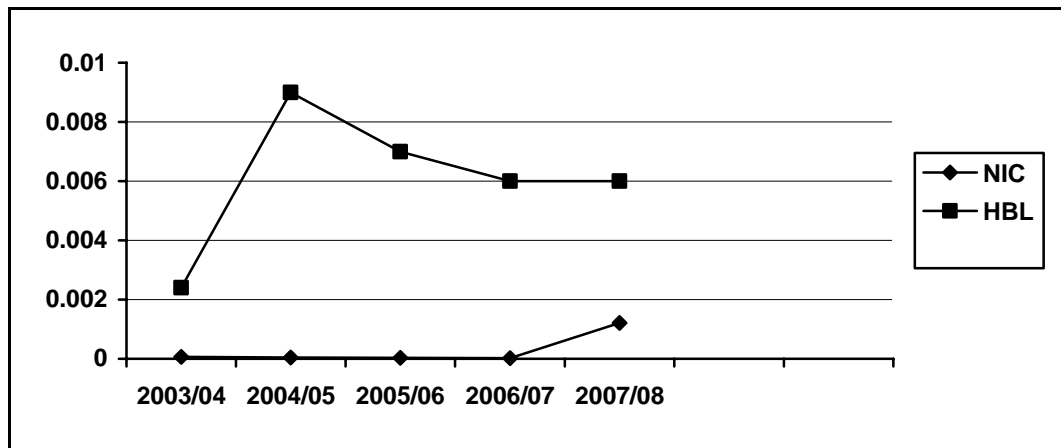
(Investment on Share & Debenture to total assets ratio)

C. Profitability Ratio

The main objective of the commercial bank is to earn profit by providing different types of banking services to its customers. To meet various 0.006objectives like maintains good liquidity position, meet fixed internal obligations, overcome the future contingencies, grab hidden investment opportunities, expand banking transaction in different places etc.

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

I. Return on loan and advances ratio

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

This ratio is calculated by dividing net profit by loan and advances. i.e.

Return on loan and advances= Net profit

Loan and advances

The following table shows that return on loan and advances of HBL and NIC of the study period.

Table No. 4.10

Return on loan and advances (Times)

F/Y	HBL	NIC
2003/2004	0.022	0.013
2004/2005	0.023	0.015
2005/2006	0.027	0.015
2006/2007	0.024	0.019
2007/2008	0.029	0.015
Mean	0.025	0.0154
S.D	0.0026	0.00195
C.V.	10.43%	12.62%

Source: Annual Report of HBL and NIC

The above table proves that the ratio of return on loan and advances is in fluctuating trend. The ratio is decreasing trend up to F/Y 2005/06and maintained its flow and increasing up to F/Y 2007/08 during the study period. The highest of the ratio is 0.029 in F/Y 2007/08 whereas the lowest ratio is 0.022 in F/Y 22003/04.The mean ratio is 0.025 and co-efficient of variation is 10.43%.Wher as NIC has highest ratio is 0.019 and the lowest ratio is 0.013.The mean ratio is 0.0154 and coefficient of variation is 12.62%.

Thus in conclusion the bank has not higher return on its loan and advances moreover the ratio decreased comparing it on F/Y 2004/05 with F/Y 2007/08 .so it proved that the bank's profit earning capacity by utilizing available source is very weak.

Figure No.4.8

Return on loan and advances
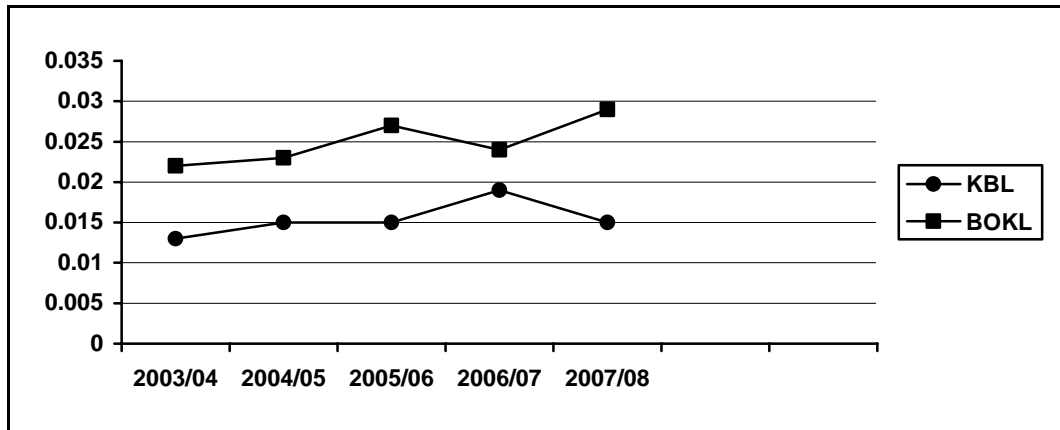
II. Return on Total assets ratio

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

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

The following table shows that profitability position with respect to total assets.

Table No. 4.11

Return on Total assets (Times)

F/Y	HBL	NIC
2003/2004	0.013	0.008
2004/2005	0.014	0.011
2005/2006	0.016	0.011
2006/2007	0.017	0.014
2007/2008	0.020	0.011
Mean	0.016	0.011
S.D	0.0024	0.0018
C.V.	15%	16.36%

Source: Annual Report of HBL and NIC

The above listed table reveals that return on total assets ratio is in slightly fluctuating trend. The HBL has maintained higher ratio is 0.020 in F/Y 2007/08 and the lowest ratio is 0.013 in F/Y 2003/04, when the average ratio of return on assets is 0.016. The co-efficient of variation is 15%.Similrly NIC has highest ratio 0.014 in F/Y 2006/07 and lowest in F/Y 0.008 in 2003/04.The mean ratio is 0.011 and the coefficient of variation is 16.36%.The line graph also shows the HBL is increasing order where as NIC has decreasing order .

Figure No. 4.9

Return on Total assets
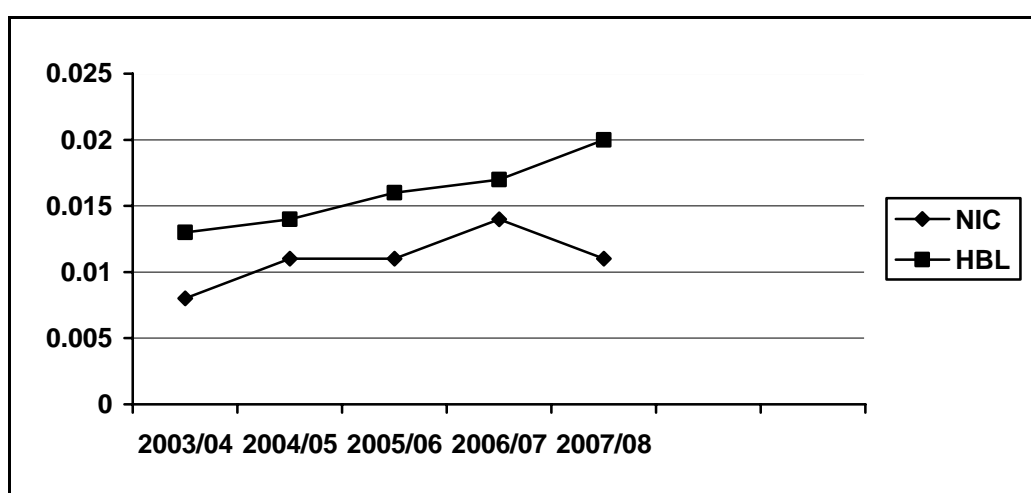
III. Total interest earned to Total assets Ratio

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

This ratio is computed by dividing total interested earned by total assets i.e. total asset. The following table shows total interest earned to total assets ratio of HBL and NIC through out the reviewing period.

Table No. 4.12

Total interest earned to total assets

F/Y	HBL	NIC
2003/2004	0.059	0.056
2004/2005	0.061	0.067
2005/2006	0.058	0.067
2006/2007	0.056	0.066
2007/2008	0.058	0.063
Mean	0.058	0.0638
S.D	0.0016	0.0041
C.V.	2.75%	6.53%

Source: Annual Report of HBL and NIC

The above table reveals that the bank's interest earning ratio in respect to total assets is in fluctuating trend. Which maintained the highest ratio is 0.061 in F/Y 2004/05 and the lowest ratio is 0.056 in F/Y 2006/07.the mean ratio is 0.058 where as co-efficient of variation is 2.75% only during the study period. The NIC has highest ratio is 0.066 in F/Y 2006/07 and lowest IS 0.056 IN F/Y 2003/04. The mean ratio is 0.0638 and coefficient of variation is 6.53%.So it can be said that the bank has not maintained its consistency.

Figure No. 10

Total interest earned to total assets
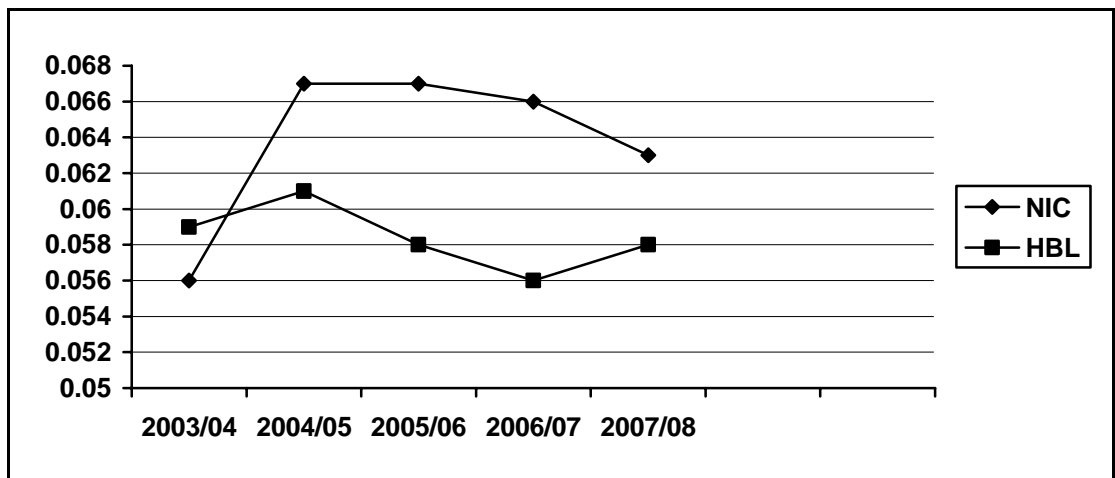
IV. Total interest earn to operating income ratio

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

This ratio is calculated by dividing total interest earned by net operating income. The following table exhibits the ratio of interest income to the operating income of HBL. i.e.

Total interest earned to total operating income ratio= Total interest earned

Net   operating

income

Table No.4.13

Total interest earned to total operating income ratio (Times)

F/Y	HBL	NIC
2003/2004	1.306	1.733
2004/2005	1.180	1.663
2005/2006	1.245	1.828
2006/2007	1.209	1.681
2007/2008	1.198	1.689
Mean	1.227	1.7188
S.D	0.045	0.059
C.V.	3.67%	3.43%

Source: Annual Report of HBL and NIC

The above table reveals that the interest earned ratio is in fluctuating trend .HBL has the highest ratio is 1.306 in F/Y 2003/04 and the lowest ratio is 1.18 in F/Y 2004/05.The average total interest earned ratio is 1.227.NIC has highest is 1.828 lowest is 1.681.

From the above analysis, it can be concluded that the banks have low mobilized fund into interest bearing assets i.e. government securities, share and debenture of other companies , loan and advances etc. so the bank has to give more important to the non fund based activities to earn higher amount of profit.

Figure No. 4.11

Total interest earned to total operating income ratio
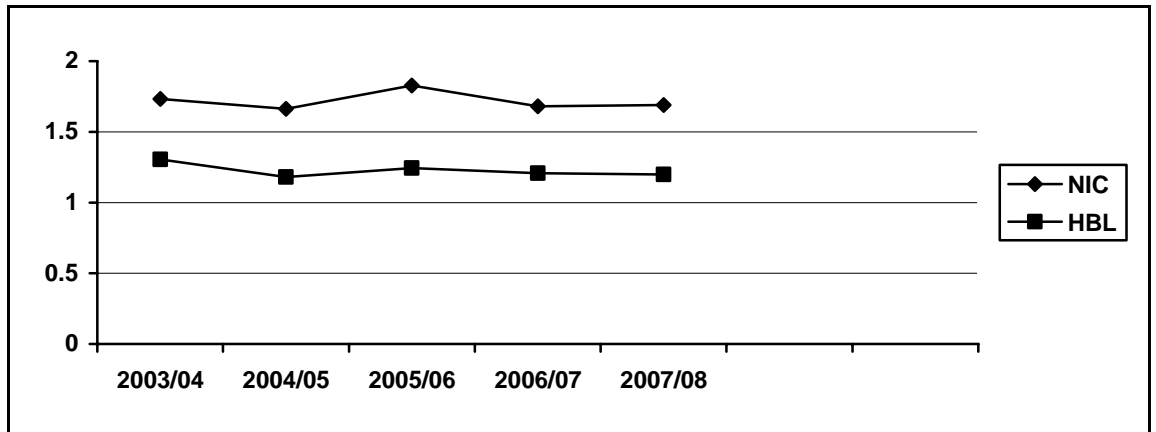
V. Total interest paid to total assets ratio

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

This ratio is calculated by dividing total interest paid by total assets. The following table shows the total interest paid to total working fund ratio of HBL. i.e.

Total interest paid to total working fund ratio= Total interest paid

                                            Total assets

Table No. 4.14

Total interest paid to total assets (Times)

F/Y	HBL	NIC
2003/2004	0.030	0.029
2004/2005	0.024	0.032
2005/2006	0.025	0.037
2006/2007	0.023	0.033
2007/2008	0.024	0.033
Mean	0.0252	0.0328
S.D	0.00248	0.0026
C.V.	9.84%	7.92%

Source: Annual Report of HBL and NIC

The table listed above shows interest paid ratio of the banks are in fluctuating trend. The banks have maintained higher ratio is 0.030 and 0.033 in F/Y 2003/04and 2006/07 respectively. The lowest ratio is 0.023 and 0.029 in F/Y 2006/07and 2003/04 repectively.The average interest paid ratio are 0.0252 and 0.0328..So it can be said that the banks are in better position from the payment of interest point of view. it seems that it had not collected total assets funds from more expensive sources.

Figure No. 12
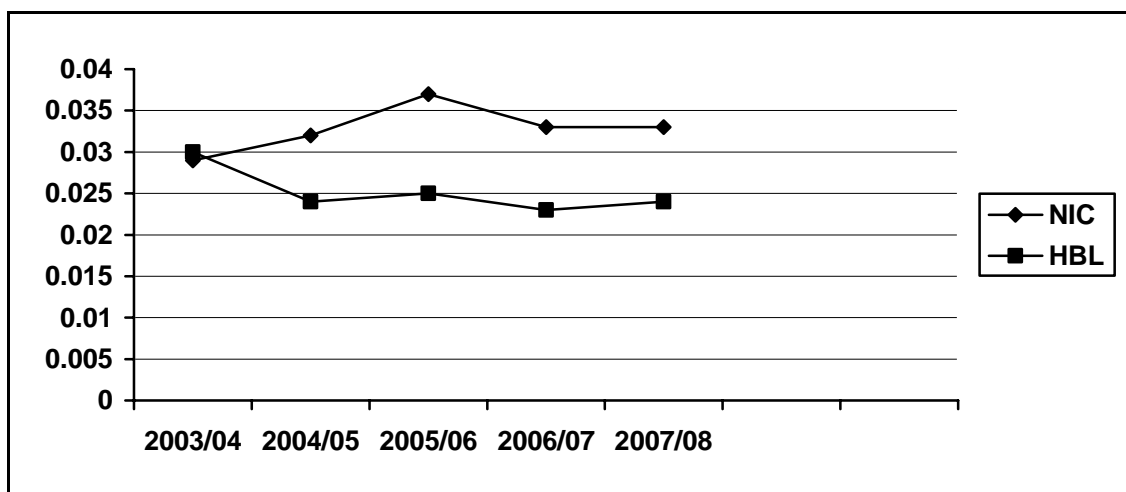
D. Risk Ratio

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

Through following ratios, effort has been made to measure the level of risk essential in the HBL and NIC.

I. Liquidity risk ratio

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

The risk is low if funds are kept idle as cash and bank balance. But this reduces the profitability. When flow loan, its profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank and vice-versa. This

ratio is calculated by dividing cash and balance to total deposit. The following table shows the liquidity risk inherent in HBL and HBL i.e.

Liquidity risk ratio= Cash and balance
Total deposit

Table No. 4.15

Liquidity Risk Ratio (Times)

F/Y	HBL	NIC
2003/2004	0.101	0.142
2004/2005	0.082	0.070
2005/2006	0.069	0.050
2006/2007	0.106	0.063
2007/2008	0.0901	0.073
Mean	0.089	0.079
S.D	0.013	0.032
C.V.	14.60%	40.50%

Source: Annual Report of HBL and NIC

The table listed above shows that the HBL has in fluctuating trend of liquidity risk ratio. It recorded higher ratio of liquidity risk is 0.106 in F/Y 2006/07 and the lowest ratio is 0.069 in F/Y 2005/04.The NIC highest ratio is 0.142 in 2003/04 and lowest 0.050 in2005/06.
The average ratio of liquidity risk is 0.089 and 0.079respectively.

II. Credit Risk Ratio

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

Credit risk ratio= Total loan and advances invest
Total assets

Table No. 4.16

Credit Risk Ratio Times

F/Y	HBL	NIC
2003/2004	0.855	0.843
2004/2005	0.860	0.912
2005/2006	0.866	0.919
2006/2007	0.850	0.890
2007/2008	0.884	0.896
Mean	0.863	0.892
S.D	0.012	0.0266
C.V.	1.39%	2.98%

The above table shows in fluctuating trend, its higher ratio is recorded 0.884 in 2004/2005 and the lowest ratio is 0.850 in 2006/07. On the other hand the mean value of the co-efficient of variation is 1.39%% only. The NIC has greater credit risk ratio 0.892 than HBL with 0.863. Credit risk ratio should be low for better performance of bank or low credit risk ratio helps to achieve the goal of the bank.

E. Growth Ratio

Here, those growth ratios are analyzed and interpret which are directly related to the fund mobilization and investment of a commercial bank. Growth ratios represent how well the commercial banks are maintaining their economic and financial position.

Under this topic, four types of growth ratios i.e. growth ratios of total deposit, loan and advances, total investment and net profit. The ratio can be calculating to the compound interest tables. The high ratio generally indicates better performance of a bank and vice versa.

Table No. 4.17

Growth ratio of Total Deposit (%) Total deposit (Rs. in million)

F/Y	HBL	NIC
2003/2004	7741	4807
2004/2005	8975	6268
2005/2006	10485	7768
2006/2007	12388	10557
2007/2008	15833	12774
Grand rates (%)	15.38%	21.58%

Source: Annual Report of HBL and NIC

Table No. 4.18

Growth ratio of Loan and Advances (Loan and Advances (Rs. in million)

F/Y	HBL	NIC
2003/2004	5646	3649
2004/2005	5912	5584
2005/2006	7259	6891
2006/2007	9399	8929
2007/2008	12462	11335
Grand rates (%)	17.15%	25.44%

Table No. 4.19

Growth ratio of Total Investment (Total Investment (Rs. in million)

F/Y	HBL	NIC
2003/2004	2477	983
2004/2005	2598	1190
2005/2006	3378	1394
2006/2007	2995	1678
2007/2008	3206	2138
Grand rates (%)	5.29%	16.80%

Table No. 4.20

Growth ratio of Net profit (%)

F/Y	HBL- Net profit (Rs. in million)	NIC-Net profit(Rs. in million)
2003/2004	127	48
2004/2005	139	84
2005/2006	202	103
2006/2007	262	170
2007/2008	361	174
Grand rates (%)	29.14%	23.17%

The table listed above reveals that the growth ratio of deposit of HBL and NIC are 15.38% <21.58%. , growth ratio of loan and advances are17.14% and 25.445 . The growth ratio of loan and advance of NIC is greater than HBL Where as we observe growth ratio of total investment of HBL and NIC are 5.29% and 23.17% respectively.

With this analysis ,it can be said that the banks should emphasize on improving performance in terms of collecting deposit ,growth of loan and advances, total investment profitability .similarly it need to collect fund from cheaper way and invest on highly profitable sector to improve the figure of net profit.

2) Statistical Analysis

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

A. **Co-efficient of correlation analysis**

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

I. Co-efficient of Correlation between deposit and loan and advances:

Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. Here, deposit is an independent variable (x) and loan and advances are dependent variable(y). To see whether deposits

are significantly used as loan and advances in proper way or not, we are computing "r" between these two variables.

The following table shows the values of r, r², P.Er and 6P.Er. Of the HBL and NIC during the study period.

Table No. 4.21

Correlation between deposit and loan and advances

Bank	Evaluation criterions			
	R	r²	P.Er.	6 P.Er.
HBL	0.097	0.009409	0.2988	1.79
NIC	0.110	0.0121	0.29791.78	1.78

The above table shows that the co-efficient of correlation between deposit and loan advance is 0.9760, it means there is higher positive relationship between these two variables. Moreover, we evaluate the value of coefficient of determination (r²), which is 0.009409. 0.9760 and comparing it with six times of probable error i.e. 0.0725, we can say that the value of r is more than 6 P Err. Which shows that there is significant relationship between deposit and loan and advances?

II. Co-efficient of correlation between deposit and total investment

The co-efficient of correlation between deposit and investment measures the degree of relationship between two variables. In correlation analysis, deposit independent variable (x) and total investment is dependent variable (y) .The purpose of computing coefficient of correlation is to examine whether the deposit are used in proper way or not and also to see the relationship between these two variables or not .In order to see the relationship, Karl Pearson's co-efficient of correlation is calculated and analyzed accordingly.

The following table shows the coefficient of correlation between deposit and total investment i.e. r, r², P.Er and 6P.Er. Of the HBL

Table No.4.22

Correlation between deposit and total investment

Bank	Evaluation criterions			
	R	r²	P.Er.	6 P.Er.
HBL	0.019	0.000361	0.3015	1.800
NIC	0.08	0.0064	0.299	1.79

From the above table we find that co-efficient of correlation between deposit (independent variable) and total investment (dependent variable) r is 0.019 and 0.018. it shows the positive relationship between these two variables. Similarly, the co-efficient of determination in the dependent variable 'r^2' is 0.000361 and 0.0064 it means variation in the dependent variable (total investment) has been explained by the independent variable (deposit). Moreover considering the probable error, since the value of r is more than 6 P.Er. i.e. 0.37194 (0.8699>0.37194). we can say that there is positive significant relationship between deposit and total investment.

III. Co-efficient of correlation between outside assets and net profit

The outside assets include loan and advances and all types of investment of a commercial bank. In this analysis total outside assets is independent variable (x) and net profit is dependent variables(y). The main objective of calculation of this correlation is to examine whether the net profit is significantly correlated with total outside assets or not. In order to see the relationship, Karl Pearson's co-efficient of correlation is calculated and analyzed accordingly.

The following tables shows that the related variables during the study period.

Table No. 4.23

Correlation between outside assets and net profit

Bank	Evaluation criterions			
	R	r²	P.Er.	6 P.Er.

HBL	-0.1832	0.0335	0.2915	1.74
NIC	-0.150	0.0225	0.2945	1.76

From the above enlisted table, it has been found that the co-efficient of correlation between total outside assets (independent variable) and net profit (dependent variable) is -0.1832 and -0.150, which indicates negative relationship between these two variables. Similarly while considering the value of co-efficient of determination 'r' i.e. 0.0335 and 0.0225, it indicates variation in the dependent variable (net profit) has been explained by the independent variable (total outside assets). Moreover , by considering the probable error , we can say that there is significant relationship between outside assets and net profit because the value of r is high than six times of the probable error i.e.1.74>-0.1832 and1.74>-.0150.

B. Trend analysis and projection for next five years.

The main objective of this analysis is to analyze the trend of deposit collection, its utilization and net profit of HBL and NIC..Granting loan and advances and investing some of the funds in government securities and shares and debentures of other companies by the commercial banks are the utilization of deposits. The trend analysis results of total deposit, loan and advances, total investment , and net profit and are used for forecasting the dependent variables for next five years on the basis of the past performance and records.

The projections are based on the following assumptions:

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

I. Analysis of Trend value of total deposit:

Under this topic, an effort has been made to calculate the trend values of deposit of HBL and NIC for five years from F/Y 2003/04to2007/08 and forecast for next five years till 2012/13.The trend line of total deposit is found to be,

Yc=11085.09+1959.74x (HBL)

Yc=8425.44+2022.08x   (NIC)

This following table shows the trend value of ten years from 2003/2004 to 2012/2013.

Table No. 4.24

Trend values of total deposit of HBL and NIC (Rs. in million)

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value
2003/04	7741.64	4807.94	7165.61	4391.19
2004/05	8975.78	6268.95	9125.35	6413.27
2005/06	10485.36	7768.96	11085.09	8435.35
2006/07	12388.93	10557.09	13044.83	10457.43
2007/08	15833.74	12774.28	15004.57	12479.51

Forecast for next five years

	HBL	NIC
F/Y	Trend value	Trend value
2008/09	16964.31	14501.59
2009/10	18924.05	16523.67
2010/11	20883.79	18545.75
2011/12	22843.53	20567.83
2012/13	24803.27	22589.91

From the above table, it is clear that total deposit of the bank is in increasing trend. Other things remaining the same or constant total deposit in 2012/13 is predicted by Rs. 24803.27 million, which is the highest under the study period. Where as NIC has predicted value is 22589.91 million which is lesser than HBL.

From the above trend analysis, it is quite obvious that HBL and NIC deposit collection position is better in all ten years. The above calculated trend values of total deposit of the banks are fitted in the trend lines given below.,

Figure No. 4.13

Trend value of total deposit
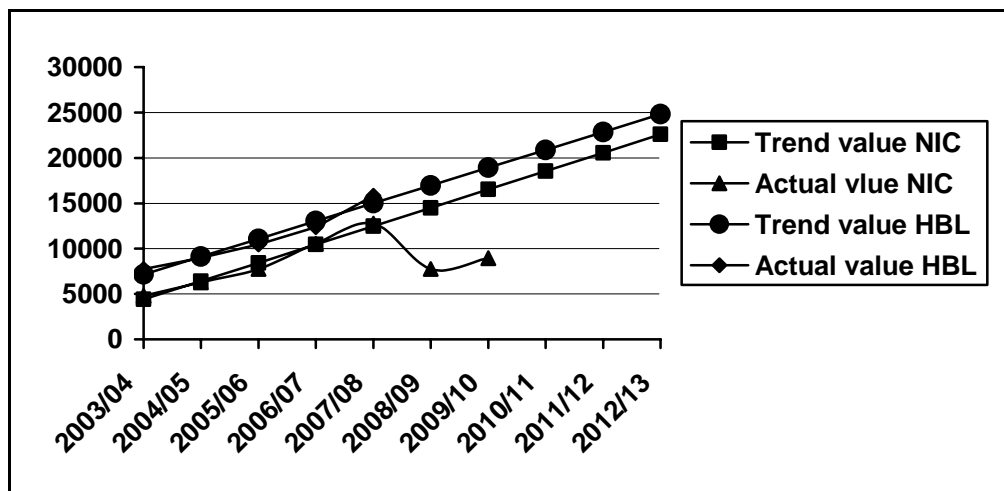
II. Analysis of Trend value of loan and advances:

Here, the trend values of loan and advances of HBL have been calculated for seven years from F/Y 1998/1999-2004/2005 and the forecast for next five years i.e. from F/Y 2004/2005 -2008/2009. The trend line of total deposit is found to be,

$Yc = 8136.07 + 1711.86x$ (HBL)

$Yc = 7277.92 + 1871.67x$ (NIC)

Table No.4.25

Trend values of loan and advances of HBL

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value

2003/04	5646.07	3649.01	4712.35	3535.92
2004/05	5912.58	5584.64	6424.21	5406.92
2005/06	7259.08	6891.86	8136.07	7277.92
2006/07	9399.33	8929.01	9847.93	9148.92
2007/08	12462.64	11335.08	11559.79	11019.92

Source: Annual Report of HBL and NIC

Forecast for next five years

F/Y	HBL	NIC
	Trend value	Trend value
2008/09	13271.65	12890.92
2009/10	14983.51	14761.92
2010/11	16695.37	16632.92
2011/12	18407.23	18503.92
2012/13	20119.09	20374.92

The above table makes clear that the loan and advances of the banks are increasing regularly. Other things remaining same, the loan and advances of the banks in 2012/13 will be Rs.20119.09 million which lesser than NIC with value 20394.92 . From the above analysis , it is clear that the bank's utilization of deposit in terms of loan and advances is good .The above calculated trend values of loan and advances of the bank is fitted in the trend lines, which is given below.

Figure No. 4.14

Trend value of loan and advances
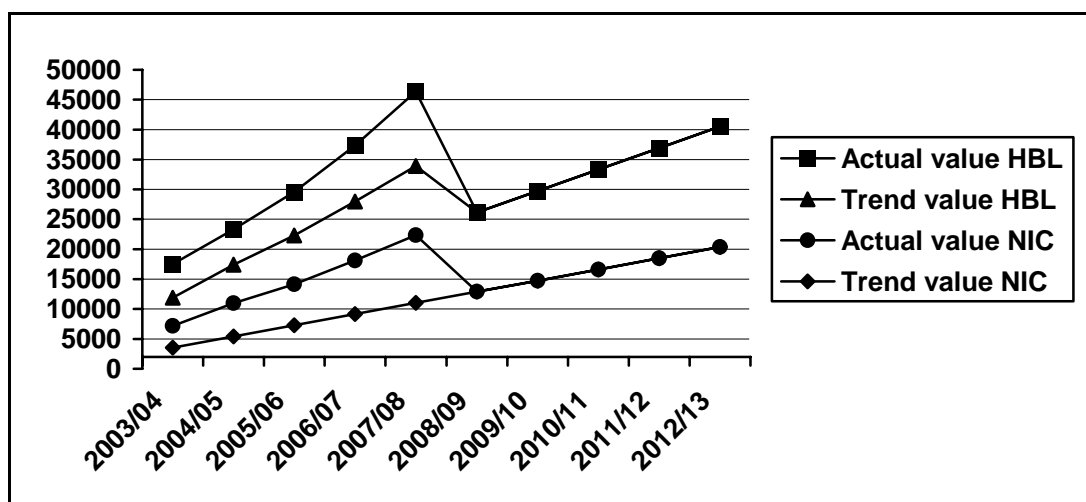
III. Analysis of Trend value of total investment:

Under this topic, an attempt , has been made to analyze to total investment of HBL has been calculated for seven years from F/Y 1998/1999-2004/2005 and the forecast for next five years i.e. from F/Y 2004/2005 -2008/2009. The trend line of total deposit is found to be,

Yc=1477.18+279.87x   (NIC)

Yc=2931.234+185.54x   (HBL)

Table No. 29

Trend values of total investment of HBL

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value
2003/04	2477.41	983.50	2560.15	919.18
2004/05	2598.61	1190.27	2745.69	1198.18
2005/06	2931.234	1394.94	2931.23	1477.18
2006/07	3116.776	1678.42	3116.77	1756.18
2007/08	3302.314	2138.79	3302.31	2035.18

Forecast for next five years

F/Y	HBL	NIC
	Trend value	Trend value
2008/09	3487.85	2314.18
2009/10	3673.39	2593.18

2010/11	3858.93	2872.18
2011/12	4044.47	3151.18
2012/13	4230.01	3430.18

The above table shows that the trend values of total investment of HBL and NIC of ten years i.e.,2003/04to2012/13.

From the above table, trend values of investment it has been found that the expected amount of the banks have shown as in increasing trend. Other things remaining the same, the total investment of HBL and NIC in 2012/13 will be Rs.4230.01 and 3430.18 million, which is the HBL has highest than NIC..

In conclusion, we can say that the bank has followed the policy of maximizing the investment. The above calculated values of above table have been fitted in the trend lines given below.

Figure No. 4.15

Trend value of total investment
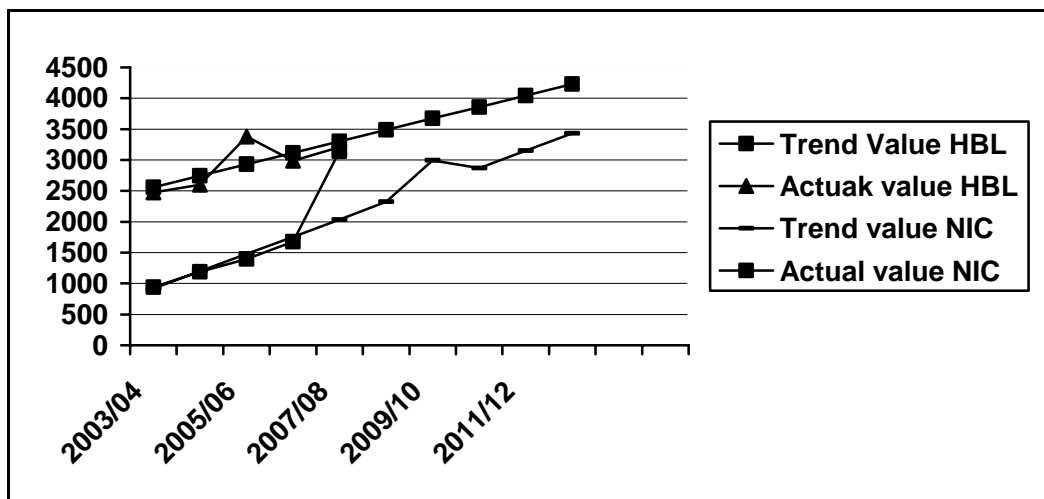
IV. Analysis of trend value of net profit

Under this topic, effort has been made to analyze the net profit of the bank for seven years i.e., from 2003/04 to 2012/13 and forecast of the same for next five years till 2012/1013. The trend line of total deposit is found to be,

Yc=116.346+33.856x (NIC)
Yc=221.06+59.09X (HBL)

The following table shows that the trend values of net profit of the bank for 10 years. I.e. 2003/04to 2012/1013.

Table No. 4.27

Trend values of net profit of HBL

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value
2003/04	127.52	48.68	102.88	48.46
2004/05	139.52	84.20	161.97	82.96
2005/06	202.44	103.66	221.06	116.346
2006/07	262.38	170.26	280.15	150.19
2007/08	361.49	174.93	339.24	184.04

Forecast for next five years

F/Y	HBL	NIC
	Trend value	Trend value
2008/09	398.33	217.89
2009/10	457.42	251.75
2010/11	516.51	285.59
2011/12	575.6	319.45
2012/13	634.69	353.96

From the above table of net profit it is clear that net profits of the banks are in increasing trend. Other things remaining the same, the net profit of the banks in 2012/13 will be the highest i.e634.69 and 353.96 million which less than HBL.

However, we can draw a conclusion that HBL and NIC seems to have utilize their fund to earn handsome amount of profit. The above given trend values of table has been fitted in trend lines given below.

Figure No. 4.16

Trend value of net profit
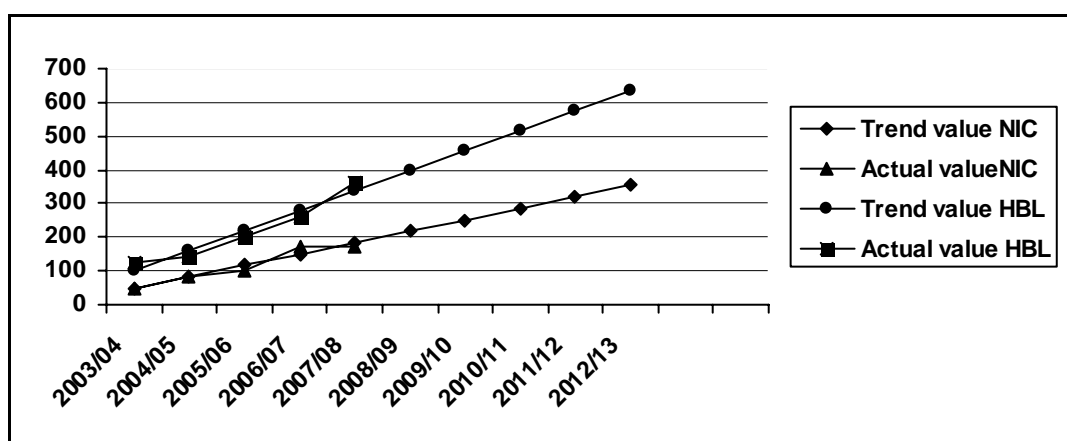
Percentage analysis of investment

Percentage analysis of investment includes investment on government securities and shares and debenture in relation with total investment. In this study the percentage is calculated to achieve the objective of the study.

1. Analysis of investment on government securities

The percentage analysis of government securities sin relation with total investment helps to examine the investment practice according to the NRB

directives and is calculated by dividing investment on government securities by total investment.

ie,

Investment on govt. securities in

relation with Total investment   = $\dfrac{\text{Investment on Govt. securities}}{\text{Total Investment}}$

The following table shows that investment on Govt. securities with respect to total investment.

Table No. 4.28

Investment on government securities in relation with total investment (%)

F/Y	HBL	NIC
2003/04	0.96	0.61
2004/05	0.83	0.94
2005/06	0.78	0.79
2006/07	0.77	0.77
2007/08	0.65	0.69
Mean	0.798	0.76
S.D	0.1002	0.110
C.V.	12.56%	14.47%
Grand rates (%)	15.38%	21.58%

The above listed table reveals that investment on govt. securities is in deceasing trend except in F/Y 2004/2005. The bank has maintained higher percentage is .096 in F/Y 2003/2004. The average value is 0.798 which is more than 50%. But NIC has increasing order .The highest ratio is 0.94 and lowest is 0.61.So with this analysis it is definitely said that the fund mobilization on govt. securities is in good position.

2. Analysis of investment on share and debenture

The percentage analysis of share and debenture in relation with total investment helps to observe the fund mobilization which is calculated by dividing investment on share and debenture by total investment.ie,

Investment on share & debenture = $\dfrac{\text{Investment on share and debenture}}{\text{Total Investment}}$

To Total investment

The following table shows that investment on share and debenture with respect to total investment.

Table No. 4.29

Investment on share and debenture with respect to total investment (%)

F/Y	HBL	NIC
2003/04	0.09	0.00035
2004/05	0.035	0.00029
2005/06	0.028	0.00025
2006/07	0.030	0.00021
2007/08	0.035	0.0085
Mean	0.0436	0.00192
S.D	0.0233	0.003290
C.V.	53.44%	171.35%

The above listed table reveals that investment on share and debenture is in fluctuating trend. The mean value is 0.043 and 0.00192, according to the NRB directives investment on share and debenture should be not more than 20% .so it can be proved that the bank follow the NRB directives.

4.2 Major Findings of the Study

Liquidity ratios

- The mean current ratio of HBL is 0.794 and NIC is 0.911 the co-efficient of variation is 5.91% and 1.31%.

- The mean ratio of cash and bank balance to total deposit of the bank is 0.1267 and the co-efficient of variation of the bank is 27.30%. That means the risk is slightly high.

- The mean ratio of cash and bank balance to current assets of HBL is 0.106 and NIC is 0.0852 and the co-efficient of variation 11.47 %and 43.75%

- The mean ratio of investment on Govt. securities to current assets of HBL is 0.129 and NIC is 0.215 and co-efficient of variation 88.35% and 56.30% respectively.

It can be concluded that the cash and bank balance position with respect to deposit is better. It has fluctuating liquidity ratios; it shows that the banks have not properly formulated any stable policy.

Asset management ratio

- The assets management ratios of the bank reveal that:

- The mean ratio of loan and advances to total deposit of HBL is 0.725 and NIC is 0.893. it can be said that the bank used to provide greater loan and advance in comparison to its total deposit

- The mean ratio of total investment to total deposit of HBL is 0.275 and NIC IS 0.179, which is greater, that means the ratio is more consistence.

- The mean ratio of loan and advances to total assets fund is high that means the ratio is not homogenous.

- The mean ratio of investment on Govt. securities to total assets of HBL and NIC are only 0.192 and 0.117, that means it has not consistency in maintaining the ratio.

- During the study period of five years, it was found that the investment on share and debenture to total assets fund ratio of the bank is not homogenous.

It predicts that HBL and NIC have not successfully maintained and managed its assets towards different income generation activities. It has not made total assets fund in investment on Govt. securities and on share and debentures of other companies.

Profitability ratios:

- The profitability ratios of HBL and NIC reveal that,

- The mean ratio of return on loan and advances of HBL and NIC have found that the bank's profit earning capacity by utilizing available source is very weak.

- The mean ratio of return on assets is not in consistent position.

- The mean ratio of total interest earned to assets fund during the study period has not maintained consistency.

- The average ratio of interest earned to total operating income has been found that the bank have low mobilized fund into interest bearing assets.

- The average ratio of interest paid to total assets of the bank is in better position from the view of interest expenses.

From the above result, it is concluded that the profitability procession of the bank is not in better condition. So it must maintain high profit margin for the well being in future.

Risk ratio

The risk ratios of HBL and NIC reveal that

- When we observed the risk ratio, it can be found that the average liquidity risk ratio of HBL and NIC has followed a stable liquidity policy.

- The mean ratio of credit risk of HBL and NIC is not in consistency position.

- From the above findings, it can be concluded that, Risk ratio of the HBL is in inconsistency position.

Growth ratios

From the analysis of growth ratios of HBL and NIC, it is clear that

- Growth ratio of total deposit is 15.38% and 21.58%

- Growth ratio of loan and advances is 17.15% and 25.44%

- Growth ratio of total investment is 5.29% and 16.805

- Growth ratio of Net profit is 29.14% and 23.17%

From the analysis of above mentioned growth ratios it can be concluded that HBL and NIC have not been more successful to increase in source of funds. The growth on investment shows it can mobilize its deposit to the proper investment.

Co-efficient of correlation analysis

Co-efficient of correlation analysis between different variables of HBL reveals that:

- Co-efficient of correlation between deposit and loan and advances both banks have significantly positive value.

- Similarly, the relationship between deposit and total investment of NIC has negative and HBL has found to be significantly positive.

- Co-efficient of correlation between outside assets and net profit of NIC is negative and HBL found to be the positive relation and significant correlation.

Trend analysis

Trend analysis of the study period and its projection for the next five years of total deposit , loan and advances, total investment and net profit of HBL reveals that:

- Trend value of total deposit of HBL and NIC is in increasing trend, it reveals that they are using large portion of deposit.

- Trend value of loan and advances of HBL and NIC is also in increasing trend.

- Trend value of total investment reveals that it invested more portion of its deposit in the priority sector to maximize the profit.

CHAPTER -V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of this study is conclusions and recommendations developed from the completion of analysis part on the investment policy of sample banks. Conclusion and recommendation consists of two parts, the first one is conclusion which is drawn from the major findings of this study and the second one is recommendation to the banks, which is taken as sample bank in this study, to solve the problems found on the basis of analysis and conclusion.

5.1 Summary

The summary of the study are derived on the basis of analysis of financial data of HBL and NIC, which are given below.

Basically the entire research work focuses on the comparative study on investment pattern of commercial bank; Himalayan Bank Ltd. Nepal Industrial and Commercial Bank Limited These two banks are composed as per their investment activities by taking five years data from the year 2003/04 to 2007/08.

The study is mainly based on secondary sources. All data are taken from concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles. After collecting data from different sources, it is analyzed by using financial and statistical tools. Findings are drawn by applying various financial tools viz. liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio, sources and uses of funds and cash flow analysis. Similarly, statistical tools have been used viz. mean, standard deviation, coefficient of variation, coefficient of correlation and least square trend.

In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams, different types of chart are also used.

This study suffers from different limitations; it considers three banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

5.2 Conclusion

- The mean ratio of cash and bank balance to total deposit of the bank is 0.1267 and the co-efficient of variation of the bank is 27.30%. That means the risk is slightly high.

- The mean ratio of cash and bank balance to current assets of HBL is 0.106 and NIC is 0.0852 and the co-efficient of variation 11.47 %and 43.75%

- The mean ratio of investment on Govt. securities to current assets of HBL is 0.129 and NIC is 0.215 and co-efficient of variation 88.35% and 56.30% respectively.

- The assets management ratios of the bank reveal that:

- The mean ratio of loan and advances to total deposit of HBL is 0.725 and NIC is 0.893. it can be said that the bank used to provide greater loan and advance in comparison to its total deposit

- The mean ratio of total investment to total deposit of HBL is 0.275 and NIC IS 0.179, which is greater, that means the ratio is more consistence.

- The mean ratio of loan and advances to total assets fund is high that means the ratio is not homogenous.

- The mean ratio of investment on Govt. securities to total assets of HBL and NIC are only 0.192 and 0.117, that means it has not consistency in maintaining the ratio.

- During the study period of five years, it was found that the investment on share and debenture to total assets fund ratio of the bank is not homogenous.

- The profitability ratios of HBL and NIC reveal that,

- The mean ratio of return on loan and advances of HBL and NIC have found that the bank's profit earning capacity by utilizing available source is very weak.

- The mean ratio of return on assets is not in consistent position.

- The mean ratio of total interest earned to assets fund during the study period has not maintained consistency.

- The average ratio of interest earned to total operating income has been found that the bank have low mobilized fund into interest bearing assets.

- The average ratio of interest paid to total assets of the bank is in better position from the view of interest expenses.

- The mean ratio of credit risk of HBL and NIC is not in consistency position.
- From the above findings, it can be concluded that, Risk ratio of the HBL is in inconsistency position.
- Growth ratio of total deposit is 15.38% and 21.58%
- Growth ratio of loan and advances is 17.15% and 25.44%
- Growth ratio of total investment is 5.29% and 16.805
- Similarly, the relationship between deposit and total investment of NIC has negative and HBL has found to be significantly positive.
- Co-efficient of correlation between outside assets and net profit of NIC is negative and HBL found to be the positive relation and significant correlation.
- Trend value of total investment reveals that it invested more portion of its deposit in the priority sector to maximize the profit.
- Trend value of net profit of HBL and NIC reveals that it can utilize large amount of fund to earn handsome amount of profit.

5.3 Recommendations

Suggestion is output of the whole study. It helps to take corrective action in their activities in future. Different analysis were done till arrive this step. On the basis of above analysis and findings of the study, following suggestions can be advancers to overcome weakness, inefficiency and satisfactory improvement of the present fund mobilization and investment policy of HBL and NIC.

Increase more deposit

The main source of commercial bank is collecting deposit from publics who don't need that fund recently. Without enough deposit collection, banks cannot operate smoothly. So it is recommended to collect more amounts as deposit through large variety of deposit schemes and facilities, like cumulative deposit schemes, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), and monthly interest scheme. Similarly customization of credit card, provide facility of transfer money to their home that live in foreign country. The minimum amount needed to open an account should be minimized so that it will attract other small depositors and entrepreneurs for promoting and mobilizing their small investment.

More investment in government securities

From the study, it has been revealed the HBL and NIC have invested funds in government securities, but it's not enough .It's very important to know that the increasing large amount on assets, as cash and bank balance is not considered good from the profitable point of view of the bank as it doesn't earn any return. The bank's investment on government securities is not in satisfactory position. Investment on those securities issued by government i.e. Treasury bills, Development bonds , Saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, It is more better in regard to safety that other means of investment. So HBL and NIC are strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb "something is better than nothing".

More investment on share and debenture

To get success in competitive market and to raise financial and economic development of the country a commercial bank must mobilize its funds in different sectors such as purchase share and debenture of other financial and non financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus those companies may get chances to rise and that help to develop of the country. The mean ratio of Investment on share and debenture of HBL is 0..0436 and which is low, so it is recommended that the bank should increase the ratio, with investing its funds in shares and debentures of different types of other companies in different areas. Similarly the NIC is 0.00192 which is very low; the NIC should increase to share and debenture.

Invest of deprive and priority sector

NRB has directed to commercial banks to invest their certain percentage in deprives and priority sector and it is also responsible of banks. The study has been found that The banks have earned high profit in last year, it is because of their services are only profitable sector. It reveals that it has not granted loan on priority and deprives sector. So the bank is recommended to thoroughly follow the directives issued by NRB and invest in priority and deprive sector and also to invest on other small-scale industries like, public utilities, health, sanitation and drinking water, education and agricultural etc.

Effective portfolio management

Portfolio Management is very important for every investor. In each investment risk is involved. Risk is the chance of loss or the variability of the returns of a period. The greater is the variability of the returns the riskier project. So it is kept in mind while investing in the project which would be lower risk and higher return. Portfolio management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So portfolio conditions of HBL and NIC should be examined time to time and alternation should be made to maintained equilibrium in the portfolio condition as far as possible. So it can be said that all eggs should not be kept in the same basket. The bank should make continuous yielding investment portfolio.

Liberal lending policy and sound credit collection policy

To get success in competitive banking market, commercial bank must utilize their deposit as loan and advances. Loan and advances are the main source of income and also means of utilization resources of commercial banks negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. When the bank grants loan and advances it must be collected after a certain period. Collection of loan has been most challenging task of commercial banks these days, increasing on non-performing assets discloses the failure of commercial banks in recovery of loan.

Therefore, it is recommended to HBL and NIC to follow liberal lending policy when sensations loan and advances with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower ,continual follow up and as well as legal; procedure if require.

Policy making is very challenging job for the management of the banks. As per my view formulation policy should follow the under stated mechanism, which will enhance the effectiveness and success of the policy.

Investment Vision

The term investment is very important for commercial bank and main function also. Investment means use of their resource in different income sector. The study shows that the trend of investment of HBL and NIC is decreasing level. So It is recommended to keep wide vision in investment while they utilizing their recourse and invest in different areas.

Loan Recovery Act

The history of banks show many difficulties in recovering loan and advance and their large amount of loan is blocked as non-performing assets and which sometime reduce income. So it is needed to homework to a suitable mechanism through which the overdue loan can be recovered within time. To fulfill this purpose both banks are suggested, the special "Loan Recovery Act" should be enacted improve its profitability. A policy should be formulated to enhance its income and should control its administrative expenses, try to collect cheaper fund being more profitable. So they increase net profit earning in future.

Innovation approach to bank marketing

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. Marketing is an effective tool to attract customers so it should be strong and active. Without effective marketing strategy any one be along behind in today's competitive environment. Different marketing techniques like advertisement through audio visual, published web site, documentary etc. are flowed. Similarly attentions of customers through new technologies like, banking internet service, increase investment through their wide international banking network should be introduced. For this purpose the bank should develop an innovative approach of bank marketing.

Extend branches all over the country

Economic development of the country depends upon the growth of commercial banks. If the services of commercial banks expand all over the country it collects idle money from every corner of the country and can be utilized for income generation purpose. So that commercial banks should expand its hands all over rural and urban area of the country, not only in capital. HMG/N has also encouraged the commercial banks to expand banking service in rural areas and communities without making unfavorable impact in their profit. HBL and NIC have been confining itself only with urban areas; it

is operating with limited branch. Therefore HBL and NIC recommended expanding its hands and providing banking service and facilities to the rural areas and communities to accelerate the rural areas economic development.

Concluding remarks

Nepal is a developing country and its economic environment is also not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial plays significant role in the economic growth of the developing country like Nepal. Nepal's commercial banks face several problems related to fund mobilization and investment. They are working in traditional method. They have to rush with modern banking technology so that they would be professional business institutions. If commercial banks followed above mentioned suggestions, they would be successful in reaching to the modern innovative and competitive banking market. These suggestions will be helpful to the commercial banks to develop new system in the banking business

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Statistical Software Program – SPSS

APPENDIX I

Growth ratio of Total Deposit (%) Total deposit (Rs. in million)

F/Y	HBL	NIC
2003/2004	7741	4807
2004/2005	8975	6268
2005/2006	10485	7768
2006/2007	12388	10557
2007/2008	15833	12774
Grand rates (%)	15.38%	21.58%

Source: Annual Report of BOK and NIC

Growth ratio of Loan and Advances (Loan and Advances (Rs. in million)

F/Y	HBL	NIC
2003/2004	5646	3649
2004/2005	5912	5584
2005/2006	7259	6891

2006/2007	9399	8929
2007/2008	12462	11335
Grand rates (%)	17.15%	25.44%

Growth ratio of Total Investment (Total Investment (Rs. in million)

F/Y	HBL	NIC
2003/2004	2477	983
2004/2005	2598	1190
2005/2006	3378	1394
2006/2007	2995	1678
2007/2008	3206	2138
Grand rates (%)	5.29%	16.80%

Growth ratio of Net profit (%)

F/Y	HBL- Net profit (Rs. in million)	NIC-Net profit(Rs. in million)
2003/2004	127	48
2004/2005	139	84
2005/2006	202	103
2006/2007	262	170
2007/2008	361	174
Grand rates (%)	29.14%	23.17%

Correlation between deposit and loan and advances

Bank	Evaluation criterions			
	R	r²	P.Er.	6 P.Er.
HBL	0.097	0.009409	0.2988	1.79
NIC	0.110	0.0121	0.29791.78	1.78

Correlation between deposit and total investment

Bank	Evaluation criterions

	R	r²	P.Er.	6 P.Er.
HBL	0.019	0.000361	0.3015	1.800
NIC	0.08	0.0064	0.299	1.79

Correlation between outside assets and net profit

Bank	Evaluation criterions			
	R	r²	P.Er.	6 P.Er.
HBL	-0.1832	0.0335	0.2915	1.74
NIC	-0.150	0.0225	0.2945	1.76

Trend values of total deposit of HBL and NIC (Rs. in million)

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value
2003/04	7741.64	4807.94	7165.61	4391.19
2004/05	8975.78	6268.95	9125.35	6413.27
2005/06	10485.36	7768.96	11085.09	8435.35
2006/07	12388.93	10557.09	13044.83	10457.43
2007/08	15833.74	12774.28	15004.57	12479.51

Forecast for next five years

	HBL	NIC
F/Y	Trend value	Trend value
2008/09	16964.31	14501.59
2009/10	18924.05	16523.67
2010/11	20883.79	18545.75
2011/12	22843.53	20567.83
2012/13	24803.27	22589.91

Trend values of loan and advances of HBL

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value
2003/04	5646.07	3649.01	4712.35	3535.92
2004/05	5912.58	5584.64	6424.21	5406.92
2005/06	7259.08	6891.86	8136.07	7277.92
2006/07	9399.33	8929.01	9847.93	9148.92
2007/08	12462.64	11335.08	11559.79	11019.92

Forecast for next five years

F/Y	HBL	NIC
	Trend value	Trend value
2008/09	13271.65	12890.92
2009/10	14983.51	14761.92
2010/11	16695.37	16632.92
2011/12	18407.23	18503.92
2012/13	20119.09	20374.92

Trend values of total investment of HBL

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value
2003/04	2477.41	983.50	2560.15	919.18
2004/05	2598.61	1190.27	2745.69	1198.18
2005/06	2931.234	1394.94	2931.23	1477.18
2006/07	3116.776	1678.42	3116.77	1756.18
2007/08	3302.314	2138.79	3302.31	2035.18

Forecast for next five years

F/Y	HBL	NIC
	Trend value	Trend value

2008/09	3487.85	2314.18
2009/10	3673.39	2593.18
2010/11	3858.93	2872.18
2011/12	4044.47	3151.18
2012/13	4230.01	3430.18

Yc=116.346+33.856x (NIC)

Yc=221.06+59.09X (HBL)

Trend values of net profit of HBL

F/Y	HBL	NIC	HBL	NIC
	Actual value	Actual value	Trend value	Trend value
2003/04	127.52	48.68	102.88	48.46
2004/05	139.52	84.20	161.97	82.96
2005/06	202.44	103.66	221.06	116.346
2006/07	262.38	170.26	280.15	150.19
2007/08	361.49	174.93	339.24	184.04

Forecast for next five years

F/Y	HBL	NIC
	Trend value	Trend value
2008/09	398.33	217.89
2009/10	457.42	251.75
2010/11	516.51	285.59
2011/12	575.6	319.45
2012/13	634.69	353.96

Investment on government securities in relation with total investment (%)

F/Y	HBL	NIC
2003/04	0.96	0.61
2004/05	0.83	0.94
2005/06	0.78	0.79
2006/07	0.77	0.77
2007/08	0.65	0.69
Mean	0.798	0.76
S.D	0.1002	0.110
C.V.	12.56%	14.47%
Grand rates (%)	15.38%	21.58%

Investment on share and debenture with respect to total investment (%)

F/Y	HBL	NIC
2003/04	0.09	0.00035
2004/05	0.035	0.00029
2005/06	0.028	0.00025
2006/07	0.030	0.00021
2007/08	0.035	0.0085
Mean	0.0436	0.00192
S.D	0.0233	0.003290
C.V.	53.44%	171.35%