CHAPTER-I
INTRODUCTION

1.1 Background of the study:

Banking is the business of providing financial services to consumers and business. The development of any country largely depends upon the financial infrastructure of that country. Therefore the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and nation as well. For example development of any country, bank plays the key role .The basic services of a bank provides are checking accounts which can be used like money for to make payments and purchase goods and services .Saving accounts and time deposits that can be used to save money for future use .Loans that consumers and business can use to purchase goods and services and basic cash management services such check services and foreign currency exchange.

Four types of banks specialize in offering these basic banking services.Commercial bank; saving and loan associations; savings banks and credits unions. Commercial banks and other financial institutions collect immobilized money in the form of deposits from every corner and parts of the country .this will provide capital for the development of the industry, trade and business and other resources deficit sector. A sound banking system is a precondition for healthy economy and economic policy formulation. An efficient banking system becomes a top priority as country moves toward free market economy which allows private sectors saving to be retained in the country for the promotion of investment needed for the growth.

So commercial banks have become the heart of financial system .All the economic activities are greatly influenced by commercial banking business of that country. They hold the deposit of millions of persons, government and business units. They make fund available through their investing and leading activities to borrow individual business units and government. They facilitate both the flow of goods and service from producers to consumers and the financial activities of the government .they provide a large portion of our medium of exchange and they are the media through which monitory policies are affected.

In short, banks are extremely necessary for the healthy and prompt progress of a country, its citizens and societies. If there is insufficiency of banking and financial facilities, the growth of economic development becomes slow. By creating and mobilizing the capital and rendering various financial services, banks are contributing for the establishments and development of so many small and large–scale industries and domestic as well as international trade and commerce. Banks provide an effective payments and credit system which facilitates the channeling of funds from the surplus spending units (savers) to the deficit spending units (investors) in the economy.

Economic development of a country needs development of financial sector. Financial sector development is a sign of economic prosperity. Economic prosperity generates wealth that grows to financial sector in the form of deposits. The deposits are converted into investments and investments again accumulates the wealth .This is a cycle and circulation of money. The better and faster circulations of money from one and to another are based on the productive use of money. In this regard, financial sector contributes as a catalyst for the economic prosperity of the country. Commercial banks are major financial institution which occupy quite an important place in the framework of economy because of the y provide capital for the development of industry, trade and business. So, to make the role of commercial banks effective and efficient, government and other respective organizations should come up with sound investment policy, which will lead quality and quantity of investments and eventually will contribute the economic growth of the country (Sharma, 2000).

Liquidity is the ability of a bank to pay cash to depositors on depositors on demand. It is the arrangement and the allocation of funds in such a way that can be drawn immediately without any loss on principle. Liquidity means allocation of fund in close relation to their sources. The turnover characteristic of the sources should be supported by their respective uses .so the study evaluates EB Land NIBL's finds mobilization. Further, it also examines investment portfolio of EBL and NIBL .In the banking system, investments are the allocations of funds to marketable securities and are accounted under a separate portfolio excluding loan and advance. The investments portfolio is the aggregation of marketable securities such as shares, debentures, bonds, etc including government securities. It has an important purpose to serve liquidity needs in case of

contingencies. It has less return in compared to loan and advance .This examines the investments portfolio with liquid assets maintained by both of the banks .the study conclude the policy and practices that banks are adopting for the purpose of liquidity and investment management.

Having given a short background information of the economy origin and history, growth of banking and also highlighting the development of financial sector, its importance and performance the study concentrates the whole energy and efforts to commercial banks regarding how they perform with specific forces on investment policy.

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

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

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

The role of commercial banks in economy is obviously prime requisite in the formulating of banks 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 effectively, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial bank to achieve their own objective of profit maximization and social welfare.

Investment operation of commercial banks is very risky one. For this, commercial banks pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one face of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily up on its investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The loan which is provided by commercial bank is guided by several principles such a length of time, their purpose, profitability, safety etc. Mainly all commercial bank must take a security like land and building (immovable properties) and share, plant and machinery, Bank guaranty (Movable properties) to minimizing the risk factor while financing. The NRB has segregated the investment area like deprive sector, agricultural sector, industrial sector (Manufacturing and Trading), and other sector where all commercial bank can invest.

1.2 Statement of problems

Nepal being a developing country is trying to embark upon the path of economic development by economic growth rate and development depends upon various factors. However economists are now convinced that capital formation and its proper utilization play a prominent role.

However, the cause of decline of Nepal's economic crisis is not because of lack of resume but instead it is because of improper utilization of available resources the economic growth of under developed country is widely depends upon the utilization of available economic development and self-economic reliance are the most in today's world .These can only be achieved through the accelerate of investment and capital formation in the country. Nepalese commercial banks have not formulated their investment pattern in an organized manner .They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not practiced in an effective way. Management liquidity and investment portfolio has become vital in a commercial banking business. Every commercial bank is therefore concentrating on investment management. They are searching areas that carry feature of investment and side by side

can safeguard their liquidity need. Thus the present study will make a modest attempt to analyze investment pattern of Everest comparing with Nepal Investment Bank Limited.

The problems specially related to investment function of joint venture banks and commercial banks of Nepal have been presented briefly as under.

1. What is the position of fund mobilization and investment policy of EBL and NIBL?
2. What is the liquidity, efficiency of assets management, profitability and risk position of both the banks?
3. What is the relation between deposits, loans and advances, investment and net profit of both banks?
4. What is the trend of total deposits, loans and advances and investments?

1.3 Objectives of the study

The purpose of the study is to analyze and examine the investment pattern of commercial banks i.e. Everest Bank Limited and Nepal Investment Bank Limited. The main objectives of the study are as follows:

1. To assess the fund mobilization of EBL and NIBL
2. To evaluate the liquidity, efficiency of assets management, profitability and risk position of both the banks
3. To examine the relation between deposits, loans and advances, total investment and net profit of both banks
4. To analyze the trend of total deposits, Loans and Advances and Investments

1.4 Significance of the Study

The needs and importance of this study has been felt for some important reasons. First, the economic development of any country depends upon the effective mobilization of the available funds which are collected from reliable sources. Investment is a backbone of economic development. Functioning of a bank should be measured in various terms to know the contribution to the economy. Everest bank and Nepal Investment bank needs to the national economy are highly influenced by the investment policy of the bank. The study of investment policy helps to improve the situation and correction can be made accordingly.

Secondly, the study has theoretical significance as it helps to add the existing literature of the Nepalese financial management, particularly to the literature of investment policy management in the Nepalese context.

Thirdly, the study has also practical significance. The findings and conclusion of the study can be used by management of bank as guide in the financial and investment policy management of the bank, the government for making policies regarding joint venture banks and used by teachers and students as reading materials.

In case of investment alternatives and portfolio management, there are so many alternatives like commercial and industrial sector, agricultural sector, deprive sector, manufacturing and trading sector and other productive sector under the regulation of NRB. Form this study commercial bank come to know, how to cope their portfolio so that the risk can be minimize and return can be maximized.

1.5 Limitations of the Study

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

1. The study is based especially on secondary data like annual reports of the bank under review, journals, unpublished as well as published articles and reports.
2. The balance sheet, profit and loss account and accompanying notes have been basically considered as the subject matters of the study and they are assumed to be correct and true.
3. The study is covering five year period that is from Fiscal year 2013/14 to 2017/18.
4. The study is related to only two banks namely Nepal Investment bank limited and Everest bank limited.
5. The study will be focusing on comparative investment policy of two banks only
6. The study is focused only on the investment aspect.

1.6 Organization of the Study

This study has been divided into five chapters as introduction, review of literature, research methodology, presentation and analysis of data, comparative analysis of investment policy and summary, conclusions and recommendations.

Chapter – I: Introduction

In the first chapter introductory part is presented such as general background of commercial bank and banking system, focus of the study including the introduction of sample banks, statement of the problem, objectives of the study, Significance of the study, limitations of the study and organization of the study.

Chapter – II : Review of Literature

Chapter two deal with review of literature relevant to the investment policy of commercial banks. It also deals with the structure of modern banking system, liquidity management, cash and marketable security management, overview of investment policy, portfolio overview etc. The review has been drawn from books, research papers, annual reports, articles have reviewed.

Chapter – III : Research Methodology

Chapter three deal with research methodology including few lines of introduction of financial ratios, research design, population procedure, nature of data collection with method of data analysis.

Chapter – IIV: Data Presentation and Analysis

Chapter four deal with presentation and analysis of data with investment policy of NIBL and EBL bank through a use of research methodology. This chapter deals with different financial ratios, growth ratios, t-test and coefficient as correlation as statistical tools relevant to the investment and fund mobilization of two sample banks and also describes the finding of the study.

Chapter – V: Summary, Conclusion and Recommendations

Finally, chapter five discuss the summary derived from the comparative analysis of sample banks, conclusion of the study and provide necessary recommendation for the further important of investment operation of NIBL and Everest bank Ltd.

CHAPTER - II

REVIEW OF LITERATURE

In this part, focus has been made on the conceptual framework and the review of literature that is relevant to the investment policy of commercial banks. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries; document collection center helps to take adequate feedback to broaden the information to study. The first part of the chapter includes the theoretical review and the second part includes the review of various related studies.

I) Theoretical Review

II) Review of related studies

2.1 Theoretical Review

Meaning of commercial Bank

Commercial bank deals with other people's money. They have to ways of keeping their assets liquid so that they could meet the demands of their customers. In their anxiety to make profit, the banks can't afford to lock to up their funds in assets, which are not easily realizable. The depositor confidence could be secured only if the bank is able to meet the demand for cash is an idle assets and hence the banker cannot afford to keep a large portion of his assets in the form of cash. Cash bring in no income to bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity (Grolier, 1984)

A commercial bank is business organization that receives and holds deposits of fund form others, makes loans or extends credits and transfer funds by written order off.Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services (American institute of Banking, 1972).

Commercial Bank Act 1974AD (2031BS) defined, "A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs

commercial banking functions which is not a bank meant for co-operative , agriculture, industries or such specific purpose."

This act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

2.1.1 Origin of bank

The evolution of bank is not a phenomenon .There was crude firm of banking even in an ancient era. The terms banking such as deposits, pledge, policy of loan, interest rates etc can be found in the "manusmriti."

The Roman Empire collapse in the last of 15^{th} century and consequently, commercial banking transactions were started because of revival of commercial and other trading activities in Europe countries .According to the opinion of great economist Geoffrey Crowther, following community groups are the ancestor of modern banking:

- The Merchant trader
- The Goldsmith
- The money lenders

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

The next stage in the growth of banking was the goldsmiths; the business of goldsmiths was such that they had to take deposits such as bullion, money and ornaments for the security from theft. This makes possible to the goldsmiths to charge something for taking care of the money, bullion and jewellery. On the other hand, as the evidence of receiving valuables, they used to issue a receipt to the depositors. As those receipts are good for payment, equipment to the amount mentioned, it become like the modern cheques, as a medium of exchange and a means of payments.

Finally, money lenders in the early age had contributed in the growth of banking to a larger extent. They used to advance the coins on loan by charging interest a safe guard they used to keep some money in reserve. Therefore goldsmith and moneylenders became bankers who started performing the two functions of bank i.e. accepting deposits and providing loans and advances. “The Bank of Venice” of Italy was established in 1157A.D. as the first banking institution in the world. The second banking institution namely “the bank of Barcelona” of Spain was established in 1401 A.D. It’s function is to exchange money, receive deposits and discount bill of exchange, both for their own citizens and for the foreigner during 1407 A.D. “The Bank of Genon”-was established in 1609 A.D. “The Bank Of England” was incorporated in 1694 A.D. as a joint stock bank and later on the 1844 A.D. It becomes a first central bank in the word. (Diana, 1994*)*

2.1.2 Commercial Banks and Investment plan

Commercial banks are an entity, which accepts deposits and makes short-term loans enterprises, regardless of the scope of its other services(American Institution of Banking, 1972).

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

Commercial bank deals with people’s money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit the banks can’t afford to lock up their funds in assets that are not early realizable. The depositor’s confidence could be second only if the bank is Asia to meet to meet the demand for cash promptly and fully. The banks have to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large

portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that the can have adequate profits without sacrificing liquidity.

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

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

2.1.3 Some Important Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

a) Deposits:

Deposit means the amounts deposited in different accounts such as fixed account, saving account, current accounts etc. of a bank or financial institution deposit is the main source of fund of the financial institution.

For a commercial bank, deposit is the most important source of the liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene, "A Bank's deposits are the amount that it owes to its customers". Deposits are the lifeblood of the commercial bank. Though they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits. For accounting and analyzing purpose, deposits are categorized in three headings:

1. Current deposits
2. Saving deposits and
3. Fixed deposits

b) Loan and advances:

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. But bank has to be more careful while providing loans and advances since they may must be realized at short period of time. And sometimes they may turn into bad debt. Therefore it is wise not to rely on them. At the time of emergency for all banks. A commercial bank hardly lends money for a long period of time. It lends money for a short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long term loan because it has to synchronize the loans and advances with the nature of deposits they receive loans and advances are provided against the security of the immovable and movable properties. Banks provide

the loans in the various overdraft cash credit, direct loans and discounting bills of exchange.

c) Investment on government securities, shares and debentures

Though a commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons.

Some of them are given as:

i) It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.

ii) It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.

iii) It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors' may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

d) Investment on Other Company's Share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank (NRB) directives. Now a day the commercial banks have purchased share and debenture of regional development bank, NIDC'S and other development banks.

e) Other Use of Fund

A commercial bank must maintain the must minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank .Again a part of the fund should be used for

bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationary etc.

f) Off-balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some example of these items is letter of credit, letter of guarantee, bills of collection etc. These activities are very important; as they are the good source of profit of bank through they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

2.2 Banking Risks

Normally, Banks confront different kinds of risks, which are categorized as follows:

Credit risk: Credit risk arises whenever another party enters into an obligation to make payment or deliver value to the bank. This type of risk is mostly associated with the lending.

Liquidity Risk: Liquidity risk arises when bank itself fail to meet its obligation. The bank required to make payments to the different parties at different times, when they fall due to other parties, which is the liquidity risk.

Yield Risk: It is the risk that bank's assets may generate less income then expense generated by its liabilities.

Operational Risk: the risk is failure in the banks procedures or controls, whether from external or as a result of error or fraud within the institution is the operational risk.

Market Risk: the risk of loss resulting from movements in the market price of financial instruction in which the bank has a position is the market risk. Such instruments include bonds, equities, foreign exchange and associated derivative products.

Ownership/Management Risk: The risk that shareholders, directors or senior management be unfit for their respective positions or dishonest.

2.3 Concept of Investment

Investment is concerned with the management of an investors wealth which are the sum of current income and the present value of all future income funds to be invested come

from assets already owned, borrowed money and saving or forgone consumption by forgoing today and investing the saving, investors expects to enhance their future consumption possibilities i.e., they are invested to increase wealth. In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of others for their use, in return for a proper instrument entitling the holders to fixed income payments or the participation in expected profit. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment. For our purpose in the study of the financial institutions the investment and investment problem will revolve around the concept of managing the surplus financial assets in such a way which will lead to the wealth maximization &providing a significant further source of income(Limbu, 2008).

Features of sound lending & investment policy:

The income & profit of the bank depends upon its lending procedure lending policy& investment of its fund in different securities. The greater the credit created by the bank the higher will be the profitability. A sound lending and investment policy is not only prerequisite for bank's profitability, but also crucially significant for the promotion of commercial savings of a backward country like Nepal. Some necessities for sound lending and investment policies which most of the banks must consider can be explained as under (Ojha, 1997):

a) Safety and security:

A bank should be very much conscious in investing procedures and sectors. It should never invest its funds on those securities, which are subjected to too much of volatility (Depreciation and Fluctuation) because a little difference may cause a great loss. It must not invest its fund into Speculative businessman, who may be bankrupt at once and who may earn millions in a minute also. The bank should accept that type of securities, which are commercial, durable, marketable and high market prices. In this case, "MAST" should be applied for the investment. Where,

M- Marketable

A-Ascertainable

S-Stability

T-Transferability

b) Profitability:

The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. A good bank is one, who invests most of its fund in different earning assets standing safety from the problem of liquidity i.e. keeping cash reserve to meet day to day requirement of the depositors.

c) Liquidity:

Liquidity is the ability of the firm to satisfy its short term obligations as they come due. Generally people use deposit their earnings at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities or at the time of lending so that it can meet current or short term obligations when they become due for repayment.

d) Purpose of Loan:

In the viewpoint of security, a banker should always know that why a customer is in need have loan. If a borrower misuses the loan granted by the bank, he can never repay therefore in order to avoid this situation each and every bank should demand all the essential detailed information about the scheme of project or activities.

e) Diversification:

A bank should not lay all its eggs on the same baskets. This saying is very important to the bank and it should be always careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average, if a security of a company is deprived of; there may be an appreciation in the securities of other companies. In this way, the loss can be recovered(Wolf, 2002).

f) Tangibility:

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible property doesn't yield an income apart from intangible securities, which have lost their value due to price level inflation.

g) Legality:

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by NRB, ministry of finance, ministry of law and other while mobilizing its funds.

h) National Interest

In addition to its own profitability the bank should also consider the national interest. Even though the bank cannot get maximum return form such investment, it should carry out its obligation toward the society and the country. The bank is required to invest on such sectors as per the Government and Nepal Rastra Bank's instruction. Investment on government bonds, priority and deprived sector lending are the examples of such investments.

2.3 Review of Books and Articles

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

Pandey (1999), made a study on investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than according profit. It may also be pointed out of that investments decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's fund maximization. An investment wills all to the shareholder's wealth if it yields benefit in excess to the minimum benefits as per the opportunity cost of capital.

Shrestha(1995) made a study on portfolio behavior of commercial banks in Nepal where he said that "The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks if based on the profit maximizing of the institution as well as the economic enhancement of country.

Baxley (1987) made a study on the Investment policy fixed responsibilities for the investment disposition of the bank's assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets. He found that Financial Investment is a form of this general or extended sense of the term. It means an exchange of financial claims, stock and bonds (collectively termed securities), real estate mortgages etc. the term "financial investment" is often used by investors to differentiate between the pseudo-investment concept of the consumer and the real investment of the businessman. Semantics aside, there is still a difference between and "Investment" in a ticket on a horse and the construction of a new plant, between the pawning of watch and the planting of a field of corn. Some investments are simple transaction among people other involve nature.

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

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

He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate policy.

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

Shrestha(2055), presented the objective to make and analysis of contribution of commercial banks lending to the Gross Domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology. "She has considered GDP as the depended variable and various sectors of lending viz. Agriculture, industrial, commercial, service and general and social sectors and independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analysis have shown that all the variable expect service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive on GDP by the lending of commercial banks in various sectors of economy, expect service sector investment.

Moursis(1990)in his discussion paper, "Latin American's Banking system in the 1980's has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While analysis loan portfolio quality, operating efficiency and soundness of bank investment management has largely been over looked. The huge losses mow find in the bank's portfolio in many developing countries and testimony to the poor quality of this oversight investment function. He further adds that management in financial institutions has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of lending and investment, high risk concentration, connected and insider lending loan mismatching .This has led manybanks of developing countries to the failure in 1980's. Besides this, he concluded that, Mobilization of domestic savings is

one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

2.5 Review of Thesis

Before this, various students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resource mobilization and capital structure have conducted several this works. Some of them as supposed to be relevant for the study are presented below:

Silwal (1980), has conducted a study on "Lending policy of commercial banks in Nepal" with the objective of analyzing the role of commercial banks in its historical prospective.The research was conducted mainly on the basis of secondary data. He found that Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branched in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors

By paying higher, interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

Bohara(1992*)*, made an Endeavour to examine the comparative financial performance of Nabil and BIBL in term of their liquidity activity and profitability along with other parameter. "He has concluded that bank performance cannot be judge solely in term of profit, as it may have earned profit by maintaining adequate liquidity and safety position. But it, should also be evaluate on the ground of the contribution, it has made to the community, government and national economy or on the social and national priority discharged by banks. This means, the banks should come forward with national priority tasks i.e. more deposit collection, resource mobilization. The tasks are possible when they expend branches, more employment opportunities, service to more customers, developing skills and expertise in local staffs, satisfactions on profit earning and

exchange of autonomy provided by them. Following their rules, regulations, instruction directives and priorities can discharge the accountability."

Shrestha (1993) conducted a study on "Investment planning of commercial banks in Nepal" with the objective to evaluate the financial performance of commercial banks in Nepal.

The research was conducted on the basis of primary and secondary data of commercial banks. The findings of the study are, The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.

The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically some. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.

The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards in shares and securities. Yield from the security has been found to be satisfactory.

Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990. Investment in various sectors has a positive impact on the national income from their respective sectors. Lending in priority sector showed cottage and small industry sector sharing higher loans. Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important flowed by social and industrial loans. The loan loss ratio has been found to be increase with low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and Treasury bill rate. The investment of commercial banks on government securities has been observed to be affected by total deposit, cash reserve requirements and treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition.

Shahi (1999) conducted a study on "Investment policy of commercial banks in Nepal" with the main objective To evaluate the liquidity, asset management efficiency and the profitability and risk position of Nepal bank limited to Joint venture banks. He found that,The liquidity position of NBL is comparatively better than that of the JVBs. Highly fluctuation liquidity position shows that the bank has not formulated any stable policy. It can also be conducted that NBL has more portions of current assets as loan and advances but less portion as investment on government securities.

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

He concluded that, high portion of cash and bank balance in NBL shows its negligence and inefficiency in its best utilization. It has not considered the cost of fund and its opportunity costs. Higher percentage of loan loss ratios shows that NBL is weak in credit collection. There is absence of a sound credit collection policy. NBL has not followed innovative appraisal, improper collateral evaluation, irregular supervision, etc. is a severe problem for the bank's success.

Tuladhar (2000), conducted a study on "A study on investment policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal" with the objective of studing the fund mobilization and investment policy with respect to fee-based off – balance sheet transaction and fund based on balance sheet transactions.The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.

He found that JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial

sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.

He concluded that The profitability position of Standard Chartered Bank Ltd. is higher than Nabil Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently. The volume of growth ratio of loan and advances of Standard Chartered Bank Ltd. is found higher than that of Nabil Bank Ltd. But, lower than Himalayan Bank Ltd. It indicates that all the JVBs use to provide loan and advances in increasing manner. From the analysis of growth ratio of total investment, it is found that Standard Chartered Bank Ltd. and Nabil Bank Ltd. have negative growth ratio i.e., they used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.

The growth ratio of net profit of Standard Chartered Bank Ltd. seemed to be more Satisfactory than Nabil Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

Shrestha (1995), explains in her book, "Portfolio behavior of commercial banks sector of the economy including agriculture, industry, commercial& social service sectors. The lending policy of commercial is based on the profit maximizing of the institution as well as the economic enhancement of the country."

From above definition, it is clear that an investment means to trade a known rupee amount for some expected future steam of payment or benefits that will exceed currently outlay by an amount that will compensate the investor for the time of uncertainly involved in expected future cash flows. This investment is the most important function of commercial banks. It is very challenging task for commercial banks. So, a bank has to be very cautions while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

Thapa (2002),found that the liquidity position of NB bank is comparatively better than that if Nabil and NGBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. It has good deposit collection, it has made enough loan and advance but it has made the negligible amount of investment in government securities. The NB bank is not in better position regarding its on balance

as- well-as off-balance activities in compare to Nabil and NGBL. It does not deem to follow any definite policy regarding the management of its assets. She further found that the profitability position of NB bank is comparatively worse than that of Nabil and NGBL. The bank must maintain its high profit margin for the well being in future. NB bank has maintained high a growth rate in comparison to other banks through it is not successful to make enough investment. And can say that the bank is successful in increasing its sources of funds and its mobilization. Finally she concluded that there is significant relationship between 'deposit and loan and advance' and 'outside assets and net profit' of NB bank, Nabil and NGBL. But there is no significant relationship between deposit and its investment of NB bank only. NB bank has maintained high growth rates in comparison to other banks through it are not successful to make enough investment. The position of NB bank in regard to utilization of the fund to earn profit is not better in compare to Nabil and NGBL. NB bank has not provided ATM facility, credit card facility, any branch bank facilities and web sit etc. But these facilities are providing by the Nabil and NGBL.

Gurung (2006), explored in his research "lending policy and recovery management of Standard Chartered Bank Nepal ltd. and Nabil bank ltd." has found out the following result.The deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue.

Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. He concluded that is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and Nabil Bank.

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

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of Nabil through loan and advances. Earning per share and The Price earning ratio of Nabil is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of Nabil is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

Shrestha (2004) on his thesis entitled **"**Role of RastriyaBanijya Bank in priority sector credit & its recovery**"** has tried to reveal the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB and to analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB. He found that Bank's total no. of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.RBB is very much success in complying the NRB policy. Bank was not able to fully utilize the collected deposits in a proper way.The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of

repayment to disbursement is in increasing trend.Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Pandit (2006)conducted a research entitled "Investment Policy Analysis of Joint Venture Bank" with special references to NSBIL and EBL with the objective of evaluating the liquidity management, assets management, efficiency, profitability position, risk position and investment practices of NSBIL, BOKL and EBL. He found that NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL and BOKL has not been satisfactory.NSBL's loans and advance to total deposited ratio is lower than EBL and BOKL. It doesn't seem to follow any definite policy regarding the management of its assets. The profitability position of all the banks is not satisfactory the banks haven't adopted sound investment policy in utilizing their surplus funds.BOKL and EBL are exposed to high credit risk and capital risk.NSBIL and BOKL have not been successful to increase their sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit. He concluded that there is significant relationship between deposits and total investment of BOKL and EBL but the same is not significant of NSBIL.

Bhandari (2004)conducted a study on Investment policy of commercial banks with special reference to Nepal SBI Bank Ltd." with the objective of evaluating the liquidity, asset management, efficiency, portfolio management and profitability position of the bank and to analyze adopted utilization and its relationship with total investment and net profit of the bank.

He found that Liquidity position of the bank is good enough to meet the short-term obligation but shows the lack of additional fund management to income generating assets. Similarly the bank does not seem to have proper policy to increase the fee-based OBS transaction in comparison to loan and advances. Bank should careful of Non-performing loans and adopting the appropriate policies to solve the problem although bank has been able to reduce this NPA proportion significantly to total loan advances

forthcoming year after 2001.Despite this Bank has been able to meet the NRB obligations it does not have accepted prioritized priority sector in loaning even it was in increasing trend.

He concluded that because of decreasing profitability scenario over the year's accounts investment policy adopted by the bank is not appropriate and it does impact in the growing process negatively. Despite the substantial increment to the amount of loans & advances, profitability has not increased enough shows the lack of overall investment policy in income generating sectors.

Shahi (2001) conducted a study on "Investment policy of commercial banks in Nepal"with the main objectives of evaluating the liquidity, assets management efficiency and the profitability and risk position of Nepal bank limited to the joint venture banks and to discuss fund mobilization and investment policy of Nepal bank limited in respect to its fee based off-balance sheet transaction and fund based on-balance sheet transaction in comparison to the joint venture banks.

He found that the mean ratio of loan and advances to total deposit of NBL is slightly lower then that of the JVBs. Likewise NBL's ratios seem to be more variable than that of the JVBs. The mean ratio of total investment to total deposit of NBL is lower then that of the JVBs. The mean ratio of investment on government securities to total working find of NBL is slightly lower than that of the JVBs. The mean ratio of total off-balance sheet operation to loan and advances of NBL is found significantly lower than that of JVBs. So it was concluded that NBL is comparatively less successful in on – balance sheet as well as off-balance sheet operations than that of the JVBs. It hasn't followed any definite policy with regard to the management of its assets. Profitability position of NBL is comparatively not better than that of the JVBs. it indicates that NBL must maintain its high profit margin in future.There is comparatively higher risk in NBL than that of the JVBs regarding various aspects of the banking function.

From the analysis of different growth ratios he concluded that NBL has not been more successful to increase its sources of funds, i.e. deposits and mobilization of it. i.e., loan and advances and total investment. Similarly it seems to have failed to maintain high growth rate of profit in comparison to that of other JBBs. High portion of cash and bank balance in NBL shows its negligence and infancy in its best utilization. It has not

considered the cost of fund and its opportunity costs. Higher percentage of loan ratios shows that NBL is weak in credit collection. There is absence of a sound credit collection policy. NBL has not followed innovative approach toward lending. Poor quality of loan due to lack of necessary skills of project appraisal, improper collateral evaluation, irregular supervision, etc. is a severe problem for the bank's success.

2.6 Research Gap

The purpose of research work is quite different from the studies presented in the literature review. This study focuses the effectiveness on investment policy analysis of Nepal Investment Bank Limited and Everest Bank Limited in comprehensive manner, considering the major items. The method of analysis is fully different. Financial tools and statistical tools used in this study are ratio analysis, trend analysis and correlation coefficient.

This Research work is also based on the current directives and circulars issued by NRB regarding investment policy. Also, the study is limited to the numerical data and the numerical values for measuring the investment policy, keeping the thought and intensions away.

This study covers two banks and has tried to indicate the effectiveness of investment policy of concern banks.

CHAPTER- III
RESEARCH METHODOLOGY

In order to reach and accomplish the objectives of the study, different activities has been carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.1 Research Design

To achieve the objective of this study, collaborativeresearch design have been used.

3.2 Sources of Data

There are two sources of data collection. The research is based on secondary source of data, the major sources of secondary data are Annual Report of concerned Banks, website, NRB directives and Economy survey of Government of Nepal and Ministry of Finance.

3.3 Population and Sample

The objective of the research is to explore and describe the portfolio management in Nepal from the investor's point of view. However, with regard to the availability of financial information, two samples were identified purposively from the banking sector. Here, the total 28 commercial banks shall constitute the population of the data and two banks under the study constitute the sample under the study. So among the various commercial banks in the banking industry Based on simple random sampling, Nepal Investment Bank and Everest Bank Limited has been selected as sample for the present. Likewise, financial statements of five years are selected as samples for the purpose of it.

3.4 Data Collection Procedure

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

3.5 Data Analysis Tools

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

1. Financial method.
2. Statistical method

3.5.1 Financial Tools

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

a. Cash and Bank Balance to Total Deposit Ratio: Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to

make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

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

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

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

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

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

$$\text{Investment on Govt. securities to total current assets ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment on Govt. Securities to total outside assets ratio

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

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

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

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

iii) Activity Ratios:

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

a.) Loan Loss Provision to Total Loans and Advances Ratio: This ratio describes the quality of assets that a bank is holding. Nepal Rastriya Bank has directed the commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful and loss on the basis of the maturity of principal to make the provision of 1, 25, 50, and 100 percentages

respectively. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. This ratio is calculated by dividing the loan loss provision by total loans and advances as presented here under;

$$\text{Loan loss provision to total loans and advances ratio} = \frac{\text{Total loan loss provision}}{\text{Loans and advances}}$$

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

$$\text{Non-performing loans to total loans \& advances ratio} = \frac{\text{Total non - performing loans}}{\text{Total loans \& advances}}$$

iv) Profitability Ratios:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

k. Earnings per Share (EPS): EPS refers to net profit divided by total numbers of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

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

3.5.2 Statistical Tools

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

i) Mean:

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

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

Where, $\overline{X}$ = Mean of the values
$\sum X$ = Summation of the values
N = No. of Observations

ii) Coefficient of Variation:

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

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

iii) Measures of Correlation:

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

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

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

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

σ_1 = Standard series of X

σ_2 = Standard series of Y

N = Number of pairs of Observations

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

iv) Trend Analysis:

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

y= a + bx

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Introduction, reviews of literature and research methodology are presented in the previous chapters that provide the basic inputs to analyze and interpret the data.

Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed investment policy of Everest Bank Limited and Nepal Investment Bank Limited. Different tables and diagrams are shown to make the analysis simple and understandable.

4.1 Financial Analysis

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

Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. EBL and NIBL. Some important financial ratios are calculated in the point of view of fund mobilization and investment patterns. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

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

4.1.1.1 Liquidity Ratio

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

A) Current Ratio

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

Table 4.1

Current Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	1.058	1.02	1.21	0.85	1.06	1.04	0.126	0.121
EBL	1.17	1.14	1.13	1.16	1.10	1.14	0.027	0.024

Source: Appendix 1

Table 4.1 shows the current ratio of selected commercial banks during the study period. The current ratio of NIBL and EBL is fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short- term obligations. In the case of NIBL the C.R. are in increasing in 2017/18 and EBL has high in 1.17. In an average, liquidity position of EBL is greater than NIBL i.e. 1.14>1.04 due to high mean ratio. So, EBL is sound in liquidity position than NIBL. Likewise, S. D. and C.V. of EBL is less than NIBL i.e. 0.024 < 0.124. It can be said that C.R. of EBL is more consistent than NIBL. Lastly from the above analysis it is known that all these two banks have not better liquidity position because the standard ratio is 1:1. They have not made this standard. Generally banks require more liquid assets with compare to current liabilities in order to provide better bank service but these two banks have less liquidity position.

B) Cash and Bank Balance to Total Deposit Ratio

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

Table 4.2

Cash & Bank Balance to Total Deposit Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V.

								(%)
NIBL	0.101	0.083	0.069	0.106	0.091	0.090	0.015	0.166
EBL	0.078	0.104	0.112	0.131	0.111	0.107	0.019	0.177

Source: Appendix 2

Table 4.2 revels that the Cash and Bank Balance to Total Deposit Ratio of NIBLand EBL are in fluctuating trend. The highest ratio of NIBL is 0.106 percent in FY 2016/17 and lowest is 0.069 percent in FY 2015/16. Similarly the highest ratio of EBL is 0.131 percent in FY 2016/17 and lower in 0.078 in 2013/14.

The mean ratio of NIBL and EBL are 0.090 times and 0.107 times respectively. EBL has higher ratio than the NIBL which shows its greater ability to pay depositors money as they want. Similarly the coefficient of variation of NIBL is 0.166 times and EBL is 0.177 times. S.D. of NIBL is lower than the EBL

The above analysis has to conclude that the cash and bank balance position of EBL with respect to NIBL is better in order to serve its customer's deposits. It implies the better liquidity position of EBL. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas. Thus EBL may invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

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

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

Table 4.3

Cash & Bank Balance to Current Asset Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.084	0.079	0.082	0.092	0.083	0.084	0.005	0.059

EBL	0.066	0.091	0.098	0.112	0.099	0.093	0.017	0.18

Source: Appendix 3

Table 4.3 reveals that cash and bank balance to current assets ratio of NIBL is in fluctuating trend. But ratio of EBL is continuously increasing to fiscal year 2016/17. The mean ratio of NIBL and EBL is 0.084 times and 0.093 times respectively. The higher mean ratio shows EBL's liquidity position is better than that of NIBL. Moreover the .S.D and C.V. of EBL is higher than NIBL. The higher C.V. of EBL indicates that it has more inconsistency in the ratios in comparison to NIBL.

Regarding the above analysis, it can be concluded that EBL has better ability to meet daily cash requirements of their customers but there is not any fix policy to maintain the standard ratio of cash balance over the period.

D) Investment on Government Securities to Current Assets Ratio

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

Table 4.4

Investment on Government Securities to Current Assets Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.253	0.230	0.298	0.163	0.122	0.213	0.071	0.333
EBL	0.252	0.161	0.210	0.170	0.120	0.183	0.050	0.274

Source: Appendix 4

Table 4.4 shows investment on government securities to current assets ratio of NIBL and EBL. Both Banks has fluctuating type ratios. Similarly, NIBL follows more increasing trend in investment on government securities to current assets ratio. The table shows the highest ratio of NIBL is 25.3 percent in FY 2013/14 and lowest is 12.2 percent in FY 2017/18.In the same way, the highest ratio of EBL is 25.2 percent in FY 2013/14 and lowest is 12 percent in FY 2017/18.

The mean ratio of NIBL is 0.213 i.e. 21.3 percent which is higher than the mean ratio of EBL 0.183 i.e. 18.3 percent. Similarly S.D. is 0.071 and 0.050 and C.V is 0.333 and 0.274. The higher ratio of NIBL indicates the better liquidity position than EBL. The higher C.V. of NIBL shows the more inconsistency in the ratios with compare to EBL. From the above analysis it can be concluded that NIBL has maintained higher ratio of investment on government securities.

4.1.1.2 Assets Management Ratio

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

A) Loan and Advance to Total Deposit Ratio

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

Table 4.5

Loan and Advance to Total Deposit Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.729	0.661	0.692	0.759	0.787	0.726	0.0503	0.069
EBL	0.73	0.754	0.710	0.751	0.765	0.742	0.022	0.0296

Source: Appendix 5

Table 4.5 shows that the loan & advances to total deposit ratio of NIBL and EBL is fluctuating trends. The ratio of NIBL has more fluctuating trend. EBL bank has higher ratio than that of NIBL which is shown by higher mean ratio. It indicates the better mobilization of deposit by EBL bank. The mean, S.D. and C.V of NIBL is 0.726, 0.0503 and 0.069 similarly EBL has 0.742, 0.022 and 0.0296.By the analysis, EBL has little used the deposit in profit generating sector than that of NIBL

B) Total Investment to Total Deposit Ratio

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

Table 4.6

Total Investment to Total Deposit Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.320	0.290	0.322	0.241	0.202	0.275	0.0522	0.189
EBL	0.314	0.211	0.304	0.274	0.211	0.263	0.0497	0.189

Source: Appendix 6

Table 4.6 shows that total investment to total deposit ratio of NIBL and EBL. Both banks have fluctuating trend total investment to total deposit ratio. Higher ratio of NIBL is 32.2 percent in FY 2015/16 and lowest ratio is 20.2 percent in FY 2017/18 in the same way the highest ratio of EBL 31.4 percent in FY 2017/18 and lowest ratio is 21.11 percent in FY 2014/15and 2017/18. The higher mean ratio of NIBL shows the bank is mobilizing its funds on investment in various securities more efficiently. From the above analysis, it can be concluded that NIBL is more successful in utilizing its total deposit by investing in marketable securities. The C.V. of both bank are equal its shows the bank has same informality of ratios.

C) Loan & Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in

mobilizing their total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of NIBL and EBL as follows.

Table 4.7

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.595	0.599	0.591	0.645	0.703	0.627	0.0479	0.076
EBL	0.612	0.649	0.614	0.637	0.675	0.638	0.026	0.041

Loan & Advances to Total Assets Ratio

Source: Appendix 7

Table 4.7 shows the loan & advances to total assets ratio of NIBL and EBL during the study period. Loan & advances to total assets of NIBL is increasing trend and EBL has fluctuating trend ratio. The higher mean ratio of NIBL is 70.30 percent whereas EBL has 67.5 percent. This ratio shows NIBL has utilized its total assets more efficiently in the form of loan &advances. The higher C.V. of NIBL states that it has less uniformity in these ratios throughout the study period than that of EBL.

From the above description, it can be concluded that EBL bank has maximum utilized its assets in the form of loan & advances. S.D. and C.V. of EBL are lower than the NIBL. So, more efficiency in managing its total assets by granting loan & advances by NIBL is required.

D) Investment on Government Securities to Total Assets ratio

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

Table 4.8

Investment on Government Securities to Total Assets ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.25	0.218	0.216	0.16	0.119	0.193	0.052	0.271
EBL	0.25	0.16	0.208	0.168	0.119	0.181	0.049	0.273

Source: Appendix 8

Table 4.8 reveals that the investment on government securities to total asset ratio of NIBL and EBL. Investment on government securities to total asset ratio of NIBL and EBL both have fluctuating trend. The average mean of NIBL i.e. 19.3% is slightly higher than that EBL i.e. 18.1%. The higher ratio of NIBL reveals that NIBL is strong enough to mobilize there total assets as investment in government securities. There is more variability in the ratio of EBL as compare to NIBL. It shows there is more inconsistent in the ratio of EBL during the study period, which is indicated by higher C.V. of EBL. From the above analysis it can be concluded that NIBL has invested it more portion of total assets. But there is inconsistent in its investment.

4.1.1.3 Profitability Ratio

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

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

A) Return on Loan & advances

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

Table 4.9

Return on Loan & advances

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)

NIBL	0.023	0.024	0.028	0.02888	0.029	0.0260	0.0029	0.11
EBL	0.024	0.022	0.024	0.022	0.025	0.0235	0.0013	0.055

Source: Appendix 9

Table 4.9 reveals the return on loan & advances of NIBL and EBL. As the mean return ratio states that NIBL has greater return on loan & advances than that of EBL but the return is not consistent throughout the study period. Thus it can be said that NIBL seems to be success to earn higher return on its loan & advances in comparison to EBL. Both banks have small mean returns on its loan & advances as its mean ratio shows. Both banks seem to have poor performance in order to have returns from loan & advances because of heavy less than five percents of return on loan & advances. Thus in conclusion it can be said that NIBL seems to be success to earn high return on its loan & advances with comparison to EBL.

B) Return on Total Assets

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

Table 4.10

Return on Total Assets Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.013	0.014	0.0.016	0.018	0.020	0.0165	0.0029	0.173
EBL	0.015	0.015	0.015	0.014	0.017	0.0150	0.0010	0.068

Source: Appendix 10

Table 4.9 shows the Return on Total Assets of NIBLand EBL. This table states the net profit to total assets of selected banks during the study period. NIBL has constantly increasing trend of return on its total assets but EBL has constant and decreasing trend of return on total asset. It indicates low utilization of asset by EBL. It is observed that NIBLis success to have higher return on assets whereas S.D. and C.V of EBL has relatively low it indicate more uniformity in the ratios.

C) Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of

bank. It reflects, the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of NIBL and EBL during the study period.

Table 4.11

Return on Equity Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.196	0.193	0.281	0.264	0.269	0.241	0.0425	0.176
EBL	0.202	0.205	0.246	0.247	0.234	0.227	0.0219	0.096

*Source: Appendix*11

Table 4.11 listed table shows Return on Equity Ratio of NIBL and EBL. Above calculated statistic indicate that NIBL has fluctuating return on equity ratio. But EBL has smoothly increasing their ROE ratio till 2015/16. The mean ratio of return on equity of NIBL is little higher than the EBL its indicate total equity has more utilized by NIBL rather than EBL. NIBL has relatively more inconsistency throughout the study period because its C.V is higher.

D) Total Interest Earned to Total Assets Ratio

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

Table 4.12

Total Interest Earned to Total Assets Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.059	0.062	0.058	0.056	0.058	0.059	0.002	0.034
EBL	0.068	0.061	0.057	0.053	0.006	0.059	0.006	0.097

Source: Appendix 12

Table 4.12 shows Total Interest Earned to Total Assets Ratio of NIBL and EBL. The calculated statistics shows that NIBL and EBL have same power to earn interest on its total assets which is justified by same mean ratio. The mean ratio of NIBL is 5.9 % and EBL has 5.9%. Moreover, NIBL also has higher uniformity in the ratios during the study period. It can be concluded that both NIBL and EBL has successfully mobilized their fund in interest generating assets.

E) Total Interest Earned To Total outside Assets Ratio

The main assets of commercial banks are it's outside assets, which includes loan & advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa. The following Table No. 4.15 exhibits the ratio of total interest earned to total outside assets of NIBL and EBL during the study period.

Table 4.13

Total Interest Earned To Total Outside Assets Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.054	0.057	0.054	0.056	0.058	0.056	0.0018	0.032
EBL	0.061	0.062	0.052	0.051	0.058	0.057	0.0049	0.086

Source: Appendix 13

Table4.13shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank NIBL and EBL are in fluctuating trend. The highest ratio 5.8 percent in 2017/18and lowest ratio is equal in 2013/14 and 2015/16 of NIBL. Similarly the highest ratio 6.2 percent in 2014/15 and lowest ratio 5.1 percent is in 2016/17 of EBL.Here Everest bank seems to have more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent in returns.

F) Total interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the

bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2013/14 to 2017/18 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table 4.14

Interest Earned to Operating Income Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	1.85	1.67	1.79	1.75	1.72	1.76	0.066	0.037
EBL	2.08	1.92	1.99	1.91	1.88	1.96	0.079	0.040

Source: Appendix 14

Table 4.15 shows Interest Earned to Operating Income Ratio of NIBL and EBL. Both banks has fluctuating ratio of study period. EBL has greater share of total interest earn in its total operating income. The mean, S.D. and C.V of NIBL is 1.76, 0.066 and 0.037 times similarly EBL have 1.96, 0.079 and 0.040 times.

It can be concluded that EBL has successfully mobilized its funds in interest generating assets as compare to NIBL in whole study period. Above statistics shows that greater part of total operating income of both banks is covered by total interest.

G) Total Interest Paid to Total Assets Ratio

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

Table 4.15

Interest Paid to Total Assets Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.030	0.0245	0.0233	0.0236	0.0253	0.025	0.0028	0.111
EBL	0.0329	0.0255	0.0251	0.0241	0.0023	0.026	0.0038	0.147

*Source: Appendix*15

Table 4.15 shows Total Interest Paid to Total Assets Ratio of NIBL and EBL. NIBL has fluctuating trend of interest paid to total asset ratio and EBL has the decreasing trend of interest paid to total asset ratio. Average mean of EBL is little higher than the NIBL it indicate EBL performing better in interest paid to total asset. The S.D. and C. V. of EBL is greater than NIBL it indicate high risk and insignificant of EBL rather than NIBL.

4.1.1.4 Risk Ratio

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

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 an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

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

Table 4.16

Liquidity Risk Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.101	0.083	0.069	0.106	0.091	0.090	0.015	0.166
EBL	0.078	0.104	0.112	0.131	0.111	0.107	0.019	0.177

Source: Appendix 16

Table 4.16 analysis, cash and bank balance to total deposits ratio of the NIBL is in fluctuating trend whereas ratio of EBL is in increasing trend in 2016/17 then decreasing trend over the study period. The higher ratio of NIBL and EBL are 10.6% and 13.1% respectively in the same year i.e. 2016/17.The average mean ratio of EBL is greater than that of NIBL (i.e.10.7%>9%). It signifies that EBL has sound liquid fund to make immediate payment to the depositors

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

Table 4.17

Credit Risk Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	0.85	0.86	0.87	0.85	0.88	0.86	0.013	0.015
EBL	0.88	0.83	0.88	0.87	0.086	0.71	0.348	0.491

Source: Appendix 17

Table 4.17 shows the credit risk ratio of NIBL and EBL. The analysis shows that NIBL and EBL have the credit risk ratio in fluctuating trend. NIBL has highest and lowest ratio of 88% and same 85% respectively. Similarly EBL has the highest and lowest ratio of 88% and 8.6% respectively. The mean ratio of EBL is lower than that of NIBL (i.e.71 %< 86%). the S.D. and C.V. both are higher of EBL i.e 0.348 > 0.013 and 0.491 > 0.015 than the NIBL.

4.1.1.5 Other Ratios

A) Earning Per Share

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is

paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table 4.18

Earnings Per Share

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	40.7	30.9	29.3	29.3	35.7	33.18	4.43	0.32
EBL	36.04	78.04	40.33	32.48	32.78	53.93	23.25	0.28

Source: Appendix 18

Table 4.18 shows that earning price per share of NIBL and EBL. Both banks have decreasing trend of EPS. The S.D of EBL is higher than NIBL. C.V. of EBL is lower. The average EPS is greater for EBL with comparison to NIBL. The higher EPS for EBL shows the higher capacity of earnings. But at the same time it is also influence by number of shares outstanding.

C) Market Price per Share

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

Table 4.19

Market Price Per Share

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	960	704	1040	770	621	819	157.1954	0.788
EBL	2631	2120	2285	1353	663	1810.4	709.961	0.619

Source: Appendix 19

Table 4.19 shows market price of the share of NIBL and EBL. Both bank NIBL and EBL has decreasing trend of Market price. It indicate lowperformance of company and low expectation by shareholder average mean price of EBL is greater the than NIBl i.e. 1810.4 >819 it indicate good profit of EBL rather than NIBL.

D) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security

analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table 4.20

Price Earning Ratio

Banks	Fiscal Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	Mean	S.D.	C.V. (%)
NIBL	23.6	22.8	35.5	26.3	17.4	25.12	5.94	0.52
EBL	30.58	27.17	83.94	41.66	20.23	40.72	22.69	0.57

Source: Appendix 20

Table 4.20 shows the price earning ratio (PE ratio) of NIBL and EBL. Both Banks has fluctuating trend of price earning ratio. Both banks have high PE ratio in the FY 2015/16. Above analysis indicate share holder of EBL take more benefit. . The S.D and C.V of EBL is high than the NIBL it indicate its risk to invest in NIBL rather than the EBL.

4.2 Statistical Analysis

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

4.2.1 Coefficient of Correlation Analysis

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

A) Correlation Coefficient between Deposit & Loan & Advances

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

Table 4.21

Correlation between Deposit and Loan & Advances

Banks	Evaluation Criterions			
	r	R^2	P. Er.	6 P. Er.
NIBL	0.993	0.986	0.00423	0.0254
EBL	0.998	0.996	0.00121	0.00423

Source: Authors Calculation

Table 4.21 shows that coefficient of correlation between deposits and loan & advances of NIBL is 0.993. Which is indicates the positive relationship between these two variables. It refers that deposit and loan & advances of NIBL move together very closely. Moreover, the coefficient of determination of NIBL is 0.986. It means 98.6 percent of variation in loan & advances has been explained by deposit. Similarly, the correlation coefficient is significant because the correlation coefficient is greater than the relative value of 6 P. Er. in other words, there is significant relationship between deposits and loan & advances.

Likewise, the correlation coefficient between deposit and loan & advances of EBL is 0.998 which indicates that there is high positive correlation between these two variables. Similarly, value of coefficient of determination is calculated as 0.996. It refers that 99.6 percent variance in loan & advances are affected by total deposit. Since the correlation coefficient is greater than 6 P. Er, the relationship between loan & advances and deposit of EBL is significant.

It can be concluded that both NIBL and EBL have positive relationship between deposit and loan & advances. the relationship is also significant in the case of both banks the

value of coefficient of determination of both banks shows high percentage This indicates that NIBL and EBL are successful to mobilize their deposit in proper way.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. The following Table No. 4.22 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R^2) of NIBL and EBL during the study period.

Table 4.22

Correlation between Deposit and Total Investment

Banks	Evaluation Criterions			
	r	R^2	P. Er.	6 P. Er.
NIBL	0.681	0.464	0.1625	0.749
EBL	0.897	0.8046	0.0592	0.3552

Source: Authors Calculation

Table 4.22 shows that the coefficient of correlation between total deposit and total investment of NIBL is 0.681. It shows the moderate degree positive correlation. In addition, coefficient of determination of NIBL is 0.464. It means only 46.4 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P. Er. It refers that there is no significant relationship between total deposit and total investment of NIBL.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of EBL than the NIBL which is indicator by correlation coefficient of 0.897. The value of coefficient of determination is found 0.8046 this refers that 80.46 percent of the variation in total investment is explained by total deposit.

From the above analysis, the conclusion can be drawn that EBL has high degree positive correlation between total deposit and total investment than the NIBL. This indicates that EBL is successful to mobilize its deposit in proper way in comparison to NIBL.

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

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

Table 4.23

Correlation between Loan and advance and Net profit

Banks	Evaluation Criterions			
	r	R^2	P. Er.	6 P. Er.
NIBL	0.997	0.994	0.0018	0.011
EBL	0.991	0.982	0.0054	0.033

Source: Authors Calculation

Table 4.23 shows correlation coefficient between, Loan and advance and net profit is 0.997. It refers that there is positive correlation between these two variables. Here, 99.4 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.994 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise EBL has relatively low degree positive correlation i.e. 0.991 between Loan and advance and net profit. The coefficient of determination R^2 is 0.982 which indicates that 98.2 percent variability in net profit is explained by Loan and advance. Moreover, greater correlation coefficient than 6 P.Er. Shows that the relationship between Loan and advance and net profit is significant for EBL. In calculation, NIBL has more significant relationship between Loan and advance and net profit than that of EBL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P. Er.

Table 4.24

Correlation between Total Investment and Net Profit

Banks	Evaluation Criterions			
	r	R^2	P. Er.	6 P. Er.
NIBL	0.687	0.472	0.16	0.96
EBL	0.85	0.7225	0.084	0.504

Source: Authors Calculaion

Table 4.24 shows correlation coefficient between total investment and net profit of NIBL is 0.687 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of NIBL is 0.472. It means only 47.2 percent of Profit is contribute by total investment. Obviously, this correlation is not significant at all due to coefficient of determination is lower than P. Error. On the other hand EBL has high positive correlation between total investment and net profit coefficient of determination of EBL is 0.7225 It means 72.25 percent of Profit is contribute by total investment But this relationship is significant as its correlation coefficient is higher than 6 P. Er. i.e., 0.504. EBL has more significant relationship between total investment and net profit than that of NIBL.

Thus it can be concluded that the degree of relationship between total investment and net profit of NIBL is little poor than the EBL. This little correlation coefficient indicates that the bank has poor performed in order to generate net profit.

E) Coefficient of correlation of Total Deposit between NIBL and EBL

Coefficient of correlation of total deposit between NIBL and EBL and shows their linear relationship.

Table 4.25

Correlation between Total Deposit of NIBL and EBL

Evaluation Criterions			
R	R^2	P.Er.	6 P.Er.
0.997	0.994	0.00182	0.011

Source: Authors Calculation

Table 4.25 shows how the total deposit of NIBL and EBLis related 0.997 of correlation coefficient shows that there is highly positive correlation between this two banks in this regard. But this correlation coefficient is also significant because the correlation coefficient is high than 6 P. Er. As the 0.994 of coefficient of determination, which

shows the 99.4 percent of the degree of relationship. The degree of relationship between these two banks is not also high.

F) Coefficient of correlation of Total Investment between NIBL and EBL

The coefficient of correlation of total investment between selected commercial banks is shown as follow:

Table 4.26

Correlation between Total Investment of NIBL and EBL

Evaluation Criterions			
R	R^2	P. Er.	6 P. Er.
0.815	0.664	0.102	0.61

Source: Authors Calculation

Table 4.26 reveals that there is positive correlation between NIBL and EBL in case of total investment. It implies that the total investment of NIBL and EBL move in the same direction. Here $R^2 > 6$ P. Er. Therefore correlation coefficient is significant. This can be said that both NIBL and EBL increase its total investment as same direction. The coefficient of determination is 0.664 which shows the 66.4 percent of the degree of relationship.

G) Coefficient of Correlation of Loan & Advances between NIBL and EBL

The coefficient of correlation of loan & advances between NIBL and EBL has been given below.

Table 4.27

Correlation between Loan & Advances of NIBL and EBL

Evaluation Criterions			
R	R^2	P.Er.	6 P.Er.
0.991	0.982	0.0054	0.033

Source: Authors Calculation

Table 4.27 shows that, there is high degree positive correlations, between the loans & advances of NIBL and EBL. The correlation coefficient between two banks is 0.991. It means loan & advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan & advances of these two banks because correlation coefficient is greater

than 6 P.Er. The coefficient of determination is 0.982 which shows the 98.2 percent of the degree of relationship.

H) Coefficient of Correlation of Net Profit between NIBL and EBL

The coefficient of net profit between the selected commercial banks shows the relationship between the banks.

Table 4.28

Correlation between Net Profit of NIBL and EBL

Evaluation Criterions			
R	R^2	P.Er.	6 P.Er.
0.995	0.99	0.0030	0.018

Source: Authors Calculation

Table 4.28 shows that, there is high degree positive correlation between profits of NIBL and EBL, which is indicated by correlation coefficient of 0.995. This relationship is significant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.99, which shows the 99 percent of the degree of relationship.

4.2.2 Time Series Analysis (Trend Analysis)

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

a) Trend Analysis of Total Deposit:

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

$Y = a + bx$
Where,
Y= dependent variable,
a=Y-intercept,
b=slope of trend line or annual growth rate,
X = deviation from some convenient time periods.

Let trend line be

$Y = a + b\,x$……. (I)
Where x = X - Middle year
Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NIBL
a =11078.414
b = 1963.036

EBL
a = 14825.32
b = 3991.335

Where as

Yc = 11078.41 + 1963.04 X of NIBL

Yc = 14825.32+3991.335 X of EBL

Table 4.29

Trend analysis of Total Deposit of NIBLand EBL		
Year(x)	NIBL	EBL
2013/14	73831.4	18186.3
2014/15	90631.5	23976.3
2015/16	107867	91638.9
2016/17	124973	94091.9
2017/18	136586	115512
2018/19	154733	148429
2019/20	170034	177033
2020/21	185067	192844
2021/22	200369	223293
2022/23	216728	249540
2023/24	231684	272806
2024/25	247265	297613
2025/26	262936	324939

Source: Annul Report of Concern Bank

Figure 4.1

Trend analysis of Total Deposit of NIBLand EBL

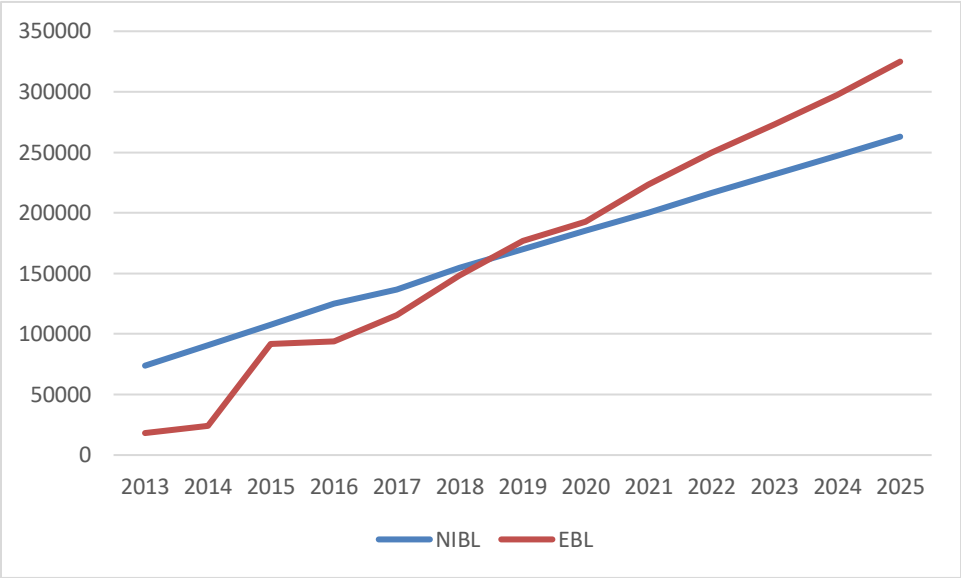

Table 4.29 and figure 4.1 shows that total deposit of both NIBL and EBL. Both Banks is in increasing trend. The rate of increment of total deposit for EBL seems to be higher than that of NIBL. The actual value of total deposit for EBL is quite fluctuated in relation to NIBL. The trend analysis has projected deposit amount in fiscal year FY 2013/14 to FY 2024/25. From the above trend analysis it is clear that EBL has better position in collecting deposit than NIBL.

B) Trend Analysis of Loan & advances

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

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$`a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NIBL

a = 8136.064

b = 1711.865

EBL

a = 11061.46

b = 3095.54

Yc = 8136.064 + 1711.865 X of Nepal Investment Bank Limited

Yc = 11061.46 + 3095.539 X of Everest Bank Limited

Table 4.30

Trend line of Total Loan and Advance of NIBL and EBL		
Year(x)	NIBL	EBL
2013/14	52019.8	5884.12
2014/15	66219.2	7618.67
2015/16	85461.1	9801.3
2016/17	104625	13664.1
2017/18	120825	18339.1
2018/19	138635.17	20355.32
2019/20	157212.05	24127.91
2020/21	174605.42	27848.9
2021/22	192084.93	31098.35
2022/23	210219.35	34254.47
2023/24	227963.76	37967.7
2024/25	245552.3	41283.27
2025/26	263416.93	44611.45

Source: Annul Report of Concern Bank
Appendix 22

Figure 4.2

Trend line of Total Loan and Advance of NIBL and EBL

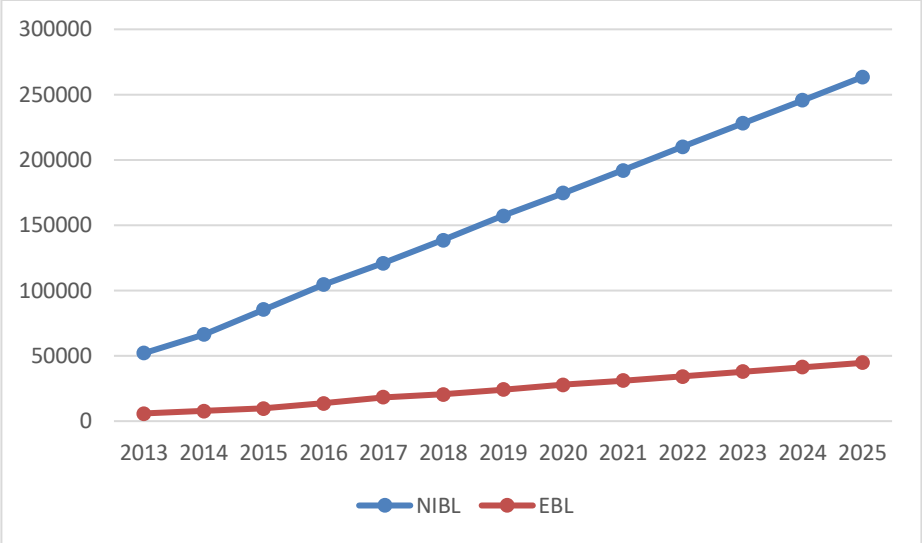

Table 4.30 depicts that loan & advances of NIBL and EBL, both Bank has in increasing trend. The increasing trend of NIBL is higher than EBL. The actual value of loan & advances for both bank is in increasing trend

From the above analysis, it is clear that both NIBL and EBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the NIBL has little highly mobilizing loan & advances than the EBL.

C) Trend Analysis of Total Investment

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

Y= a + bx
Where,
Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,
X = deviation from some convenient time periods.

Let trend line be
Y = a + b x……. (I)
Where x = X - Middle year
Here,

$a = \frac{SY}{N}$ $\quad$ $b = \frac{SXY}{SX^2}$

NIBL
a = 2930.56
b = 184.752

EBL
a = 3781.802
b = 790.328

Yc = Yc = 2930.056+184.752 X of Nepal Investment Bank Limited

Yc = Yc = 3781.802+790.328 X of Everest Bank Limited

Table 4.31

Trend Line of Total Investment Between NIBL and EBL		
Year(x)	NIBL	EBL
2013/14	15383.5	2535.65
2014/15	21462.6	2128.93
2015/16	16501.3	1227.08
2016/17	16331.8	2728.9
2017/18	17425.8	2618.71
2018/19	17107.1	2256.92
2019/20	15429.8	2188.29
2020/21	16148.9	2144.85
2021/22	15780.1	2281.97
2022/23	15103.5	2100.84
2023/24	14816.8	2134.84
2024/25	14774.4	2130.42
2025/26	14211	2095.17

Source: Annul /Report of Concern Bank
Appendix 23

Figure 4.3

Trend Line of Total Investment Between NIBL and EBL

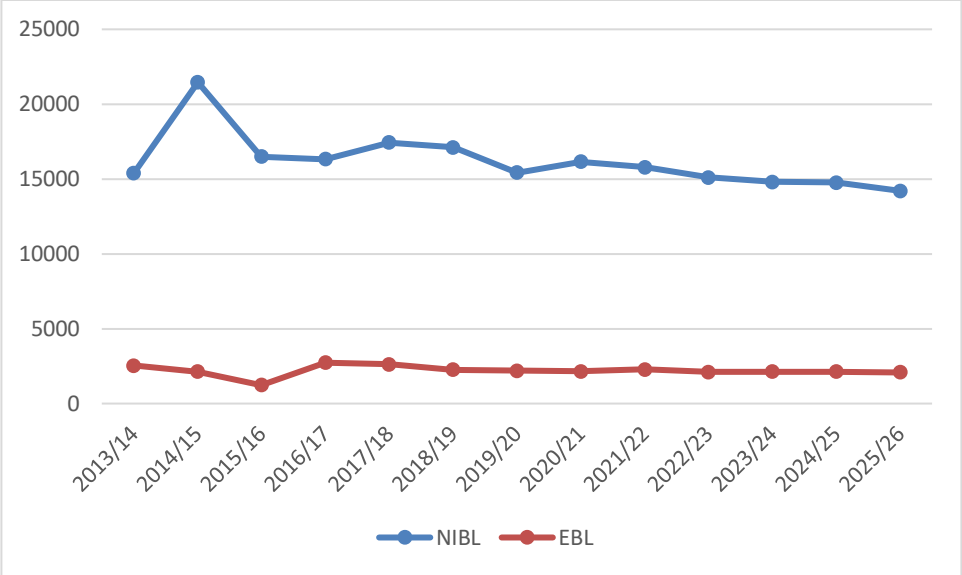

Table 4.31 shows the Trend of Total Investment between NIBL and EBL. NIBL have decreasing trend in making investment whereas EBL is somewhat consistent. The trend of total investment projected to FY 2025/26. The forecasted trend projected that the EBL has greater increment rate in total investment than the increment rate of NIBL. The figure indicates EBL has highly mobilized the total investment rather than NIBL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of NIBL and EBL have been calculated for five years FY 2013/14 to FY 2017/18 and forecasting of the same for next eight years.

Y= a + bx
Where,
Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,
X = deviation from some convenient time periods.

Let trend line be
Y = a + b x……. (I)
Where x = X - Middle year
Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NIBL
a = 218.664
b = 59.089

EBL
a = 259.874
b = 74.69

YC=218.664+59.089 X of Nepal Investment Bank Limited

Yc= 259.874+74.069 X of Everest Bank Limited

Table 4.32

Trend Analysis of Net Profit Between NIBL and EBL		
Year(x)	NIBL	EBL
2013/14	1939.61	1568.23
2014/15	1961.85	1762.85
2015/16	2550.88	1809.26
2016/17	3114.13	2118.02
2017/18	3659.32	2581.68
2018/19	4022.67	2682.63
2019/20	4630.79	2974.48
2020/21	5116.07	3301.73
2021/22	5601.2	3559.77
2022/23	6099.16	3792.65
2023/24	6630.99	4103.85
2024/25	7110.69	4371.39
2025/26	7617.33	4630.9

Source: Annul Report of Concern Bank
Appendix 24

Figure 4.4
Trend Analysis of Net Profit Between NIBL and EBL

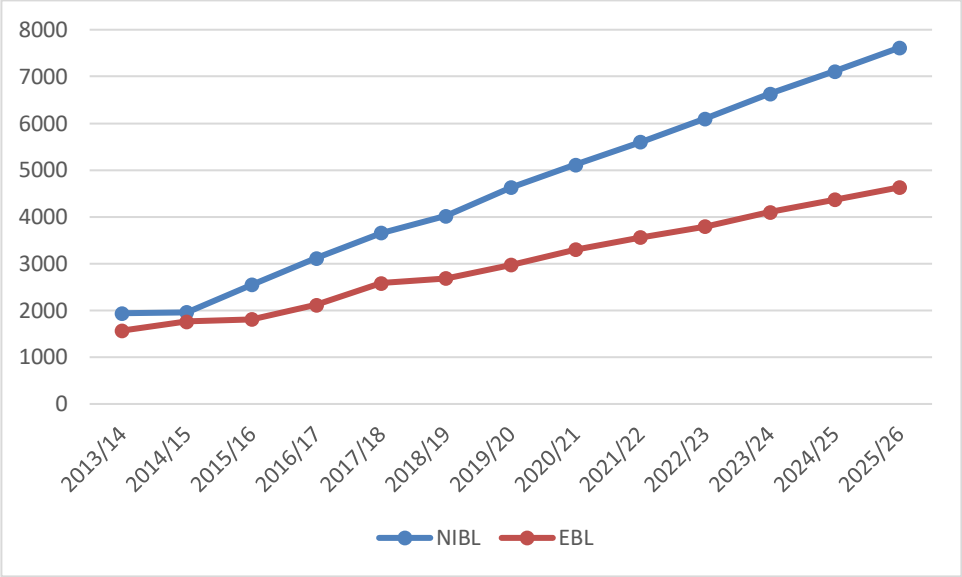

Table 4.32 reveals the trend of Net profit of NIBL and EBL. Net profit both bank NIBL and EBL forecasted in increasing trend. The trend of increasing value of net profit of NIBL is higher than EBL. The net profit of EBL and NIBL has been increasing every year by Rs.59.089 million and Rs.74.69 million respectively. The trend of Net profit projected to FY 2025/26 i.e. further eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, NIBL is doing better in order to generate net profit during the projected study period, though both NIBL and EBL have increasing trend.

4.3 Main Findings of Investment Policy

Liquidity Ratio

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

- Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 1:1. The mean current ratio of NIBL is 1.039 and EBL is 1.143. the current ratio of EBL is higher than NIBL
- Cash and bank balance to total deposit ratio of EBL has higher than NIBL i.e. 10.75%>9.01% which indicates that the bank has higher liquidity of EBL as compare `to NIBL. A high ratio of cash and bank balance may be undesirable which

indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.

- Cash and bank balance to current assets ratio of EBL is higher than NIBL i.e. 9.34% > 8.40%.
- Investment on government securities to current assets of NIBL is higher than EBL i.e. 21.35%>18.28%. It shows NIBL has invested more fund in government securities. EBL has invested small portion of their funds in purchasing of government securities.
- Above findings shows that liquidity position of EBL is comparatively better than NIBL. Lower liquidity position of NIBL shows that the current assets have been utilized in some profit generating sectors, but at the same time the bank has weak short-tern solvency position.

Asset Management Ratio

The assets management ratios of NIBL and EBL show the following findings.

- The loan & advances to total deposit ratio of EBL is higher than NIBL 72.57% > 74.21%. It indicates the better mobilization of deposit by EBL. So, EBL is more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.
- The total investment to total deposit of NIBL is higher than EBL i.e. 27.53% > 26.29%. It shows the EBL is mobilizing its funds on investment in various securities efficiently. It can be said thatEBL is more successful in utilizing its total deposit by investing in marketable securities.
- The loan & advances to total assets ratio of EBL is greater than NIBL i.e. 63.78% > 62.67. It refers EBL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.
- Investment on government securities to total assets ratio of NIBL is higher than EBL i.e. 19.26% > 18.09%. This indicates that NIBL has invested more portions of total assets on government securities. The higher ratio of NIBL reveals that it is strong to mobilize there total assets as investment in government securities..

- The performance of NIBL in terms of recovery of loan is better than EBL because it has lower loan loss ratio i.e. 3.85 % < 7.34%. But EBL has maintained stability in making provision for loan loss throughout the study period.

Above findings reveal that EBL has better utilization of assets in productive sector. NIBL has invested more funds in securities which are less productive.

Profitability Ratio

Following findings are drawn on the basis of profitability position of NIBL and EBL.

- Return on loan & advances ratio of NIBL is higher than that of EBL i.e. 2.61% > 2.35%. It refers that NIBL seems to be success to earn high profit on loan & advances. But the return is not consistent. Since both banks have small mean returns on its loan & advances. Both banks seem to have poor performance in order to have returns from loan & advances.
- Return on total assets ratio of NIBL is slightly higher than EBL i.e. 1.65% > 1.5%. But it has greater variability in the ratio.
- Return on equity of NIBL is higher than EBL i.e.24.08% > 22.71% which shows that NIBL is more successful to earn high profit through the efficient utilization of its equity capital.
- Total interest earned to total assets ratio of EBL is relatively little higher than that of NIBLi.e. 5.94% > 5.89% and also has lower variability in the ratio. It indicates that EBL has efficiently used its total assets to earn higher interest income in comparison to NIBL and it is also stable in terms of interest earning.
- Total interest earned to total outside assets ratio of EBL is higher than NIBL i.e. 5.69% > 5.57%.
- Total interest earned to total operating income ratio of EBL is higher than NIBL i.e. 1.96% > 1.76. It means the greater portion of total operating income is occupied by total interest for EBL. It reveals EBL has successful mobilizing their fund in interest generating assets.

- Total interest paid to total assets ratio of NIBLis smaller than EBL i.e. 2.53 % < 2.62%. It shows NIBL has less interest expenditure to total assets. It supports EBL to increase to interest paid to operating income

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

Risk Ratio

From the above research study, following findings are drawn on the risk position of the sample banks:

- The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of NIBL (i.e.10.7% > 9%). It signifies that both banks has sound liquid fund to make immediate payment to the depositors

- Credit Risk Ratio shows the credit risk ratio of NIBL and EBL. The analysis shows that NIBL and EBL have the credit risk ratio in fluctuating trend. The mean ratio of EBL is lower than that of NIBL (i.e.71 % < 86%).

  Above analysis reveals that both the banks have high interest rate risk which is not desirable for any commercial bank. Here, EBL has higher interest rate than NIBL.

Other Ratios

From the above research study, following findings are drawn on the other ratios of the sample banks i.e. NIBL and EBL:

- Average earning per share of EBL is greater than that of NIBL i.e. Rs. 53.93 >Rs. 32.18. But EBL has more inconsistency in earning per share as its higher coefficient of variation shows. It shows the higher earning capacity of EBL in comparison to NIBL.
- The average market price per share of EBL is greater than the average market price per share of NIBL i.e. Rs. 1810.4 >Rs. 819. It shows EBL has better financial performance than NIBL in order to increase market price per share. But EBL contains higher risk because it has greater variability in market price per share.
- The mean price-earning ratio of EBL is little higher than that of NIBL i.e. 40.72 is greater than 25.12. It shows EBL is success to increase market price per share more times in relations to earning price per share than NIBL. It gives the better indication in analyzing securities for the investors.

Above analysis reveals that, both the banks have well in other ratios, which is not desirable for any commercial bank. Here, EBL has higher than NIBL.

4.4 Major Findings of Statistical Analysis

Coefficient of Correlation

Coefficient of correlation analysis shows the following findings from the research study:

- Both NIBL and EBL have high positive Co-relation between Total Deposit and Loan & Advances because NIBL and EBL have 0.993 and 0.998 of Co-relation Coefficient between Deposit and Loan & Advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks.
- There is high degree positive Correlation between Total Deposit and Total Investment of EBL where as NIBL has low degree of positive co-relation i.e. 0.897 > 0.681. This indicates that EBL is successful to mobilize its deposit in order to make good investment in comparison to NIBL.
- Correlation between Total Assets and Net Profit shows that, both the banks have positive relationship but NIBL has greater Correlation Coefficient than EBL in this regard i.e. 0.999 > 0.892
- The degree of relationship between Total Investment and Net Profit of NIBL is poor than EBL i.e., Correlation Coefficient between Total Investment and Net Profit of NIBL and EBL is 0.687 and 0.85 respectively. It refers that EBL is comparatively successful to generate Net Profit through the Total Investment in relations to NIBL.
- Correlation Coefficient of Total Deposit between NIBL and EBL shows high positive Correlation i.e. 0.997 and 0.991. It refers that Total Deposit of both banks move in the same direction but less proportionately.
- The correlation of Total Investment between NIBL and EBL have positive Correlation i.e. 0.815. It implies that the Total Investment of both banks move in the same direction but less proportionately.
- The degree of relationship of Loan & Advances between the NIBL and EBL is high because Correlation Coefficient between Loan & Advances of these two banks is 0.991. The Loan & Advances of these two banks moves very closely with each other.

- The Correlation of Net Profit between NIBL and EBL is positive. NIBL and EBL are highly close because Correlation Coefficient between Net Profit of these two banks is 0.995. The Net Profit of these two banks also moves very closely in the same direction.

Above analysis reveals that, both the banks highly correlate between each ratio of bank.

Time Series Analysis (Trend Analysis)

The research study has revealed following some major findings on the basis of time series analysis.

- NIBL and EBL have increasing trend in collecting deposits. The rate of increment of Total Deposit for NIBL seems to be higher than that of EBL. Here NIBL has better position in collecting deposit than EBL.
- The trend line of Loan & Advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of Loan & Advances. The trend line of Loan and Advances for NIBL seems high growing than EBL. It refers that NIBL is more aggressive in mobilizing its collected deposits.
- The Total Investment trend line of NIBL and EBL is upward slopping and consistent whereas NIBL has high Total Investment trend line. It refers that NIBL has better increasing trend of Total Investment than EBL.
- The trend line of Net Profit for NIBL and EBL is upward slopping. The position of NIBL is better in order to generate profit than EBL.

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

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

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

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

Investment practice of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good

investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

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

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

5.2 Conclusion

The overall aspect of liquidity position of EBL is comparatively better than NIBL. But the Current Ratio and Investment on government securities to Total Assets of NIBL are slightly higher than EBL. EBL has utilized its Liquid Assets in more profit generating sectors.

Assets management aspect of EBL is better than NIBL which is justified by little higher Loan & Advances to Total Deposit Ratio, Loan & Advances to Total Assets ratio for EBL.

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

Earning Per Share, Dividend Per Share and Market Price Per Share of is higher of EBL in comparison to NIBL .It gives good signal of financial performance of the bank in the market. Price Earning of EBL is higher than NIBL which is considered better in security analyzing in order to make investment decision.Both commercial banks, EBL

and NIBL have positive Correlation between Deposit and Loan & Advances, Deposit and Total Investment, Total Assets and Net Profit, Total Investment and Net Profit. Comparatively both banks have strong relationship between these variables. It is also found that there is positive Correlation between Total Deposit of NIBL and EBL, between Loan & Advances of both banks and between Net Profits of both banks.

Total Investment, Loan & Advances, Net Profit of NIBL and EBL are in increasing trend. It shows positive trend of both banks. Both NIBL and EBL have high positive Correlation between Total Deposit and Loan & Advances, Total Deposit and Total Investment.Correlation between Total Assets and Net Profit, Total Investment and Net Profit shows both the banks have positive relationship but NIBL has greater Correlation Coefficient than EBL. Correlation Coefficient of Total Deposit, Total Investment, Loan & Advances and Net Profit between NIBL and EBL shows positive correlation. It refers that all the variable of both bank moves in the same direction, some are closely in the same direction and some are less proportionately.

NIBL and EBL have increasing trend in collecting deposit the rate of increment of Total Deposit for EBL seems to be higher than that of NIBL.. EBL has better position in collecting deposits than NIBL. The trend line of Loan & Advances and Total Investment trend line for both banks is upward slopping. It refers that both the banks are increasing in disbursement of Loan & Advances.

The trend line of Net Profit for NIBL and EBL is upward slopping. The position of NIBL is better in order to generate profit than EBL. The trend analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NIBL is higher than the EBL.

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

5.3 Recommendations

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

I. Generally, banks have to maintained liquid assets. Current ratio of two sample banks are not sufficient to achieve standard ratio i.e. 2:1. So, it is recommended to both banks to maintain required current ratio. They need to maintain the present mean current ratio for the proper management of their liquidity position.

   The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position.

II. Government securities such as Treasury Bills, Development Bonds, and Saving Certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that NIBL has maintained higher ratio of investment on government securities. EBL is recommended to invest more funds in government securities instead of keeping them idle.

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

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

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

VI. Out of working fund, EBL have not invested its more funds as total investment in various sectors as compared to NIBL. Though, the percentage of investment by NIBL is slightly higher, it is recommended that both banks should invest their funds in various government securities, and other financial and non-financial companies.

VII. Both banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investor's funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc. They should attract all types of customers whether they are huge depositor or normal depositor.

VIII. Both banks should go to all districts to do overall banking within Nepal. It would be great advantages for a bank if it can cover whole Nepal. They can give facility, which will attract a lot of customers. Faster a bank can open branches at root levels, faster they can earn valuable customers.

IX. In terms of recovery of loan, the loan loss ratio is comparatively high that makes negative impact on profit. It may be facing a lot of problems on recovering loans. It has large non-performing asset as loan un-recovered. Therefore it is recommended to apply recovery act that would help to realize overdue loan in time.

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

Keeping all these in consideration they should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new

strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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http://www.everestbankltd.com/

Appendix - 1

NIBL

Liquidity Ratio:

(1) Current ratio:

(In million)

Year	Current assets	Current liabilities	Current ratio (in %)
2013/2014	9364.43	8845.59	1.058
2014/2015	9310.27	9136.39	1.02
2015/2016	8919.06	7399.33	1.21
2016/2017	14260.55	16728.65	0.85
2017/2018	17334.65	16379.85	1.06
Mean			1.04

Everest bank ltd (EBL)

Liquidity Ratio:

(1) Current ratio:

(in million)

Year	Current assets	Current liabilities	Current ratio (in %)
2013/2014	9490.20	8085.94	1.17
2014/2015	11598.45	10138.99	1.14
2015/2016	15807.2	13932.91	1.13
2016/2017	21262.48	18296.45	1.16
2017/2018	26788.83	24276.30	1.10
Mean			1.14

Appendix - 2

(2) Cash and bank balance to total deposit ratio of NIBL

(in million)

Year	Cash and bank balance	Total deposit	Cash and bank balance total deposit (in %)
2013/2014	2170.76	73831.37	0.101
2014/2015	2660.93	90631.48	0.083
2015/2016	2285.8	107867.11	0.069
2016/2017	2478.21	124972.81	0.106
2017/2018	10610.89	136585.57	0.091
Mean			0.090

(2) Cash and bank balance to total deposit ratio of EBL

(in million)

Year	Cash and bank	Total deposit	Cash and bank

	balance		balance total deposit(in %)
2013/2014	9391.42	18186.25	7.83
2014/2015	10667.97	23976.30	10.40
2015/2016	11666.03	91638.88	11.25
2016/2017	8667.84	94091.89	13.15
2017/2018	10065.42	115511.70	11.11
Mean			10.7

Appendix - 3

(3) Cash and bank balance to current assets ratio of NIBL
(in million)

Year	Cash and bank balance	Current assets	Cash and bank balance to current assets Rratio (in %)
2013/2014	2170.76	9364.43	0.084
2014/2015	2660.93	9310.27	0.079
2015/2016	2285.8	8919.06	0.082
2016/2017	2478.21	14260.55	0.092
2017/2018	10610.89	17334.65	0.083
Mean			0.084

(3) Cash and bank balance to current assets ratio of EBL

(in million)

Year	Cash and bank balance	Current assets	Cash and bank balance to current assets ratio(in %)
2013/2014	9391.42	9490.20	6.66
2014/2015	10667.97	11598.45	9.05
2015/2016	11666.03	15807.2	9.82
2016/2017	8667.84	21262.48	11.25
2017/2018	10065.42	26788.83	9.9
Mean			9.3

Appendix - 4

(4) Investment on Govt. securities to current assets ratio of NIBL
(in million)

Year	Investment on Govt. securities	Current assets	Investment on Govt securities to current assets ratio (in %)
2013/2014	15227.96	9364.43	0.253

2014/2015	21302.79	9310.27	0.230
2015/2016	16341.54	8919.06	0.298
2016/2017	16097.13	14260.55	0.163
2017/2018	17154.37	17334.65	0.122
Mean			0.213

(4) Investment on Govt securities to current assets ratio of EBL
(in million)

Year	Investment on Govt securities	Current assets	Investment on Govt securities to current assets ratio (in %)
2013/2014	3614.54	9490.20	17.00
2014/2015	3237.98	11598.45	12.0
2015/2016	9085.17	15807.2	
2016/2017	7652.70	21262.48	
2017/2018	15292.31	26788.83	
Mean			18.3

Assets management ratio:

Appendix - 5

(1)Loan and Advance to total deposit of NIBL
(in million)

Year	Loan and advances	Total deposit	Loan and advance to total deposit (in %)
2013/2014	52019.77	73831.37	0.729
2014/2015	66219.23	90631.48	0.661
2015/2016	85461.05	107867.11	0.692
2016/2017	104624.807	124972.81	0.759
2017/2018	120825.496	136585.57	0.787
Mean			0.726

(1)Loan and Advance to total deposit of EBL
(in million)

Year	Loan and advances	Total deposit	Loan and advance to total deposit(in %)
2013/2014	13664.08	18186.25	25.21
2014/2015	18339.108	23976.30	16.15
2015/2016	66768.58	91638.88	21.02
2016/2017	75695.62	94091.89	17.00
2017/2018	89927.56	115511.70	12.0
Mean			18.3

Appendix - 6

(2)Total investment to total deposit of NIBL

(in million)

Year	Total investment	Total deposit	Total investment to total deposit (in %)
2013/2014	15383.52	73831.37	0.320
2014/2015	21462.58	90631.48	0.290
2015/2016	16501.33	107867.11	0.322
2016/2017	16331.76	124972.81	0.241
2017/2018	17425.82	136585.57	0.202
Mean			0.275

(2)Total investment to total deposit of EBL

(in million)

Year	Total investment	Total deposit	Total investment to total deposit(in %)
2013/2014	2535.65	18186.25	31.45
2014/2015	2128.93	23976.30	21.08
2015/2016	1227.08	91638.88	30.43
2016/2017	2728.9	94091.89	27.41
2017/2018	2618.71	115511.70	21.1
Mean			26.3

Appendix - 7

3) Loan and advance to total working fund of NIBL

(in million)

Year	Loan and advances	Total assets	Loan and advance to total working fund (in %)
2013/2014	52019.76	861.73.92	0.595
2014/2015	66219.23	10434.43	0.599
2015/2016	85461.05	129782.70	0.591
2016/2017	104624.80	150818.03	0.645
2017/2018	120825.49	171893.54	0.703
Mean			0.627

(3) Loan and advance to total working fund of EBL

(In million)

Year	Loan and advances	Total assets	Loan and advance

			to total working fund(in %)
2013/2014	13664.08	21432.57	61.24
2014/2015	18339.108	271493.34	64.93
2015/2016	69522.81	114018.92	61.42
2016/2017	80256.72	116946.28	63.75
2017/2018	84931.82	144811.15	67.5
Mean			63.8

Appendix - 8

(4) Investment to govt securities to total working fund of NIBL

(in million)

Year	Investment to govt securities	total assets	Investment to govt securities to total working fund(in %)
2013/2014	15227.96	86173.92	0.25
2014/2015	21302.79	10434.43	0.218
2015/2016	16341.54	129782.70	0.216
2016/2017	16097.13	150818.03	0.16
2017/2018	17154.37	171893.54	0.119
Mean			0.193

(4) Investment to govt securities to total working fund of EBL

(in million)

Year	Investment to govt securities	total assets	Investment to govt securities to total working fund (in %)
2013/2014	3614.54	21432.57	25
2014/2015	3237.98	271493.34	16
2015/2016	9085.17	114018.92	20.8
2016/2017	7652.70	116946.28	16.8
2017/2018	15292.31	144811.15	11.9
Mean			18.1

Profitability ratio:

Appendix - 9

(1) Return on loan and advance of NIBL

(in million)

Year	Net profit	Loan and advances	Return on loan and advances ratio (in %)
2013/2014	1939.61	52019.77	0.023
2014/2015	1961.85	66219.23	0.024
2015/2016	2550.88	85461.05	0.028
2016/2017	3114.13	104624.807	0.0289
2017/2018	3659.32	120825.496	0.029
Mean			0.026

(1)Return on loan and advance of EBL

(in million)

Year	Net profit	Loan and advances	Return on loan and advances ratio (in %)
2013/2014	1568.23	5884.12	2.44
2014/2015	1762.85	7618.67	2.24
2015/2016	1809.26	9801.30	2.42
2016/2017	2118.02	13664.08	2.17
2017/2018	2581.68	18339.08	2.5
Mean			2.35

Appendix - 10

(2) Return on total assets ratio NIBL

(in million)

Year	Net profit	Total assets	Return on total assets ratio (in %)
2013/2014	1939.61	861.73.92	0.013
2014/2015	1961.85	10434.43	0.014
2015/2016	2550.88	129782.70	0.016
2016/2017	3114.13	150818.03	0.018
2017/2018	3659.32	171893.54	0.020
Mean			0.0165

(2) Return on total assets ratio EBL

(in million)

Year	Net profit	Total assets	Return on total

			assets ratio (in %)
2013/2014	1568.23	21432.57	1.50
2014/2015	1762.85	271493.34	1.46
2015/2016	1809.26	114018.92	1.49
2016/2017	2118.02	116946.28	1.38
2017/2018	2581.68	144811.15	1.7
Mean			1.5

Appendix - 11

(1) Return on equity of NIBL

Year	Net profit	Total Equity	Return on loan and advances ratio (in %)
2013/2014	1939.61	7925.49	0.196
2014/2015	1961.85	9806.95	0.193
2015/2016	2550.88	16287.75	0.281
2016/2017	3114.13	18707.88	0.264
2017/2018	3659.32	24871.02	0.269
Mean			0.241

(1) Return on equity of EBL

Year	Net profit	Total Equity	Return on total equity (in %)
2013/2014	1568.23	7432.12	20.22
2014/2015	1762.85	8256.23	20.51
2015/2016	1809.26	9845.56	24.65
2016/2017	2118.02	13207.51	24.67
2017/2018	2581.68	16134.50	23.4
Mean			22.7

Appendix - 12

(2) Total interest income to total assets ratio of NIBL

((in million)

Year	Interest income	Total assets	Interest income to tatal assets ratio (in %)
2013/2014	5816.27	8617.92	0.059
2014/2015	5786.16	10434.43	0.062
2015/2016	6776.75	129782.70	0.058
2016/2017	9248.69	150818.03	0.056
2017/2018	13574.10	171893.54	0.058

Mean			0.059

(2) Total interest income to total assets ratio EBL
((in million)

Year	Interest income	Total assets	Interest income to tatal assets ratio (in %)
2013/2014	4876.42	21432.57	6.84
2014/2015	4982.35	271493.34	6.13
2015/2016	5103.56	114018.92	5.66
2016/2017	6816.04	116946.28	5.34
2017/2018	10103.45	144811.15	6.0
Mean			5.9

Appendix - 13

(3) Total interest earned to Total outside assets ratio of NIBL
(in million)

Year	Interest earned	Total outside assets	Interest earned to total outside assets (in %)
2013/2014	2995.80	10495.86	0.054
2014/2015	2978.79	10657.45	0.057
2015/2016	3921.10	13295.58	0.054
2016/2017	4784.14	14723.8	0.056
2017/2018	5850.17	17779.93	0.058
Mean			0.056

(3) Total interest earned to Total outside assets ratio of EBL
(in million)

Year	Interest earned	Total outside assets	Interest earned to total outside assets (in %)
2013/2014	3144.41	10811.87	6.1
2014/2015	3248.66	11621.31	6.2
2015/2016	3275.06	17324.26	5.2
2016/2017	3806.24	22262.93	5.1
2017/2018	4869.76	26636.69	5.8
Mean			5.7

Appendix - 14

(4) Total interest earned to Total operating income ratio of NIBL

Year	Interest earned	Total operating income	Interest earned to total operating

			income (in %)
2013/2014	2995.80	4145.98	1.85
2014/2015	2978.79	4171.98	1.67
2015/2016	3921.10	5375.05	1.79
2016/2017	4784.14	6670.47	1.75
2017/2018	5850.17	7930.78	1.72
Mean			1.76

(4) Total interest earned to Total operating income ratio of EBL

Year	Interest earned	Total operating income	Interest earned to total operating income (in %)
2013/2014	3144.41	3987.26	207.50
2014/2015	3248.66	4080.54	191.69
2015/2016	3275.06	4176.86	199.35
2016/2017	3806.24	4800.51	191.41
2017/2018	4869.76	5980.39	188.0
Mean			196

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(5)Total interest paid to total assets ratio of NIBL

Year	Interest paid	Total assets	Interest paid to total assets (in %)
2013/2014	2820.47	8617.92	0.030
2014/2015	2807.36	10434.43	0.0245
2015/2016	2855.65	129782.70	0.0233
2016/2017	4464.55	150818.03	0.0236
2017/2018	7723.92	171893.54	0.0253
Mean			0.025

(5) Total interest paid to total assets ratio of EBL

Year	Interest paid	Total assets	Interest paid to total assets (in %)
2013/2014	617.17	21432.57	3.29
2014/2015	632.61	271493.34	2.55
2015/2016	1828.49	114018.92	2.52
2016/2017	3009.79	116946.28	2.41
2017/2018	5233.68	144811.15	2.3
Mean			2.6

Risk ratio:

Appendix - 16

(1) Liquidity risk ratio of NIBL

Year	Cash and bank bal	Total Deposit	NPL to total loan and advances ratio (in %)
2013/2014	2170.76	73831.37	0.101
2014/2015	2660.93	90631.48	0.183
2015/2016	2285.8	107867.11	0.069
2016/2017	2478.21	124972.81	0.106
2017/2018	10610.89	136585.57	0.091
Mean			0.90

(1) Liquidity risk ratio of EBL

Year	Cash and bank balance	Total deposit	NPL to total loan and advances ratio (in %)
2013/2014	9391.42	18186.25	1.72
2014/2015	10667.97	23976.30	1.63
2015/2016	11666.03	91638.88	1.27
2016/2017	8667.84	94091.89	0.94
2017/2018	10065.42	115511.70	0.111
Mean			0.107

Other ratios:

Appendix - 17

(1)EPS of NIBL

(in million)

Year	Profit after tax	No. of common shares	EPS(in Rs)
2013/2014	1939.61	4.77	40.7
2014/2015	1961.85	6.35	30.9
2015/2016	2550.88	8.71	29.3
2016/2017	3114.13	10.63	29.3
2017/2018	3659.32	10.25	35.7
Mean			40.94

(1) EPS of EBL

(in million)

Year	Profit after tax	No. of common shares	EPS(in Rs)
2013/2014	1623.46	3.89	86.04
2014/2015	1746.25	4.24	78.04
2015/2016	1809.26	4.49	40.33
2016/2017	2118.02	6.52	32.48
2017/2018	2581.68	7.88	32.78

Mean			66.56

Appendix - 18

(2) MPS of NIBL

(In. Rs.)

Year	MPS
2013/2014	960
2014/2015	704
2015/2016	1040
2016/2017	770
2017/2018	621
Mean	

(2) MPS of EBL

Year	MPS
2013/2014	2631
2014/2015	2120
2015/2016	3385
2016/2017	1353
2017/2018	663
Mean	

Appendix - 19

(3) Price Earningratio of NIBL

Year	MPS (in Rs)	EPS(in Rs)	Price earning ratio(in times)
2013/2014	960	40.7	23.6
2014/2015	704	30.9	22.8
2015/2016	1040	29.3	35.5
2016/2017	770	29.3	26.3
2017/2018	621	35.7	17.4
Mean			23.06

(3) Price earning ratio EBL

(in million)

Year	MPS (in Rs)	EPS(in Rs)	Price earning ratio(

			in times)
2013/2014	2631	86.04	30.58
2014/2015	2120	78.04	27.17
2015/2016	3385	40.33	83.94
2016/2017	1353	32.48	41.66
2017/2018	663	32.78	20.23
Mean			

Appendix - 20

A) Trend Analysis of Total Deposit of NIBL

Year(x)	Total deposit(Y)	X = x-2015/66	X^2	XY
2013/2014	73831.37	-2	4	-147663
2014/2015	90631.48	-1	1	-90631.5
2015/2016	107867.11	0	0	0
2016/2017	124972.81	1	1	124972.8
2017/2018	136585.57	2	4	273171.1
Total	533888.3	0	10	159849.7

Source: Annul report of NIBL

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a =11078.414

b = 1963.036

Where as

Yc = 11078.41 + 1963.04 X of NIBL

B) Trend Analysis of Total Deposit of EBL

Year(x)	Total deposit(Y)	X = x-2015/66	X^2	XY
2013/2014	18186.25	-2	4	-36372.5
2014/2015	23976.30	-1	1	-23976.3
2015/2016	91638.88	0	0	0
2016/2017	94091.89	1	1	94091.89
2017/2018	115511.70	2	4	231023.4
Total	343405	0	10	264766.5

Source: Annul Report of EBL

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 14825.32

b = 3991.335

Where as

Yc = 14825.32+3991.335 X of EBL

Appendix - 21

A) Trend Analysis of Loan and Advance of NIBL

Year(x)	Loan and advances (Y)	X = x-2015/66	X^2	XY
2013/2014	52019.76	-2	4	-11293.4
2014/2015	66219.23	-1	1	-5912.58
2015/2016	85461.05	0	0	0
2016/2017	104624.80	1	1	9399.33
2017/2018	120825.49	2	4	24925.28
Total	429150.3	0	10	176017

Source: Annul report of NIBL

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

a = 8136.064

b = 1711.865

Where as

Yc = 8136.064 + 1711.865 X of NIBL

B) Trend Analysis of Loan and Advance of EBL

Year(x)	Loan and advances (Y)	X = x-2015/66	X^2	XY
2013/2014	5884.12	-2	4	-11768.2
2014/2015	7618.67	-1	1	-7618.67
2015/2016	9801.30	0	0	0
2016/2017	13664.08	1	1	13664.08
2017/2018	18339.08	2	4	36678.22
Total	55307.25	0	10	30955.33

Source: Annul Report of EBL

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 11061.46

b = 3095.54

Where as

Yc = 11061.46 + 3095.539 X of Everest Bank Limited

Appendix - 23

A) Trend Analysis of Total Investments of NIBL

Year(x)	Total Investment (A)	X = x-2015/66	X^2	XY
2013/2014	15383.52	-2	4	-30767
2014/2015	21462.58	-1	1	-21462.6
2015/2016	16501.33	0	0	0
2016/2017	16331.76	1	1	16331.76
2017/2018	17425.82	2	4	34851.64
Total	87105.01	0	10	-1046.22

Source: Annul report of NIBL

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 2930.568

b = 184.752

Where as

Yc = Yc = 2930.056+184.752 X of NIBL

A) Trend Analysis of Total Investments of EBL

Year(x)	Total Investments (Y)	X = x-2015/66	X^2	XY
2013/2014	2535.65	-2	4	-5071.3
2014/2015	2128.93	-1	1	-2128.93
2015/2016	1227.08	0	0	0
2016/2017	2728.9	1	1	2728.9
2017/2018	2618.71	2	4	5237.42
Total	11239.27	0	10	766.09

Source: Annul Report of EBL

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 3781.802

b = 790.328

Where as

Yc = 3781.802+790.328 X of Everest Bank Limited

Appendix - 24

A) Trend Analysis of Net Profit of NIBL

Year(x)	Net profit (Y)	X = x-2015/66	X^2	XY
2013/2014	1939.61	-2	4	-3879.22
2014/2015	1961.85	-1	1	-1961.85
2015/2016	2550.88	0	0	0
2016/2017	3114.13	1	1	3114.13
2017/2018	3659.32	2	4	7318.64
Total	13225.79	0	10	4591.7

Source: Annul report of NIBL

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 218.664

b = 59.089

Where as

YC=218.664+59.089 X of NIBL

A) Trend Analysis of Net Profit of EBL

Year(x)	Net profit (Y)	X = x-2015/66	X^2	XY
2013/2014	1568.23	-2	4	-3136.46
2014/2015	1762.85	-1	1	-1762.85
2015/2016	1809.26	0	0	0
2016/2017	2118.02	1	1	2118.02
2017/2018	2581.68	2	4	5163.36
Tot n= 5	9840.04	0	10	2382.07

Source: Annul Report of EBL

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 259.874

b = 74.69

Where as

Yc= 259.874+74.069 X of Everest Bank Limited

एभरेस्ट बैंक लिमिटेड
EVEREST BANK LIMITED
(A Joint Venture with punjab national bank India)
Consistent, Strong & Dependable

Main Indicators

S.No.	Particulars		Financial Years				
			As per Previous GAAP		As per NFRS		
		Indicator	2070/71	2071/72	2072/73	2073/74	2074/75
1	Net Profit/Total Income	%	26.63	27.20	29.75	26.75	22.77
2	Per share Earning (after tax income)	Rs.	86.04	78.04	40.33	32.48	32.78
3	Market price per share	Rs.	2631.00	2120.00	3385.00	1353.00	663.00
4	Price/Earning Ratio		30.58	27.17	83.94	41.66	20.23
5	Dividend on share- Bonus share	%	12	30	70.00	33.00	-
6	Cash Dividend	%	50.63	6.58	3.68	1.74	20.00
7	Interest Income/Loans & advances	%	10.11	8.76	6.86	8.13	9.94
8	Employee expenses/Total operating expenses	%	15.44	20.46	29.34	23.96	19.85
9	Interest expenses on deposit&borrowing	%	3.61	2.52	1.93	3.13	4.45
10	Exchange Income/total Income	%	2.01	2.54	2.73	1.97	1.73
11	Staff bonus/total employee expenses	%	43.29	32.69	25.03	24.61	27.41
12	Net Profit/Loans & advances	%	3.20	2.84	2.57	2.65	2.71
13	Net Profit/Total Assets	%	2.25	1.85	1.59	1.83	1.97
14	Credit to Deposit (As per NRB)	%	75.06	69.47	76.24	76.94	75.98
15	Total operating expenses/total Assets	%	4.71	3.39	3.03	4.20	5.75
16	Capital Adequacy Ratio:						
	a) Core Capital	%	9.35	10.44	10.34	12.72	12.65
	b) Supplementary Capital	%	1.96	2.89	2.33	1.97	1.55
	c) Total Capital Funds	%	11.31	13.33	12.66	14.69	14.20
17	Cash Reserve Ratio (CRR)	%	16.91	24.27	16.61	16.52	17.75
18	NPAs/Total Loans & advances	%	0.97	0.66	0.38	0.25	0.20
19	Base Rate	%	6.40	6.14	4.86	7.68	8.45
20	Weighted Average Interest Rate Spread	%	5.69	4.76	4.89	4.48	4.72
21	Book Networth (Rs in Lacs)	Rs.	53371	67704	97256	131275	160545
	Total Shares	Number	18012391	20173877	26226041	45264269	80268633
	Total Employee	Number	696	696	739	748	836
	Per Employee Business (Rs. in Lakh)	Rs.	1588.48	1989.33	2223.03	2341.58	2532.76