CHAPTER-I

1. INTRODUCTION

The development of any country largely depends upon the economic health and conditions of the country. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of the domestic resources is one of the key factors in the economic development of the country. 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 sectors. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic development of the country. Formulation of sound, investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

In simple words, investment is spending or setting aside money for future financial gain. Investment generally involves real assets or financial assets. Real assets are tangible, material things, such as buildings, automobiles and textbooks. Financial assets are pieces of paper representing indirect claim on assets held by someone else. These pieces of paper represent debt or equity commitments in the form of stock certificates.

An investment is a commitment of funds made in the expectation of the some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk, the investor assumes. Investment is concerned with the management of an investors' wealth, which is the sum of current income and present values of all future income funds to be invested, came from assets already owned t borrowed money and saving or foregone consumption by the investor.

Investment has to undergo various types of risk e.g. business risk, possibility of being wane in earning power of investment due to competition, uncontrollable costs, change in demand etc., market risk, possibility of change in market price and collateral value of securities and real properties. All the investors do not achieve success; therefore, simply making an investment is not sufficient. One should follow sound investment policy.

This is a common factor that investment is possible only when there are adequate savings. If all of the income is spend on for daily usage, there will be no amount left for making investment. So, collection and investment are always inter-related. Every people wish to collect or save their income and invest in highly return firm. In terms of Bank, collection means deposits, borrowings, income, savings of customer etc.

Investment policy fixes responsibilities for the investment deposition of the bank assets in term of allocation funds for investment and loan establishing responsibility for day to day management of those assets. (James B. Baxley, 1987:124)

Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit; as a result investment raises a nation's standard of living. (The world Book Encyclopaedia, 1976:232)

John M. Cheney & Edward A, define "The word investment brings forth visions of profits, risks, speculation and wealth".

Investment is the sacrifice of current dollars for future dollars and, time and risk is involved in investment. Sacrifice takes place in the present and is certain. The reward comes later, it at all, and the magnitude is generally uncertain. In some case the element of time predominates. In other cases risk is the dominant attribute. (William F. Sharpe, Alexander, Gordon J. and Jeffery v. Bailey, 1994: 1)

An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain; sacrifice for a future uncertain benefit. (J.K. Francis, 1991: I)

According to Sharpe, Alexander and Bailey (1999), “Investment can be categorized as real investments and financial investments. Real investments genera1ly involve some kinds of tangible assets, such as land, machinery or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds."

William F. Sharpe and Alexander J. Gordon (1998) define investment as, "Investment, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value."

Above mentioned definition about the investment clarifies the investment means to trade money for expected money for future stream of payments or benefits that will exceed the current cash outflow which is the benefits to the investors for sacrificing the time and commitment or due to uncertainty and risk factors. Financial institution must be able to mobilize their deposits collection funds in profitable, secured and marketable sector so that they can earn good return to their investment.

The bank and finance companies are such type of financial institutions, which deal in money and substitute of money, or deal with credit and credit instruments. Good management of credit and credit instrument is very important for the banks and financial institutions to collect funds and utilize it in good investment sector. Any way the goal of investment is the maximization of the owner's economic welfare. Intelligent investors always search for the project with minimum risk and higher return.

1.1 General Background

It has been fully established that economic development if any country can be active only through a balanced growth in the fields of industry, trade, commerce and agriculture. It has equally self-evident that the development in these fields cannot be made possible without the existence of a sound banking system in the country. Many countries, aspiring for the rapid economic development, have developed several banking and non-banking specialized financial institutions with objectives of meeting the financial needs of their economy.

Banks are among the most important financial institution in the economy and essential business in the thousands of local town and cities. Certainly, banks must be identified by their functions, services and roles they perform in the economy. Now a day, the functions of banks are changing, but the functions of their principal competitors are also changing. The competitors like financial institution including security dealers, brokerage firms and insurance companies are trying to be similar as possible to bank in the services they offer.

There are various concepts among the economists about the origin of the word "Banking". The term bank derives from the Latin Bancus, which refers to the bench on which the banker would keep its money and his records. Some persons trace its origin to the French word "Banque" and the Italian word "Banca" which means a bench for keeping; lending and exchanging go money in the market.

The first bank called the "Bank of Venice" was established in Venice, Italy in year 1157. The bank of Barcelona and the bank of Genoa were established in 1401 and 1407 respectively. In England the banking began with English goldsmith only after 1640. The bank of Amsterdam was the great bank in seventeenth century.

1.2 Banking in Nepal

In the Nepalese context, it is very difficult to trace the correct chronological history of the traditional banking system due to lack of historical records of banking. The historical records show that Guna Kama Dev, the King of Kathmandu, borrowed money to rebuild his kingdom in 728 AD.

Tejarath adda' may be regarded as the father of modern banking institution in Nepal. During the Prime Ministership of Juddha Shamsher in 1937 AD the "Tejarath adda" was replaced by a commercial bank, 'Nepal Bank Ltd.' which marked the beginning of a new era in the history of modern banking in Nepal. Nepal Rastra Bank was established in 2012 B.S. to do the function of a central Bank. Rastriya Banijya Bank, another commercial Bank, was established in 2022 B.S. only after 20.14 B.S. His Majesty Government (HMG) allowed joint venture Banks to operate in the country. Then come a board of joint venture public limited, commercial banks in the country after the first establishment of Nepal Arab Bank Ltd. in 2041 B.S. under the commercial bank act 2031, with the allocation of 50% share of Emirates Bank Limited, Dubai, and 20% share of Nepalese financial institutions and 30% share of general public. Nepal Indosuez Bank Limited (now known as Nepal Investment Bank Limited) emerged in 1985 as the second joint venture commercial bank. Nepal Grindlays Bank Limited {now known as Standard Chartered Bank Nepal Limited after July 16, 2001) was established in 1987 as the third joint venture bank in the country.

After that, there was a gradual increase in the number of join venture commercial banks in Nepal. Nowadays, there are 17 commercial banks, 20 development banks, and 5 gramin bikas banks, 57 finance companies, 44 NGGs and 116 Hulak bachat banks operating in Nepal. The open and liberal policy in the financial sector has helped in establishing many commercial banks and financial institutions in the country.

1.3 Commercial Banks

Most under-developing countries are faced with the problem of proper mobilization of the financial, physical and human resources. And one of the chief undertakings used to overcome the problem of mobilizing financial resources both external and internal is to set up banks and activate them. The commercial banks should therefore come forward at this for developing the economic condition of country. Therefore, commercial bank plays a vital role in the economic and financial life of the country. By economic development's we generally mean the development of the leading sectors of the economy like agriculture, industry, trade and commerce etc. the development of these sectors requires a regular supply of sound banking system.

The, commercial banks in Nepal are one of the two components in financial sector basically known as the banking sector component. The other component, non-banking sector, includes co-operatives, gramin bikas banks, development banks, financial companies and NGOs.

Banks playa predominant role in under developed economy in many ways as they promote capital formation by developing banking habit of people and collection saving. People have mobilized them in productive channels. Thus their role in the economic development is to remove the deficiency of capital by stimulating saving and investment.

Commercial bank in current year presents anew picture- a picture of innovation in .2 practice of wider horizon and of new enterprises. The most remarkable diversification of banking function in the banks increasing participation in medium and long term financing industries and other sector so they are not only financial institution of finance agriculture and industry and other economic activities but are more than financial institution in the sense that they help saving, create deposits and make the subsequent distribution of such accumulated funds.

In addition to the acceptance of deposits, lending and investing they provide a multiple of services including accepting traveller's cheque and underwriting, purchase and sale of securities, govt. bonds of customers, buy and sale of foreign exchange, the insurance of commercial letter of credit supply of timely credit and market information, providing remittance facilities and so on.

Commercial bank act 2031 B.S. defines:

"A commercial bank is that bank which exchange money, accepts deposits, grants loan and performs banking functions".

1.4 Functions of Commercial Banks

For the poor and least developed countries like Nepal, having low per capita income and GDP, faces many economic problems such as inflation and deflation of monetary trade, trade deficit and budget deficit. Commercial banks play important role in removing such problems by capital formulation for deficits spending units (trade and Industry as well as general public). They also finance in small arid cottage industries and agricultural sector under priority sector investment scheme to serve the marginal people.

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

Nepal commercial bank act 2031 B.S has defined commercial bank as stated earlier and it has also emphasized on their functions. Major of them is as follows:

1. They accept custody of funds with or without interest and open fixed accounts and saving accounts in the name of depositions
2. They supply loans (short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
3. They help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
4. Conduct transactions in bonds, provisionary notes or bills of exchange foreign exchange relating to commerce or corporation as are redeemable within the kingdom.
5. They grant overdraft.
6. They issue letter of credit, draft and traveller's cheque.
7. They remit or transit fund to different place with in or out side the kingdom.
8. They pur9hase, sell or accept the securities of HMG.

Besides this, the commercial bank arranges the amount of foreign exchange required by various organizations arid travellers. Moreover, foreign trade transactions are facilitated thorough the issuance of Letter of credit. Bank also provides locker facilities to the customers to keep valuable ornaments and documents. Bank also provides references about the financial position of their customers as and when required. The bank works as an agent of its customers to receive and make payments, pay and collect rent, pay insurance premium, etc. In case of joint venture commercial bank, it issues internationally valid Credit cards, ATM cards, Telebanking etc. Besides, bank has many more functions and roles in the development of national economy.

1.5 An Overview of NABIL Bank Ltd.

NABIL Bank Limited commenced its operations on 12th July 1984 with the capital of Rs. 30 million and a team of less than 50 staffs, (with the allocation of 50% share if Emirates Bank Limited, Dubai, 20%share o Nepalese Financial institutions and 30% "' of general public). Later on, Emirates Bank Limited, Dubai sold its entire 50% equity holding to National Bank Limited, Bangladesh. The recent configuration is 50% share of National Bank Ltd., Bangladesh, 10% of, NIDC, 9.66% of Rastriya Beema Sansthan, 0.34% or NEPSE and 30%general; public. Today NABIL Bank with net worth of Rs.l.48 billion and a dedicated professional team of 372 staff members have 18 branches providing array of banking services across the kingdom.

NABIL Bank Limited has achieved a remarkable success in banking sector in terms of market share and profitability compared to joint venture banks because of its reliable and professional services. NABIL Bank is the innovator in introducing many new products such as credit cards, Tele Banking, Any branch Banking, ATM, 24 Hours Banking Correspondent Network. Due to their prompt and quality services NABIL Bank has achieved its remarkable success in banking sector and has proved its high status in the eye of public. NABIL Bank has been improving its performance from very beginning since its establishment.

1.6 Statement of the Problem

The basic objectives of these banks are to uplift the economic activities and strengthen welfare of the general people, to facilitate loan in different sector and to provide the banking services to the country and to its people. Therefore, this study concentrates on its financial soundness, which will enable it to meet its objectives.

After the restoration of democracy, the first elected government in 1991 adopted liberalized and market oriented economic policies followed by liberalization in the financial sectors, these measures include the deregulation of the interest rate, free entry of banks and financial institutes removal of statutory liquidity ratio, enactment of new commercial banks, finance company and development of banks acts so as to encourage private sectors including foreign banks and financial institutions. Since then, various financial institutions i.e. joint venture banks, domestic commercial banks, financial companies, co-operative banks and other financial institutions are come into existence to cater the financial needs of the country by, assisting financial development of the country.

From these financial institutions, they collect a large amount of deposits but investment practices of these collected funds are comparatively very low. Nowadays, due to the less investment opportunity bank uses to discourage depositors by reducing the interest on deposits and increasing the minimum threshold balance. Such condition may cause the high liquid market and can impact the condition of the country negatively. Due to the throat-cut competition of financial environment bank seems to be ready to grant deposits, unsecured loan and investment may cause liquidation of those banks. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes losses its principal. This will definitely make bad impact upon the economic health of the country.

Commercial banks have played a vital role by accepting deposits and providing various types of loans. Loan affects the overall development of the country. The problem of lending has become a serious for developing country. Commercial banks give too many loans, advances, overdraft, and many other facilities to encourage deposit to their customer and they spend big amount of deposits as office operation expenses and for staffs. Commercial banks are found to make loan only on short-time basis against moveab1e merchandise but they don't invest on long-term projects because of the safety minded and not considering the profit potential of the project. Another reason is that, they follow conservative lending policy, which is based on strong security even in this age. Because of this, they may not earn sufficient return and most of the joint venture banks may have to be collapsed due to poor investment policy or lack of investment strategy in future.

Commercial banks are not utilizing their deposits due to lack of sound investment policy. They have lot of deposits but very little investment opportunities. Their investment has been found to have lower productivity that is due to the lack of supervision regarding whether their investment is properly utilized or not. Commercial banks invest their funds in limited areas to achieve higher amount of profit. The investment towards the agriculture and industrial sector is found to be inadequate. Many commercial banks are not found investing even a minimum percentage in priority sectors due to the lack of supervision of central banks. It is to be said that commercial banks only serves rich community of the urban areas not the poor as they do not seems to be capable to invest their funds in profitable sectors. They make an investment on less risky and highly liquid sectors, they keep high liquid sector and they keep high liquid position and flow lower funds in productive sectors. These types of unfavourable and unsecured loans highly reduce the rate of return, which discourage the depositors.

Nepalese commercial banks have riot formulated their investment policy in an organized manner. They only depend upon the directions and guidelines of central bank but they don't have clear view and have not formulated their own organized investment policy. Furthermore, the implementation of investment policy is not in an effective and efficient way. Lack of foresightedness in policy formulation and absence of strong commitments towards its proper implementation has caused many problems to commercial banks. Profit is important to every commercial bank as well as shareholders and depositors point of view and it is possible when, they invest on safe, sound and profitable projects. Every bank must have profit to survive in the competitive market where a 1ot of money and very little investment opportunity exist. Therefore, appropriate investment policy is the basic function of all the commercial banks, joint venture and other financial institutions.

The main focus of the study will be towards the investment matters of the bank. Investment policy is the main factor for the every banks and financial institutions. Thus, the study will try to explain the following points specially related to the investment function of the NABIL Bank. Has the bank been able to collect and utilize the funds efficiently?

- What is the relationship between investment and loan & advances with total deposits?
- Does the investment decision affect the total earnings of the bank?
- Is NABIL Bank is adopting investment practice and fund mobilization policy as directed by the Central Bank?
- Is NABIL committed towards its investment policy and investment strategy?

1.7 Objectives of the study

Investment decision is one of the major decision functions of financial management. The objective of the study is to assess and valuate the investment policy and strategies followed by the NABIL Bank. Besides this, the following specific objectives are to support the evaluation and studies are as follows:

- To study the resource mobilization and investment policy of NABIL Bank.
- To find out the relationship between deposit and investment trends of the bank.
- To evaluate profitability, risk, liquidity and assets management of the bank.
- To find out the current and future investing strategy of NABIL Bank.
- To provide suggestions to improve investment policy and performance of NABIL Bank based on the findings of the study.

1.8 Significance of the Study

Effective and efficient fund mobilization and investment policy is two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposit collection carries no meaning. Investment policy of collected fund is the most important theme from the point of both management and shareholders and good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic advancement of the people.

As the financial services industry becomes more complex, the financial information is more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information. In the context of Nepal, there are less availability of research work, articles and journals in investment policy of commercial banks and other financial institutions. Thus the study will certainly help management of the NABIL Bank to improve their performance and would help them to take corrective actions. Similarly, depositors can take decision to deposits on their money. Government also gets help while formulating policy. Furthermore, this study will be useful to more people and organization such as trade creditors, investors, stockbrokers, academicians, policy formulators and general public.

1.9 Limitations of Study

There will be some limitations while undergoing this study. The main limitations of the Study will be:

- The study is based on secondary data collected from the Bank.
- The study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines and brochures. These published documents have their own limitations.
- The study period has covered five years data only.
- Out of numerous factors, only those factors related to investment policy are considered.
- The study focuses an investment aspect of banking performance only.
- The study is carried out in only one bank.

1.10 Organization of the study

The whole study is divided into following five chapters:

Chapter 1: First chapter deals with introduction. This includes introduction, general background, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter 2: Second chapter deals with the review of available literature. It includes review of related books, journals, articles and previous unpublished Master Degree Dissertation etc.

- Is NABIL Bank is adopting investment practice and fund mobilization policy as directed by the Central Bank?
- Is NABIL committed towards its investment policy and investment strategy?

Chapter 3: Third chapter explains the research methodology used in the study. It includes research design, population and sampling, sources of data, method of data analysis and research variables etc.

Chapter 4: The fourth chapter is the important chapter of the study will be the presentation & analysis of data as well as major findings of the study.

Chapter 5: The fifth and last chapter covers the summary of the study, the main conclusion that flows from the study and offers some recommendations as well suggestions for further improvement.

CHAPTER-II

2. REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. It supports the research to explore the relevant and time facts for the reporting propose in the field of study. In the course of research view of the existing literature would help to check the chances of duplication in the present study. Thus one can find what studies have been made conducted and what remains to go with.

2.1 Conceptual Framework

Bank plays an important role in the economic development of a country. Banking, when properly organized, aids and facilitates the growth of trade and industry and hence of national economy. In the modern economy, banks are considered hot as a dealer in money but as the leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No function is more important to the economy and it constitutes than financing. "Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and it *is* important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy." (American Institute of Banking, 1972:162)

Commercial banks deal with other people's money. They have to find ways of keeping their liquid assets so that they could meet demands of their customers. In this anxiety "to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand the bank is fully solvent.

The depositors' confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and bankers cannot afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity. (M. Radheswamy, S.V. Vasudevan, 1979)

According to *F.A.* Bardford' *"A* bank is one who in the ordinary course of his business receives money which he repays by honouring cheques of persons form which of one whose account it receives it."(F.A. Bardford: 453-454)

Commercial Bank Act 2031 B.S. of Nepal has defined that "Commercial bank is one of which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for cooperative, agriculture, industries or such specific purpose."(Commercial Bank Act, 2031 B.S.)

Investment can be defined as the sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too. Uncertainty is measured by risk that's why there is always involvement of risk in investment. Investment in other words can be defined as the management of an investor's wealth, which are the sum of current income and the present value of all future income. Funds are invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other factors.

Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e., investment on different sectors) their collections {deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested. This information includes as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank as well as lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies it is always taken in mind that the greater the credit created by the bank, higher will be the profitability." A sound lending and investment policy is not only pre-requisite for bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks and financial institutions perform number of internal functions. Among them, providing credit is considered as most important one. In other words of H. D. Crosse (1963), "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 investments."

Investment operation of commercial banks is very risky one. For this, commercial banks have to play due consideration while formulating investment policy regarding loan investment. Investment policy 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 policy. A sound and viable investment policy can attract both borrowers and lenders, which helps to increase the volume and quantity of deposits, loans and investment. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability and safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment policy. Emphasizing upon this H. D. Crosse stated, "The investment policy should be carefully analyzed." Commercial bank should be careful while performing the credit creation function. Investment policy should ensure .minimum risk and maximum profit from lending.

Diana Mc Naughton (1994) in her research paper "Banking institution in developing markets" stated that, "Investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities”.

2.1.1 Investment policy of bank

The commercial banks are inspired with the goal of earning Profit. There are many reasons after the goal of gaining profile. A bank is a legal person. The shareholders are the owner of the bank. The board of directors is the agent of the bank. It operates the bank. To run the banks many employees are appointed. It needs a great amount of expenses to run the bank, whether it is direct or indirect, there is continuous expense in the bank. In addition to it, the aim of any person or institution to invest the money to the bank is to earn more profit only. A bank established without the aim of gaining the profit is the central bank. Other banks are inspired with the object of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal. (Bhandari, D.R., 2003: 126)

Without investment, a bank can't gain profit. The bank can't be Successful until it gains profit. Therefore, after the establishments of bank it collects much deposit , gets the deposits, from the current, saving and fixed, deposit account. In this way, the bank, apart from the amount deposited from such accounts, collects the capital by selling its shares. The bank can take loans. Thus, a great capital fund is formed in the bank from different sources. It is not better to keep such capital fund inactive. The bank should able to clear the policy of its investment by making a deep study on the subjects that which sector would be the more trust-worthy and dependable to invest the amount collected in the bank. If the bank applies following investment policies or principles it can be successful in its goal. Hence these principles or policies or theories are as follows: -

- **Principle of Liquidity**

Liquidity means the whole stock in the economy. In the case of Nepal the money in use, the money in the accounts of current, saving and fixed period and the money in margin account refer to liquidity. The liquid property means cash stock of the commercial banks the amount of short term, current account and short-term government and business security and the Treasury bill.

A bank should not forget the principle of liquidity while it is following its investment policy. The commercial banks are considered to be as financial mediators. The commercial banks have liability to the deposits and they immediately should give it in the time when the depositors asked. For this purpose, the bank should keep adequate liquid funds. And also they should gain profit by utilizing the deposit as a loan and advances. If the bank can't return the deposits at the time of demand it may lose the customers and their trust. If adequate liquid fund is kept, they can return the deposits at will of the depositors but such bank can't run for a long time. In same way, if they invest the whole deposit loan and advances, they can't give it at the time of demand by the depositors, so, the commercial bank try to move the liquidity and profit together. It is a great challenge for the managers of the bank.

The commercial banks should attract deposits because a deposit is called raw materials of banking, without which bank can't run. It is important thing in which sectors the amount of each deposit is to be invested. The interest is not given for the amount of current account. But as it has to give payment immediately, plenty of liquidity is necessary for it. From the viewpoint of property, loan and advances are more income generating sectors but they are less liquid able. The amount would not be recovered in the time of want. Similarly keeping more money in the bank is very more liquid able, but does not generate income to the bank. The quantity of liquidity is less for investment so maintenance of co-ordination between the property and the liquidity by keeping some parts pf its own property as a liquid property to provide loan and to invest it is the success of the commercial banks. The central bank pays attention to this reality to give direction on liquidity to the commercial banks. (Bhandari, D.R., 2003:127)

- **Principle of profitability**

The objective of the commercial banks is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The bank should not keep its means and materials inactive; it should keep on investing the means and materials in appropriate and safe area. The banks can gain much profit from the safe and long-term investment. But there is less liquidity in such investment. It may loss the investment in the sector where profit is not gained. Where much risk is there, is much profit. But some times it may create a situation where the bank should face the great economic loss, by loss of the investment in such a risky sector. So the profit and liquidity are two opposite principle. If the bank pays its attention only for profit, the liquidity becomes less, if it pays its attention on the liquidity, it can't be a long-term investment and the bank doesn't get profit. So it should maintain equality in it. The profit of the bank is the interest rate and the bank charge. So, the bank should always think to apply an appropriate investment policy in such sector from which can earn much. (Bhandari, D.R., 2003:128).

- **Principle of safety**

A bank should pay special emphasis on safety. If the invested area is unsafe, it isn't good omen for the bank. The bank should pay much emphasis on the principle of safety, to follow the investment policy. There will be no doubt of loss whether it is great or little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. To invest in an unsafe sector with the hope of gaining much is to accept the security of low quality. To invest large loan against less securities by receiving commission, to invest in new places without care, observation and to flow the long-term loan including these all-various reasons will make unsafe of the bank's investment. They should be avoided as much as can be. There will be no loss to the bank, if it invests in profitable sector. So, the bank should seriously study whether there is a possibility of investment or not. It should invest in a safe sector. If the property taken as the securities are ruined, securities is low in standard or low valued and if there is no possibility of sale of the security, the bank suffers from loss. The bank should follow the principle of safety, should flow the short-term loan and invest in profitable sector. In such conditions there will be no possibility of loss. The secured sectors mean the securities of the inland and foreign, company's shares debentures al\d government bond etc. (Bhandari, D.R., 2003:128)

- **Principle of diversification**

The principle of diversification means, the banking policy of investing the money in the various sectors. The bank should not follow the policy of investment only in one or two sectors. If it follows such policy, certainly its investment policy will not be successful. The bank by studying and analyzing the different sectors where it is possible to earn more from little investment should extend its investment. If it invests in many sectors, it becomes successful to keep it in balance. There will be less profit from investment of some sector and there will be maximum profit from some another sector. There may be loss too in some sector. On the whole a bank should be able to itself a competent. If it happens so, the banking transaction does not go up and down. It can run the bank comfortably and smoothly. In the case of earning profit, the bank should follow the policy of investing various fields. So, there is a statement "a bank should not lay all its egg in the same basket." By following this principle, on the basis of gold, silver, diamond, development bond, shares of company, debentures, goods, imports and export bills and other appropriate securities, the banks have moved ahead of their investment policy. The bank always gets success in their working capacity from such investment. And the bank becomes successful in its goal. (Bhandari, D.R., 2003:12,9)

- **Principle of marketability**

A bank should adopt the principle of marketability in investment policy. In certain way, the bank moves its investment or flows loan against security. To invest the money, the bank *should* follow the policy of taking the security of high quality as far as possible. The market of Nepal is small. In such a small market in order to livingness cc~ to its banking transaction, a bank should flow its loan by taking the first class securities. The bank should keep in mind the main principle of marketability while it makes investment. Are the goods taken as securities saleable in the market or not? Can the loan be recovered by selling it in the market *or* not? The bank should adopt the investment policy by paying the attention to the different aspects, it should study the market evaluate of the goods which are taken as security. The bank should do such thing, which would help to earn the profit and make the investment policy successful. The bank should not investment money by taking the securities of goods, which are not saleable in the market and though they are sold but not fetch the reasonable price, and there is no value of such things. The bank should take as far as possible such goods which keeps may be safely and freshly in the market and the loan will be recovered like, gold, silver, diamond, company's shares certificates, debentures, development bond and other similar types of securities of immovable property like house, land can't be sold in time. So if the bank provides loan by taking reasonable goods as security it can be sold in the market easily and the bank can be saved from becoming insecure. (Bhandari" D.R., 2003:129)

2.1.2 Principle of a Good Investment Policy

In choosing specific investment, investors' will need define ideas regarding a number of features that their portfolios should possess. These features should be consistent with the investors' general objectives and, in addition, should afford them all the incidental conveniences and advantages which are possible in their circumstances. The following are the suggested features as the ingredients from which many successful investors compound their selection policies. (Y .K. Bhallal 1983:2)

- **Principle of Safety**

The safety sought in investment is not absolute or completes the word means, rather protection against loss under reasonable likely. It calls for careful review of economic and industrial trends before choosing any type of investments or the time to invest. Thus, this principle recognizes that errors are unavoidable and requires extensive diversification. (American .Institute of Banking, 1972: 149)

- **Adequate Liquidity and Collateral Value**

An investment is a liquid asset if it can be converted into cash without delay at full market value in any quantity.

For an investment to be liquid it must be I) reversible or II) marketable. The difference between reversible and marketability is that reversibility is the process whereby the transaction is reversed or terminated while marketability involves the sale of the investment in the market for cash. To meet emergencies, every investor must have a sound portfolio to be sure for the additional funds, which may be needed for the business opportunities. Whether money is raising is to be done by sale or by borrowing it will be easier if the portfolio contains a planned proportion of higher- grade and readily saleable investment.

Stability of Income Stability of income must be looked at different ways just as was security of principle. An investor must consider stability of monetary income and stability of the purchasing power pf income. However, emphasis on income stability may not always be consistent with other investment principles. If the income stability is stressed, capital growth and diversification will be limited.

- **Capital Growth**

Capital appreciation has today become an important principle. Recognizing the connection between corporation and industry growth and very large capital appreciation, investors and their advisors constantly are seeking "growth stock". It is exceedingly difficult to make successful choice. The ideal "growth stock" is the right issue in the right industry, bought at the right time.

- **Tax Status**

To plan an investment program without regarding to one's tax status may be costly to the investor. There are really two problems involved here that, one concerned with the burden of income taxes upon that income. When investors' incomes are small, they are anxious to have maximum cash returns on their hand, investors who are not presses for cash income often find that income taxes deplete certain types of investment incomes less than others. Thus, affecting their choice.

- **Purchasing Power Stability**

Since an investment nearly always involves the commitment of current funds with the -objective of the investor should consider receiving greater amounts of future funds, the purchasing power of the future funds. For maintaining purchasing power stability, ; investors should carefully study I) the degree of price level inflation they accept, II) the possibility of gain and loss in the investment available to them and III) the limitations imposed by personal and family considerations.

- **Conceivability**

To be safe from social disorders, government confiscation or unacceptable levels of taxation, property must be conceivable and level no record of income received from its use of sale. Gold and precious stones have long been estimated for purposes because they combine high value with bulk and are readily transferable. (American Institute of Banking" 1972: 149)

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 frequently used in this study, which are given below.

- **Deposits**

For a commercial bank, deposit is the most important source of the liquidity. For a 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.” Deposit is 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. They are:

a) Current deposits

b) Saving deposits

c) Fixed deposits

- **Loans & Advances**

Loan, advances and overdrafts are the main source of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main service in which customers of the bank can enjoy.

Fund borrowed form banks are much cheaper then those borrowed from unorganized moneylenders. The demand from loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activities always increase the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

In addition to this, some portion of loan, advances and overdraft includes that amount which is given to the staff of the bank for house loan, vehicle loan, personal loan and others, in mobilization of commercial banks fund, loan, advances and overdraft have occupied a large portion.

- **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 it 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 shrinkage in value.

- **Investment on other company's Shares and Debentures**

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank's directives, many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. Nowadays, most of the commercial banks have purchased regional development bank's NIDC and other development bank's shares.

- **Other use of Funds**

A commercial bank must maintain the minimum bank balance with NRB i.e. 8% for fixed deposit and 6% for current and saving deposit account in local currency. Similarly, 3 % cash balance of all local currency accounts must be maintained by it according to the rules of NRB to have a good liquidity position.

Again, apart of funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

- **Off Balance Sheet activities**

Off Balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation. These are not recognized as assets or liabilities on balance sheet. Some good examples of these items are letter of credit, letter of guarantee, bills for collection etc. Nowadays, such activities are stressful1y highlighted by some economists and finance specialists to expand the modern transactions of a bank.

2.2 Review of Research Papers

There are not much articles published related to investment management in Nepal. Shiva Raj Shrestha (1998) has given a short glimpse on the "Portfolio management in" commercial banks; theory and practice". Mr. Shrestha has highlighted following issues in the article. The portfolio management becomes very important for individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to the following aspect:

- Higher return, which is comparable with attractive opportunities available according to the risk class of investors.
- Good liquidity with adequate safety of investment.
- Economic, efficient and effective investment mix.
- Flexible investment.
- Certain capital gains.

In view of above aspect, following strategies can be adopted:

- Do not hold any single security i.e. try to have a portfolio of different securities. .:. Do not put all the eggs in one basket i.e. to have a diversified investment.
- Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return but with added objective of wealth maximization.

However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its management:

- To find out investible assets (generally securities) having scope for better returns depending upon individual characteristics health, need, disposition, liquidity, tax liability, etc.
- To find out the risk of the securities depending upon the attitude investor toward risk.
- To develop alternative investment strategies for selecting 'a better portfolio that will ensure a trade-off between risk and return, so as to attach the objective of wealth maximization at lower risk.
- To identify securities for investment to refuse volatility of return and risk.

Mr. Shrestha has presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence.

According to Mr. Shrestha, the portfolio management activities of Nepalese commercial banks at present are in nascent stage. However, on the other hand, most of the banks are not doing such activities so far because of following reasons:

- Unawareness of the clients about the service available.
- Hesitation of taking risk by the clients to use such facility.
- Lack of proper techniques .to run such activities in the best and successful manner.
- Less developed capital market and availability of few financial instruments in the financial market.

Dr. Govind Bahadur Thapa (1994:29-37) has expressed his view that the commercial banks including foreign joint venture banks seems to be doing pretty well in mobilizing deposits. Likewise, loans & advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seems to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Out of the different commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank is operating with a nominal profit and also turning towards negative from .time to time. Because of non-recovery of accrued interest, the margin between interest income and interest income is declining. These banks have not been able to increase their income from commission and discount, through traditional off-balance sheet operations. On the contrary, they have got heavy burden of personnel and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of loans and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet activities and efficient personnel management has added to the maximization of their profits.

Dr. Sunity Shrestha (1993) in her reseal.ch, "Investment planning of commercial banks in Nepal" has made remarkable efforts to examinee the investment planning of commercial banks in Nepal. On the basis of the study she concludes that bank portfolio (loans & investment) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory procedure of the central bank (Nepal Rastra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility. To overcome this problem, she has suggested, "commercial banks should take their investment function with proper business attitude and should perform rending and investment operation efficiently with proper analysis of the projects".

2.2.1 Review of Master's Degree Thesis

Before this, several thesis works have been concluded by various students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization, capital structure, etc. some of them, as supposed to be relevant for the study are presented below:

Jyoti Joshi (2005) conducted a study on "Investment Policy of Commercial Banks in Nepal: A comparative study of Everest Bank Limited with NABIL Bank Limited and Bank of Kathmandu" with the objective of:

- To discuss fund mobilization and investment policy of EBL, NABIL and BOK Ltd.
- To evaluate the liquidity, efficiency arid profitability and risk position.
- To evaluate the growth ratios of loan & advances, total investments with other financial variables.
- To analyze the trend of deposits utilization towards total investment and loan & advances.
- To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL & NABIL & BOK.

The study was conducted on the basis or secondary data:

The research findings of the study are:

The liquidity position of the EBL is comparatively better than NABIL and BOK. EBL has the highest cash and bank balance to total deposits, cash and bank balance to current assets ratio. NABIL has the lowest liquidity position than that of other two banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan & advances.

From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to NABIL and BOK. The total investment of EBL is in between in compared to other two banks.

In the study, loan & advances to total deposit is higher in BOK but total investment to total deposit is higher in NABIL. Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.

In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e., NABIL and BOK. From the viewpoint of risk ratio, EBL has higher capital risk ratio but average of credit risk ratio in compared to NABIL and BOK.

Shrijana Shrestha (2004) conducted a study on "Nepal Rastra Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A case study of Nepal Investment Bank Ltd.)" with objectives of:

- To highlight the NRB directives regarding investment policy (loan, advances and investment)
- To analyze the liquidity of NIBL.
- To find out the relationship between total deposit and loan and advances, total deposit and total investment.
- To make the trend value analysis of deposit utilization and its projection for next five years.
- To find out whether NRB guidelines are actually being implemented.
- The study was conducted on the basis on secondary data.

The main findings of the study are:

Bank is in good position to meet the daily cash requirement as bank has maintain, the average cash and bank balance in respect to total deposit. .The performance of NIBL regarding deposit collection, granting loan and advances and investment is quite satisfactory but does not seem to follow a definite policy.

NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of .lack of sound investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL is high. However, bank failed to maintain net profit on the study.

From the analysis of coefficient of correlation, there is positive and significant relation between total deposits and loan and advances and current assets and current liabilities and loan loss provision and loan and advances but there is negative and no significant relationship between outside assets and net profit.

Trend analysis and projection for next five year of total deposits, loan and advances, investment and net profits are in increasing trend.

Sushil Chandra Mahat (2004) conducted a study on "Investment Policy of Nepal Bangladesh Bank Limited" with the objective of:

- To find out the Non-Performing Assets position of the bank.
- To evaluate the portfolio management of the bank.
- To find out the bank's investment on priority sector.

- To analyze the deposit utilization and its relationship with total investment and net profit of the bank.
- To suggest measures to improve the investment policy of the bank.

The study was conducted on the basis of secondary data:

The research findings of the study are:

- The proportion of non-performing assets on total loan & advances of the bank is more than the satisfactory level. It should be less then 5% to be graded as internationally A-grade commercial bank. For the Nepalese context, NPA level of the bank is higher than these standards. So, the management of the bank should give its attention in time to manage NPA level within the satisfactory level.
- The loan & advances portfolio of the bank is not satisfactory. The lending is not properly diversified. Half of the loan from total portfolio is given to industrial sectors. Bank is unable to explore the new and profitable sectors for the lending purpose; so, the bank has very risky portfolio of loan & advances. If industrial sector will not function properly, its impact to the bank will be huge.
- Bank .is not fulfilling its priority sector investment requirement every year, during the study period. In the course of failure to fulfill the directive credit requirement, bank is subject to penalty, which affects the profitability of the bank. The average priority sector lending of the bank is less than required 12% landmark.
- The relation of total deposit is positive to total investment i.e. if total deposit "increases, bank's loan & advances, investment on government securities, shares and debentures of other companies also increases. But the bank's investment, in the form of loan & advances and other investments have not positive relation to total net profit of the bank. Bank's total profit is irrespective to its total investment.

Lila Prasad Ojha (2002) conducted a study on "Lending practices: A study on NABIL Bank Ltd., SCB Nepal Ltd., and Himalayan Bank Ltd." With the objective of:

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

- To measure the lending performances in qul1lity, efficiency and its contribution total income.

The study was conducted on the basis of secondary data:

The research findings of the study are:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current assets.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCNBL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposits resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loan & advances to total assets whereas. NABIL Bank Ltd. has the highest due to steady and high volume of loan & advances throughout the years.
- The ratio of investment to investment on loan & advances has measured the total portion of investment in total of investment and loan & advances. The mean ratio among the banks does not have deviated' significantly
- The loan & advances and investment to deposits ratio has shown that NABIL Bank Ltd. Has deployed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. Is significantly better.
- The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is highest in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Ltd. is the least due to the low share of capital, reserves & surplus in its capital mix. But the volume contributed by Himalayan Bank Ltd. in case of loan & advances is highly appreciable compared to its net assets. The volume of loan & advances contributed by NABIL Bank Ltd. is the greatest in five years of study period. The mean investment of NABIL Bank Ltd. Is the highest but the investment on government securities of SCBNL is the highest.
- The portfolio analysis has revealed that the flow of loan & advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of all the banks in industrial sector is appreciable. The contribution made by Himalayan Bank Ltd. in industrial sector is the greatest that of SCBNL is the least.

- The lending in commercial purpose is the highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 24.47% of its total credit in general use and social purpose.
- The measurement of efficiency in lending has revealed that the loan loss provision to loan & advances analysis shows that NABIL Bank Ltd. has the highest mean ratio. According to Nepal Rastra Bank directives, the loan loss provision indicates the provision made against the performing loan (pass loan and sun-standard loan) only. .It indicates that the volume of sub-standard loan in the loan m ix of NABIL Bank Ltd. is higher and the volume of non-performing loan in the mix of NABIL Bank Ltd. is likely to increase in coming future.
- The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Ltd. and lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in Himalayan Bank Ltd. is the highest and that of SCBNL is the least.
- The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total expense reflects the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best.
- The performance of SCBNL is significantly better than two banks in case of profitability. EPS is the highest in the case of SCBNL.

Samiksha Thapa (2002) conducted a study on "Investment policy of Nepal Bangladesh Bank Ltd. and other joint venture banks (NABIL and Grindlays Ban~ Ltd.)" with the objective of:

- To examine the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparison with NABIL and NGBI.
- To analyze the relationship between loan & advances and total investment with other financial variables of NB Bank and compare them with NABIL and NGBL
- To examine the fund mobilization of investment policy of NB Bank through off- balance sheet activities in comparison to the other two banks.
- To study the various risks in investment of NB Bank in comparison with NABIL and NGBL.
- To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare them with NABIL and NGBL.

The study was conducted through secondary data.

The research findings of the study are as follows:

- The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL.
- NB Bank is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL. NB Bank does not seem to follow any definite policy regarding the management of its assets.
- Profitability position of NB Bank is comparatively worse than that of NABIL and NGBL.
- NB Bank has maintained high growth rates in comparison to other banks though it is not successful to make enough investment.
- The position of NB Bank in regard to utilization of the fund to earn profit in not better to compare to NABIL and NGBL.

Raja Ram Khadka (1998) conducted a study on "A study on the investment policy of NABIL Bank Ltd. in comparison to other Joint Venture Banks of Nepal" with the objective of:

- To evaluate the liquidity, asset management efficiency and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other Joint Venture Banks.
- To discuss fund mobilization and investment policy of NABIL Bank Ltd. in respect to its fee based off-balance sheet transactions and fee-based on-balance sheet transactions in comparison to other JVBS.
- To evaluate the growth ratios of loan & advances respective growth rate of total deposits and net profit of NABIL Bank Ltd. in comparison to other JVBS.
- To find out the relationship between deposits and total investment, deposits and loan & advances, and net profit and outside Ltd. in comparison with other JVBS.

The study was conducted using secondary data.

The research findings of the study are as follows:

- The liquidity position of NABIL Bank Ltd. is comparatively worse than that of other JVBS. NABIL Bank has more portions of current assets as loan & advances but less portion as investment on government securities.
- NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off balance sheet operations than that of other JVBS.
- Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBS. The mean ratio of return on loan & advances of

NABIL Bank Ltd. has been found slightly lower than that of other JVBS. Similarly, the mean ratio of total interest earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBS.

- Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan & advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBS (i.e.; Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.).
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between total deposits and total investment in case of both NABIL Bank Ltd. and other JVBS.

2.2.2 Review of NRB Directives

NRB Directives Manual 2004 Edition compiled by R. Bajracharya & Company Chartered Accountants

Maintenance of Liquidity (Part Two Chapter ix, page 1-3)

<u>Meaning</u>

Liquid assets, as defined as Commercial Banking Act (Section 2 Jha) include Cash in vault, Cash held in, Current Accounts with other banks, Balance held with Nepal Rastra Bank and other as specified NRB. However, for the purpose of Cash Reserve requirement, the following arrangements have been put into force by NRB.

Following arrangements are Effective from 2060.4.12/ July 28 2003

- Balance held with NRB 6% of total deposit liability

Procedure of compliance test

- The "balance held with the NRB" requirement shall be examined on a weekly basis (each Sunday through Saturday). In the case of full holidays during the entire week, cash reserve requirement for the week shall not be calculated.
- The "balance held with the NRB" shall be examined against the average weekly balance of deposit liabilities of immediately preceding 4th week. In case of full holidays in any week, the average deposit of immediately preceding week shall be considered.

- For the purpose of calculation of weekly averages of total deposit, and balance held with NRB; 5 shall divide the total aggregate amount daily balance from Monday through Friday. In case of any holiday befalling in the week, the balance of the preceding day shall be considered as the balanced for the day.

Penalty for shortfalls

- For first time short fall in "Balance held with NRB", at the rate of existing bank rate on such shortfall amount.
- For second time shortfall in "Balance held with NRB", at double the rate of the existing bank rate on such shortfall amount.
- For third time and successive shortfalls in "Balance held with NRB", at triple rate of the existing bank rate on such shortfall amount.
- For the purpose of calculation of "times" under sub-clauses (a), (b), and (c) above, the same shall be on each fiscal year basis.
- The penalty at the existing bank rate on shortfall amount shall be on weekly basis. Such shortfall shall be multiplied by the percentage of bank rate and divided by 52.
- For the purpose of application of bank rate, the highest refinance rate as prescribed by NRB shall be considered as the bank rate and penalty on the shortfall amount. I shall be calculated at such highest refinance rate.

Regulations relating to Investment in shares and securities by commercial Banks,

(Part two, chapter xx, page 1-3)

1. **Arrangement as to implementation of Investment policy under approval of the Board of Directors**

Banks shall prepare written policy relating to investments in the shares and debentures of other organized institutions. Such policies shall be implemented only under the approval of the Board of Directors.

2. **Arrangement relating to investment in securities issues by His Majesty’s Government and Nepal Rastra Bank**

There shall no restriction as to investment by the banks in the securities of His Majesty's Government and securities issued by Nepal Rastra Bank.

<u>Restriction put by circular No. bai. ni. ni. 94/059/60 dated 2059.9.19/01.03.2003</u>

Banks and finance companies can purchase and get endorsed (transferred) in their name only those HMG securities which were primarily issued by Nepal Rastra Bank, Public Debt Management for institution subscription only and those certificates which are issued in institution name. Information as to such purchases has to be provided .to this bank's Public Debt Management Department, Thapathali.

Banks and finance companies cannot purchase and get endorsed in their name the securities, which were issued by Public Debt Department for subscription by individuals only, as well as certificates issued in individual names.

3. Arrangement relation to investment in shares and securities of organized institutions

a) Banks may invest in shares and securities of anyone organized institution not exceeding 10 percent of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund.
b) The amount of investment in shares and securities of any organized institution in which banks has financial interest shall be limited to 10 percent of the paid up capital of such company and the cumulative amount of such investment in all the companies in which the bank has financial interest shall be limited to 20 percent of the paid up capital of the bank. For the purpose of calculation of capital fund, the amount of such investment in shares and securities shall be deducted from the core capital fund.
c) The total amount of investment as per sub- clause (a) and (b) shall be restricted to 30 percent of the paid up capital of the bank. Any amount of investment made in excess of 30 percent of paid up capital of the bank, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund.
d) Banks shall invest in the shares and securities of organized institutions, which are already listed in the stock exchange or where arrangement exists for listing within one year.
e) Where the shares and securities are not listed within the period per clause 3(d) above, provisioning equivalent to the whole amount of such investment be provided and credited to "Investment Adjustment Reserve". The outstanding amount in such reserve shall not be utilized for any other purpose till the said shares and securities of the organized institution are

listed. The outstanding amount in "Investment Adjustment Reserve" shall be included under supplementary capital.

f) Banks shall not invest in any shares, securities and hybrid capital instruments issued by any banks and financial Institutions licensed by Nepal Rastra Bank. Where such investments exist prior to issuance of this directive, such investment shall be brought within the restrictive limitations imposed by this directive within 3 years i.e. by the close of Fiscal Year 2060/61.

4. Arrangement relation to Review of Investment Portfolios

Banks shall arrange for review of investment portfolios on half yearly basis. With respect to such review, a statement from the internal auditor of the bank certifying that the investments are made as per the existing investment policy and as per these directives be obtained and shall also be approved by the Board of Directors within one month. A copy of the minute of approval of the Board of Directors shall be submitted within Falgun 15 {end of February) and Bhadra 15 (end of August) of each fiscal Operation Department and Inspection and Supervision Department of Nepal Rastra Bank.

CHAPTER-III

3. RESEARCH METHODOLOGY

Research Methodology describes the methods and process applied in the entire subject of the related study. Every research should follow the systematic research methodology to solve the research problem. The research methodology is wider concept. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used.

Research Methodology is away to solve systematically about the research problems, which includes many tools, if it is necessary in each and every steps of this study. The main objectives of the study are to analyze, examine, highlight and interpret the investment situation of the bank. Research methodology refers to the various sequential steps to be followed and adopted by a researcher in studying a problem with certain objectives in view. Here, the researcher have tried to evaluate about the investment policy of concerned commercial Banks by presenting the collected raw data properly in the table, chart, & graphs to make the study meaningful, attractive, &easy to understand. The methodology presented in this study is as follows.

3.1 Research Design

Research design of the present study is descriptive study. The design is however made in simple form but at the same time, it covers the main apprehension of the study. Since the main objectives of this study is to analysis the investment policy of the bank, all the indicators that shows the Investment situation of the bank were calculated using data obtained from the five year end internally generated accounting records maintained by individual NABIL Bank Limited. The study depends on the secondary data. It includes all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach the final conclusion. Various financial parameters and effective research techniques are employed to especially identify the strength and weaknesses in investment policy of the bank. The study is designed as to give a clear picture of the bank's investment circumstances with the help of available data and with some useful suggestions and recommendation.

3.2 Nature & Source of Data

The study is mainly based on the secondary data relating to the study of investment analysis of NABIL Bank, as they are available at NABIL Bank Limited. The data relating to the investment e.g. loans and advances, deposits and profit/loss are directly obtained from banks' Annual Report and Financial Statements of this bank. Likewise, newspapers, journals, periodicals, magazines, reports and unpublished thesis have been taking as other sources of date during the study.

According to the need and objectives, all the secondary data complied, processed and tabulated in time series in order to judge the reliability of data provided by the banks land other sources they were complied with the annual report of auditor. Formal and informal talks to the concern head of departments of the bank were also helpful to obtain the additional information of the related problem.

3.3 Population & Sampling

The time limitation and unavailability of the relevant data, and made the researcher to focus on only one commercial bank even though there are II domestic commercial banks and 6 joint-venture banks operating allover the kingdom and most of their stocks are traded actively in the stock market. Among them, only one joint-venture bank has been taken into account for research purpose as samples in this study to analysis their investment policy. NABIL Bank Limited commenced its operation on 12 July 1984 as the first joint venture bank in Nepal.

3.4 Tools for Analysis

As mentioned above for the purpose of data analysis, financial as well as statistical tools are used to make the analysis more effective, convenience, dependable and, genuine. Analysis and presentation of the data is the core of the study. The researcher has followed financial analysis as well as statistical tools. Financial analysis helps the judgment about the operating performance of investment position and statistical tools help the find out the trends of financial position of the bank. The financial and statistical tools are most reliable.

3.4.1Financial Tools

Financial Analysis basically helps to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ratio analysis is a reliable way to understand how a company is performing financially. Ratio analysis is one of the important financial tools has been used in this study. It helps to show mathematical relationship between two accounting items or figures. By applying ratios to an organization's financial statements, managers are able to better evaluate its short and long term financial performance. Although there are various types of ratios to analyze and interpret the financial statement, only five ratios have been taken in this study, which are mainly related to the investment policy of the bank. They are as follows.

A. Liquidity Ratios:

Difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organizations. It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-term obligations, it reflects the short-term financial strength and weakness of the firm.

A high degree of liquidity shows inability of proper utilization of funds whereas the lack of liquidity shows, the signal of poor credit worthiness, loss of creditors' confidence or even in legal tangles resulting in the closure of the company. So the firm should maintain appropriate liquidity over the immediate future to need its short-term liabilities as they fall due. To measure the liquidity position of banks under study the following ratios have been calculated:

A.1) Current Ratio:

The calculation of current ratio is based on a simple comparison between current assets and current liabilities. It measures short-term solvency, so it is often called liquidity solvency ratio and working capital ratio. Current ratio is calculated by applying following formula.

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

Where,

Current assets represents the amount of li4uiJ i.e. cash al1J near cash assets available to the business which can be converted into cash within a year. Likewise, current liabilities give an indication of the upcoming cash requirements are payable within a year from current assets.

The proportion of current ratio is 2:l or more is considered satisfactory. Thus, the conventional rule is based on the assumption that even if half decreases the current assets, the firm can meet its current obligations. It is not any hard and fast assumption that the current ratio must equal to 2:1. So many firms below this standard are also seen sound and meeting those obligations efficiently. It is the trend over time rather than the absolute value that gives the most valuable information.

A.2) Cash & Bank Balance to Current Asset Ratio:

Cash and bank balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than; other in current assets portion so this ratio visualizes higher liquidity position than current ratio. This ratio can be calculated by using the following formula:

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

The ratio shows the percentage of readily available fund within the bank present study cash and bank balance represent total of local currency, foreign currencies, cheques in hand and various bank balances in local as well as foreign banks.

A.3) Cash & Bank Balance to Total Deposit Ratio:

Cash and bank balance to deposit ratio reflects the ability of banks immediate funds to meet their current deposits, margin, call and saving deposits. This ratio is computed by dividing the amount of cash and bank balance by the total deposit. This ratio can be calculated by applying the following formula.

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

Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa. In this study, cash and bank balance includes total cash in hand and total cash at banks. Similarly, deposits include all type of deposits, money at call and other deposits.

A.4) Investment on Government Securities on Current Assets Ratio:

Investment on government securities on current assets ratio reflects the current assets invested on government securities, treasury bills and development bonds. This ratio can be computed by dividing investment on government securities by current assets. This ratio can be calculated by applying the following formula.

Investment on government securities on current assets ratio

$$= \frac{\text{Investment on government securities}}{\text{Total current assets}}$$

Investment on government securities includes treasury bills, development bonds, saving bonds, government securities etc.

A.5) Loan & Advances to Current asset Ratio:

It shows the relationship between loan & advances to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ratio can be computed in the following way:

$$\text{Loan and advances to current assets ratio} = \frac{\text{Loan \& Advances}}{\text{Total Current Assets}}$$

Loan & advances are the current assets, which is the general income to the bank. It shows the percentage of loan & advances in the total current assets. In the present study loan & advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

B. Assets Management Ratio / Activity Ratios:

Assets management ratio or activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversion, the more efficient is the management/utilization of assets.

These ratios are concerned with measuring the efficiency in asset management. If available assets are not utilized efficiently, the investment upon them will be idle and profitability decreases, and also if the investment is not sufficient, then adequate production and revenue can not be made and profitability decreases. So, proper balance between revenue and assets is desired for the reflection of optimum utilization of the assets. Here, some of these ratios are computed to assess the banks' efficiency in uti1ization of available assets.

B.l) Loan & Advances to Total Deposits Ratio:

Commercial banks utilize the outsider's fund for profit generation. Loans & advances to deposit ratio shows whether the banks are successful in utilizing the outsiders' funds for profit generation on the loan & advances or not. This ratio can be calculated by using the following formula:

$$\text{Loan \& advances to Deposits ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposits}}$$

Generally, a high ratio reflects higher efficiency to utilize outsiders' fund and vice- versa. Here, Loan & Advances refer to total of loan; advance and overdraft (i.e., in local currency plus convertible foreign currencies) and total deposits refer to total of kinds of deposits.

B.2) Loan & Advances to Working Fund Ratio:

Loan & advances is the major component in the total working fund, which indicates the capability of bank to channel its deposits in the form of loan and advances to earn high return. This ratio can be calculated by applying the following formula.

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

Here, total working fund includes total amount of assets given in balance sheet, which refers to current. assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

B.3) Total Investment to Total Deposits Ratio:

Total investment to total deposits ratio indicates how properly firms' deposits have been invested on government securities and debentures of the other companies. This ratio can be computed by dividing the total amount of investment by total amount of deposits collections. This ratio can be calculated by using the following formula:

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

Here, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

B.4) Investment on Government Securities to Total Working Fund Ratio:

Investment on government securities to total working fund ratio shows how much part of total investment is there on government securities in percentage. This ratio is computed by dividing investment on government securities by total working fund. This can be shown as,

Investment on government securities to total working fund ratio

$$= \frac{\text{Investment on government securities}}{\text{Total working fund}}$$

B.5) Investment on Shares & Debentures to Total Working Fund Ratio:

Investment on shares and debenture to total working fund ratio shows the investment of banks and other financial institutions on shares and debentures of the other companies in terms of total working fund. This ratio is computed by dividing shares and debentures by total working fund. This can be shown as,

Investment on shares and debentures to total working fund ratio

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

Here, total investment includes investment on government securities, investment on debentures, bonds and shares of other companies.

C. Profitability Ratios:

One of the important objectives of the commercial bank is to earn more Management, owner and creditors of the bank expect reasonable and more return. Efficiencies of any firm can be measured in term of profit. Profitability ratio also indicates public acceptance of the service of bank and run competitively. In this study, the profitability ratios are computed by relating the profits of banks to their investment. To measure the profitability ratio of NABIL Bank following ratios has been calculated and analyzed.

C.l) Return on Total Assets Ratio (ROA):

Return on total assets ratio measures the profitability with respect to the total assets. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the banks assets. A higher ratio usually indicates efficiently in utilizing its overall resources and vice versa. The ratio can be computed by following process:

$$\text{Return on total assets ratio} = \frac{\text{Net Profit}}{\text{Total assets}}$$

C.2) Return on Loan & Advances Ratio:

Return on loan and advances ratio shows how efficiently the banks and the other financial institutions have utilized their resources to earn good return from providing loan and advances. This ratio is computed by dividing net profit/loss by the total amount of loan and advances. This can be shown as,

$$\text{Return on loan and advances ratio} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

C.3) Interest Earned to Total Assets Ratio:

This ratio reveals how much interest mobilizing the assets in the banks has generated Interest occupies signif1cant place in income for the banks. Generally, banks earn interest through the provision of loans and advances, overdrafts and investments in securities. This ratio is found by following way,

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

Here, Interest earned represents the total interest earned in Income statement of the Bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

C.4) Interest Earned to Total Outside Assets Ratio:

This ratio measures the capacity of the firm for earning interest through appropriate utilization of outside assets. This ratio is computed by dividing total interest earned by total outside assets. It can be calculated as,

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

Higher ratio shows the efficiency of using the outside assets to earn profound interest.

C.5) Interest Paid to Total Working Fund:

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice versa. This ratio is calculated by dividing total interest expenses by total working fund.

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

D. Risk Ratios:

Risk means, possibility of incurring loss or misfortune. Risk taking is the most important business of every bank's investment management. When a firm wants to bear risk and uncertainty, the profitability and effectiveness of the firm increases. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the investment policy of the bank. To measure the risk ratios of NABIL Bank following ratios has been calculated and analyzed.

D.l) Credit Risk Ratio:

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

$$\text{Credit Risk Ratio} = \frac{\text{Total loan \& advances}}{\text{Total Assets}}$$

D.2) Capital Risk Ratio:

The capital risk of a bank indicates how much assets value may decline before the position of deposition and other creditors are jeopardized. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities. Capital risk ratio measures bank’s ability to attract deposits and inter bank funds. It also determines the level of profit, a bank can earn if a bank chooses to take high capital risk, and its ROE will be higher and vice versa. It can be shown as:

$$\text{Capital Risk Ratio} = \frac{\text{Share Capital (paid up } \Gamma \text{ reserves)}}{\text{Risk Weighted Assets}}$$

Only Loans & advances are taken as risk weighted assets.

E. Activity or Performing Ratio:

Activity or Performing ratio represent measure the lending efficiency in terms of quality and turnover. For the purpose the relationship of different variables of balance sheet and profit and loss account have been used. The following ratios are analyzed for this purpose.

E.1) 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 quality assets that the bank has. The higher ratio indicates the bad performance of the bank in mobilizing loans and advances and bad recovery rate and vice versa. It can be shown as:

Non - Performing loans to total loans and advances ratio:
$$\frac{\text{Non Performing loan}}{\text{Total loans and advances}}$$

E.2) Loan loss provision to total loans and advances ratio: (Loan loss Ratio):

This ratio measures the quality of assets that a bank is holding and the possibility of loan default of a bank. This ratio helps to signify the good quality of assets in the total volume of loans and advances. This ratio clearly describes how much risky asset in the volume of loan and advance. It indicates how efficiently it manages its loan and advances and makes efforts for loan recovery. Higher ratio implies higher portion of non-performing loan in total loan portfolio. It can be shown as:

$$\text{Loan loss provision to total loans and advance ratio: } \frac{\text{Loan loss provision}}{\text{Total loan and advance}}$$

F. Loan & Advance Portfolio:

The total loan & advance disbursed to different sectors of the economy is necessary to evaluate loan and advance portfolio. Commercial banks should have to diversify its loans & advances to different sectors to minimize risk. Total economy has been classified into five sectors to make best loan & advance portfolio, these are Agricultural Sector, Industrial/ Production Sector, Trading/

Commercial Sector, Service Sector, Others sector. The evaluation will shows the total sector wise portfolio of loan & advance of NABIL Bank.

G. Investment portfolio and its effect on Capital adequacy:

G.1) Effect of Capital Adequacy policy in Investment Portfolio:

The investments of the commercial banks have deep impact in the capital. Therefore, the commercial banks have to maintain the investment policy in such a way that it should also be helpful in maintaining the adequate capital as specified by NRB. Capital fund of bank should be based on the measurement of risks associated with the assets of the bank, the minimum capital fund required to be maintained is based on the risk weighted assets, the bank need to maintain it's assets so as to minimize total risk weighted assets or to increase the capital by issuing shares, debentures or generating more and more profit. So, Capital Adequacy policy of bank also effect on in Investment Portfolio. This analysis examines the total portfolio and capital adequacy part of bank which is directed by NRB.

H) Analysis of interest earning from different investments:

I) Growth Ratio:

Growth ratio represents how well the banks are maintaining their economic and financial condition. It is related to the fund mobilization and investment management of the bank. The higher ratio represents the superior performance. To measure the risk ratios of Nabil Bank following ratios has been calculated and analyzed.

I.1) Growth ratio of total deposit

I.2) Growth ratio of total investment

I.3) Growth ratio of loan & advances

I.4) Growth ratio of net profit

3.4.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

A) Arithmetic Mean (Average):

It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\bar{X} \quad = \quad \frac{X}{N}$$

Where:

$\bar{X}$ = Arithmetic mean

N = Number of observations

X = Sum of observations

B) Standard Deviation:

Standard deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter σ (sigma). In this study standard deviation of different ratios are calculated.

$$\sigma = \sqrt{\frac{X^2}{N} \, Z \, \frac{X}{N}^{2}}$$

Where,

σ = Standard Deviation

$\frac{X^2}{N}$ = Sum of Squares of Observation

$$\frac{X}{N}^{2} = \text{Sum of Squares of Mean}$$

C) Coefficient of Variation

The Coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio if the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

$$\text{Coefficient of variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \text{ x } 100\%$$

$$\text{C.V.} = \frac{\sigma}{\overline{\text{X}}}$$

Where,

$\overline{\text{X}}$ = Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

D) Coefficient of Correlation:

Coefficient of correlation is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and one independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

i) Coefficient of correlation between deposit and loan & advances.
ii) Coefficient of correlation between total deposit and total investment.
iii) Coefficient of correlation between total loan and advance assets and net profit.
iv) Coefficient of correlation between total investment and net profit.

The above analysis tools analyze the relationship between these the relevant variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization (loan & advances and investment) and profit maximization.

To find out those relationships, the following formula is used:

Coefficient of correlation (r) = $\frac{xy}{N \pm x \pm y}$

Where, x = $(X - \overline{X})$, $y = (Y - \overline{Y})$

The result of coefficient is always between -1 to +1, when r = +1, it means there is significant relationship between two variables and when r = -1, it means there is no significant relationship between two variables.

CHAPTER-IV

4. DATA PRESENTATION AND ANALYSIS

This chapter contains data collected from various sources. These are presented and analyzed to measure the various dimensions of the problems of the study and the major findings of the study are presented systematically. The data relating to the investment management and fund mobilization are analyzed.

Financial tools basically help to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ratio analysis is reliable way to understand how a company is performing financially. Although there are various types of ratios to analyze and interpret the financial statement but only five ratios have been taken in this study, which are mainly related to the investment policy of the bank. They are as following:

4.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. Difference between current assets and current liabilities is known as working capital, which provides liquidity in business organizations. A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawal, pay maturity obligation in time and convert non cash into cash to satisfy immediate needs without loss consequent impact on long-run profitability of the bank.

4.1.1 Current Ratio

The calculation of current ratios is based on a simple comparison between current assets and current liabilities. This is the broad measure of liquidity position of the bank. The standard of current ratio is 2: 1 for banking and 1: 1 for seasonal business and so on.

We have, Current ratio $= \dfrac{\text{Total current assets}}{\text{Total current liabilities}}$

Where, Current assets consist of cash & bank balance, money at call or short-term notice, loan & total current liabilities, advances, investment in government securities and other interest receivable and other miscellaneous current assets.

Current liabilities consist of deposits, loan & advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Calculation of Mean, Standard Deviation and Co-efficient of Variation of Current Ratios

Current ratios of NABIL from the fiscal year 1999/2000 to 2007/2008 are given below in Table-l. Standard deviation is calculated by using formula STDEV (A1: AS). Mean is calculated by average (A1: AS) and C. V. by S.D. / x* 100%. Calculations of all the tables are done in excel; (See Annexure-A1)

Table-1 Current ratio (times)

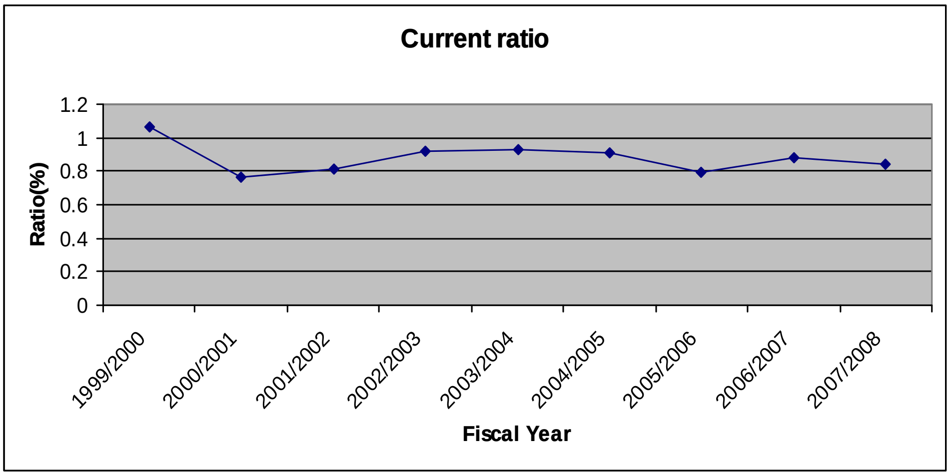
Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	1.06	0.76	0.81	0.92	0.93	0.91	0.80	0.88	0.84	0.88	0.09	10.24

Source: Financial statement of bank 1999/2000 to 2007/2008.

The above Table-1 shows that the current' liabilities of NABIL have exceeded current assets in average, in the study period from 1999/2000 to 2007/2008. The highest ratio is 1.06 in 1999/2000 while the lowest is 0.76 in the year 2000/2001 with an average ratio of 0.88 during the study period. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V.) between the ratios for the study period is 10.24%, which shows that the current ratios during the study period are not so consistent. In general, the bank is able to meet its short- term obligations.

The above ratios are not consistent because the optimal standard ratio should be 2: I; but this standard ratio is not applicable in banks and financial institutions. Banks hold huge portion of deposit as a core deposits (the minimum level of deposits, which the commercial banks hold at all the times) and this deposit remains all time throughout the year. This core deposit forms the fixed liability of the bank though it is current in nature. So the ratio maintained by the commercial banks at the level of around 1:1 is regarded as good and sufficient to meet the normal contingencies. But the ratios of NABIL is below the normal ratio over the nine years period except on 1999/2000 which shows' that NABIL has not maintained satisfactory liquidity position.

Figure-1 Current Ratio



4.1.2 Cash & Bank Balance to Current Assets Ratio

Cash & bank balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash & bank balance are the most liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment.

Where, Cash & bank balance is composed of cash on hand including foreign cheques, other cash items, and balance with domestic banks and abroad.

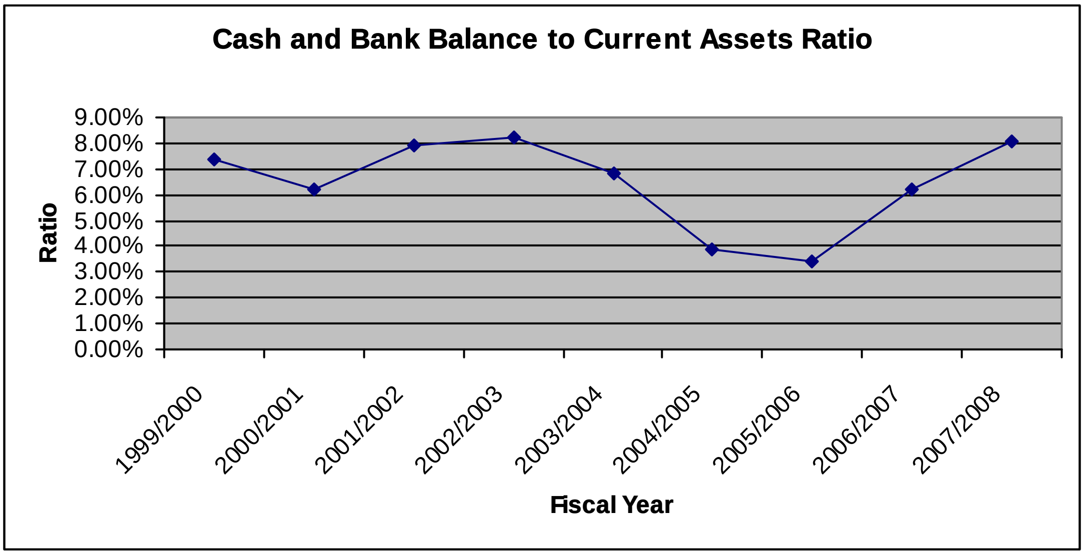
Current assets consist of cash & bank balance, money at call or short-term notice, loan & advances, investment in government securities and other interest receivable and other miscellaneous current assets. This ratio is calculated by dividing the cash & bank balance by current assets. (See Annexure-A2)

Table-2 Cash & bank balance to current assets ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	7.36	6.18	7.90	8.25	6.80	3.84	3.41	6.22	8.08	6.45	1.77	27.49

The above table-2 shows that the mean, standard deviation and coefficient of variation of cash and bank balance to current assets ratio of NABIL is better which has fluctuating trend. The highest ratio is 8.25% in 2002/2003 and lowest ratio is 3.41 in 2005/2006. The mean ratio of the study period is 6.45% and the C. V. between them is 27.49%. The C.V of the Cash and Bank Balance to current assets ratio is high which means there is more variable or less uniformity in the ratios of the study period.

Figure-2 Cash and bank balance to current asset ratio(%)



4.1.3 Cash & Bank Balance to Total Deposits Ratio

Cash & bank balance are the most liquid current assets, which is said to be the first defense of every bank. This ratio is computed by dividing cash & bank balance by total deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

We have, Cash & bank balance to total deposits ratio = $\frac{\text{Cash \& bank balance}}{\text{Total deposits}}$

Where, Cash & bank balance is composed of liquid assets as defined in Commercial Banking Act (Section 2 jha) include cash in vault, balance held in current accounts with other banks, balance held with NRB and others as specified by NRB.

Total Deposits means current deposits, saving deposits and fixed deposits as well as call money deposits and certificate of deposits.

Cash & bank balance to total deposit ratio of NABIL from the fiscal year1999/2000 to 2007/2008 are given below. (See Annexure-A3)

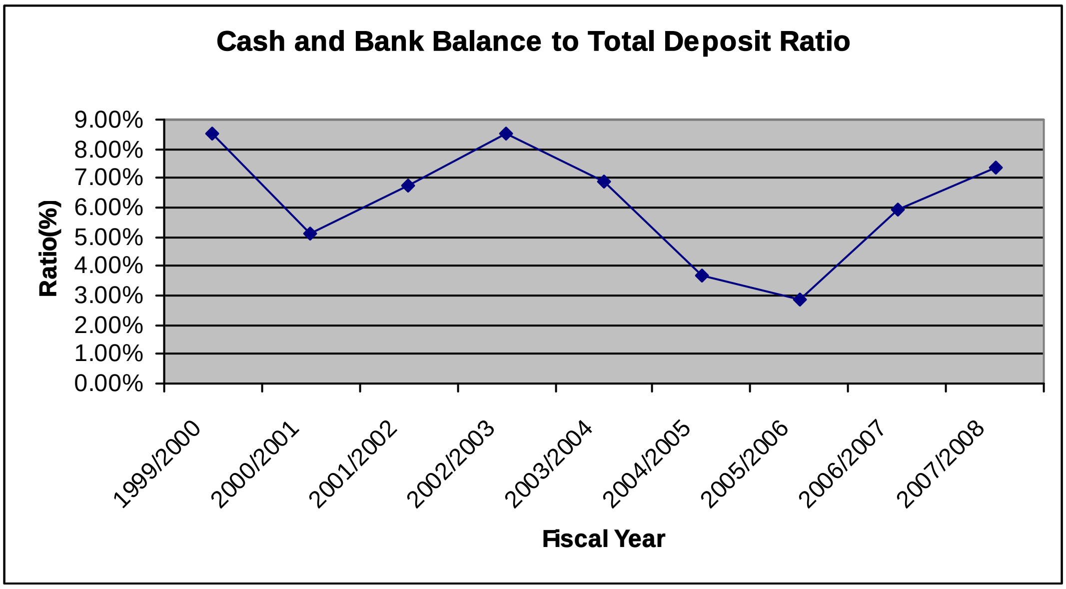
Table-3 Cash & bank balance to total deposit ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	8.52	5.13	6.78	8.51	6.87	3.68	2.87	5.93	7.33	6.18	1.98	32.08

The ratio of cash & bank balance to total deposit ratio is in fluctuating trend. NABIL has lowest ratio at FY 2005/2006 with 2.87% and the highest ratios of 8.52%at FY 1999/2000. The mean ratio of the study period is 6.18% with standard deviation of 1.98 % and coefficient of correlation of 32.08%.

According to NRB guidelines, there should be minimum balance of 6% of total deposit liability. The above analysis of cash & bank balance to total deposit shows that NABIL Bank is successful in maintaining this balance on an average but it is below NRB guidelines in FY 2000/2001, 2003/04 and 2005/06.

Figure-3 Cash & bank balance to total deposit ratio (%)



4.1.4 Investment on Government Securities to Current Assets Ratio

Investment on government securities on current assets ratio reflects the current assets invested on government securities, treasury bills and development bonds. Though the government securities are not so liquid as cash & balance, they can be easily sold in the market or they can be easily converted into cash 'in other ways and they are risk free also.

We have, Investment on government securities to current assets ratio

$$= \frac{\text{Investment on government securities}}{\text{Current assets}}$$

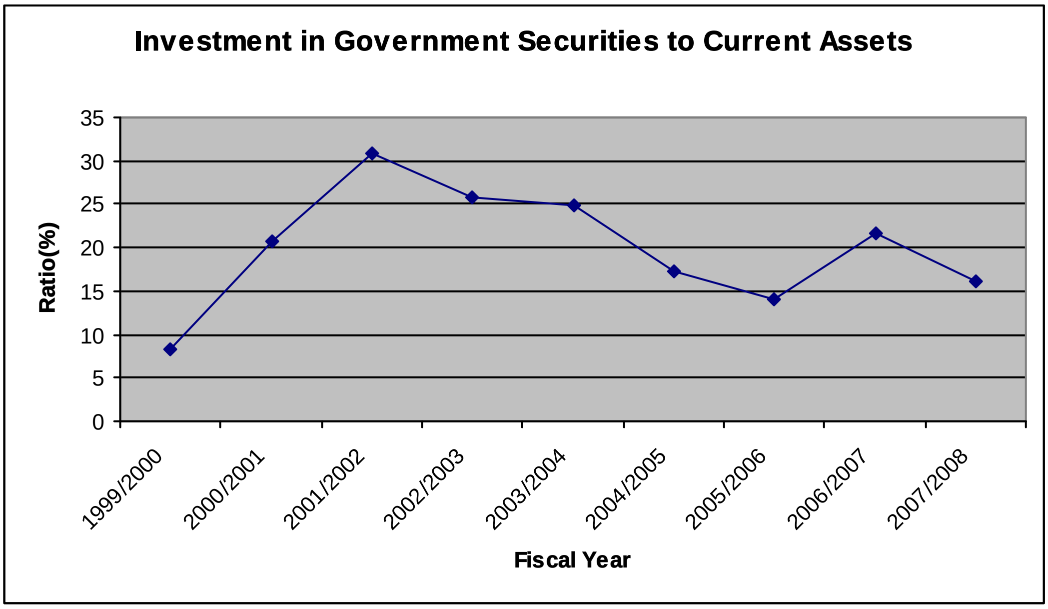
This ratio is calculated by dividing the amount invested on government securities by current ratio. (See annexure-A4)

Table-4 Investment on government securities to current assets ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	8.34	20.76	30.95	25.88	24.78	17.3	14.1	21.61	16.05	19.97	6.84	34.24

The above Table-4 shows that the investment on government securities to current assets ratio was in fluctuating. According to the NRB directives issued, there shall be no restriction as to investments by the banks in the securities of His Majesty's Government and securities issued by Nepal Rastra Bank. Bank and finance companies can purchase and get endorsed (transferred) in their name only those HMG securities which were primarily issued by NRB. However the investment of NABIL on government securities is moving upward up to 2001/01 afterwards it is in decreasing trend up to 2005/06.

Figure-4 Investment on government securities to current assets ratio (%)



4.1.5 Loan & Advances to Current Assets Ratio

It shows the relationship between loan & advances to current assets ratio or it shows the banks liquid capacity of discounting and purchasing the bill and loans, cash credit and overdraft facilities to the customers.

We have, Loans & advances to current assets ratio = $\frac{\text{Loans \& advances}}{\text{Current assets}}$

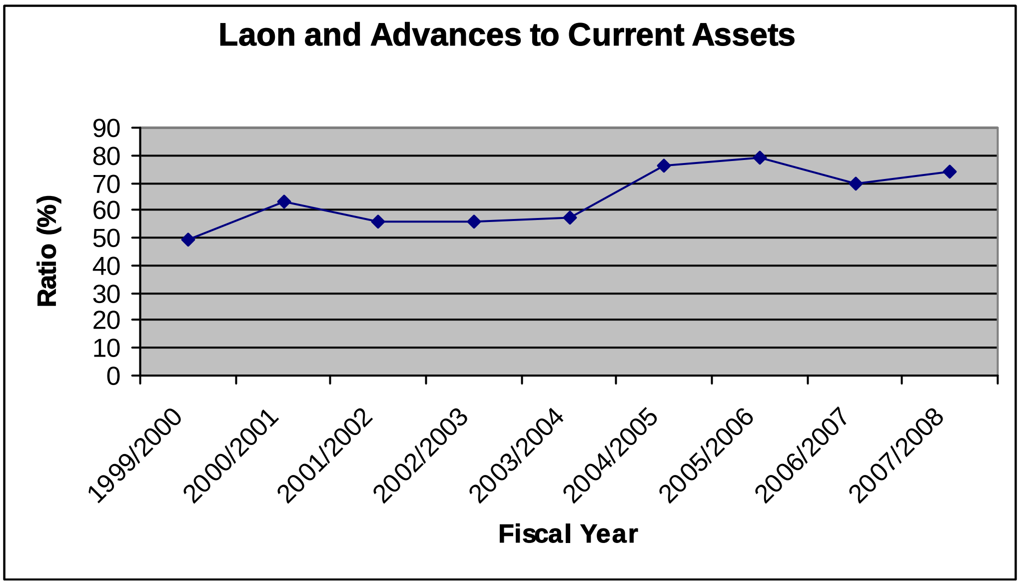
The table below shows the ratio o loan & advances to current assets ratio of NABIL. (See Annexure-A5)

Table-5 Loans & advances to current assets ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	49.6	63.25	55.87	55.93	57.49	75.89	79.16	69.87	73.78	64.54	10.49	16.25

Referring to above Table-5, we can see that NABIL has ratio of 64.54 % of current assets occupied by loan and advances. . As loan and advances is the major part of the bank and should occupy more portions in the current assets to gain more by the bank. The S.D of 10.49 and CV of 16.25 seems to be there are fewer variables or more consistency on the selected years. The loan and advances to current assets ration of NABIL seems to be satisfactory level.

Figure-5 Loans & advances to current assets ratio (%)



4.2 Assets Management Ratio/ Activity Ratios

Assets management ratio or activity ratios are employed to evaluate the efficiency with which the firm manage and utilize its assets. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversion, the more efficient is the management or utilization of assets. Here, some of these ratios are computed to assess the bank's efficiency in utilization of available assets.

4.2.1 Loans & Advances to Total Deposits Ratio

Commercial banks utilize the outsider's fund for profit generation. Loans & advances to deposit ratio shows whether the bank is successful in utilizing the outsiders funds for profit generation on the loans & advances or not.

We have, Loans & advances to total deposits ratio = $\frac{\text{Loan \& advances}}{\text{Total deposits}}$

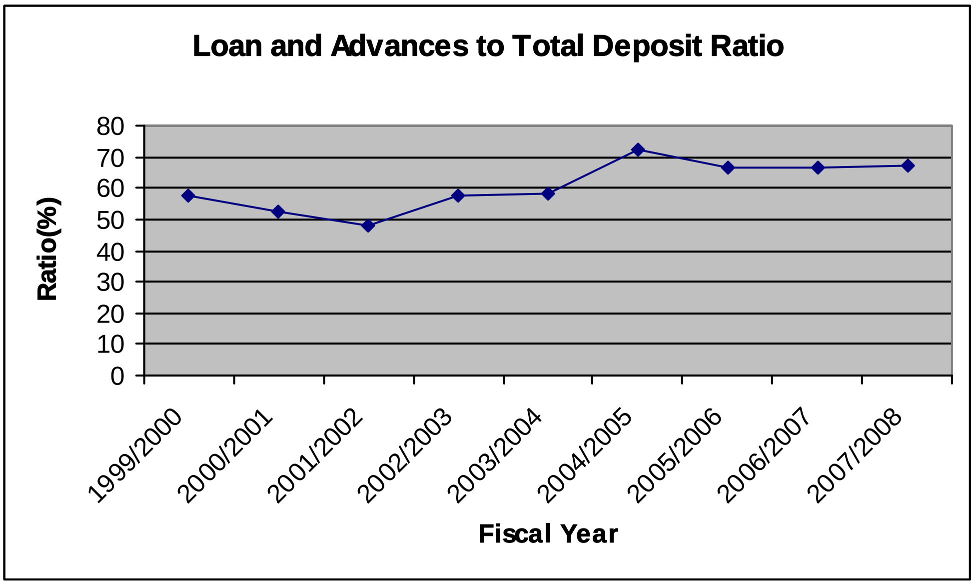
The below table shows the loans & advances to total deposits ratio of NABIL from fiscal year 1999/2000 to 2007/2008 (See Annexure-B1)

Table-6 Loans & advances to total deposits ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	57.39	52.56	47.97	57.67	58	72.57	66.79	66.6	66.94	60.72	7.96	13.12

The above table-6 shows that the loans & advances to total deposit ratios are in fluctuating trend. However NABIL has maintained the ratio at 66% after 2004/2005. The major part of the asset is loan and advances and deposit is the major part of liabilities. Banks collect maximum amount of deposit from public whereas invest more of it in loan and advances and it is the main source of income for the banks. The loan and advances to total deposit ratio of the NABIL is 60.72 % on an average. It means it is able to utilize 60.72 % of total deposit in loan and advances. The S.D of 7.96% and C.V of 13.12 shows that there is less variability between the selected years ratio.

Figure-6 Loans & advances to total deposits ratio (%)



4.2.2 Loan & Advances to Total Working Fund Ratio

Loans & advances is an important part of total' assets (total working fund). Commercial banks must be very careful in mobilizing the total assets as loan & advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are successful in mobilizing their assets loans & advances for the purpose of income generation. A higher ratio indicates better in mobilization of funds as loans & advances and vice versa.

We have, Loan & advances to Total working fund ratio = $\dfrac{\text{loan \& advances}}{\text{Total working fund}}$

Where, Total working fund is total assets, which is composed of current assets and fixed assets, miscellaneous assets, loans for development banks and investment.

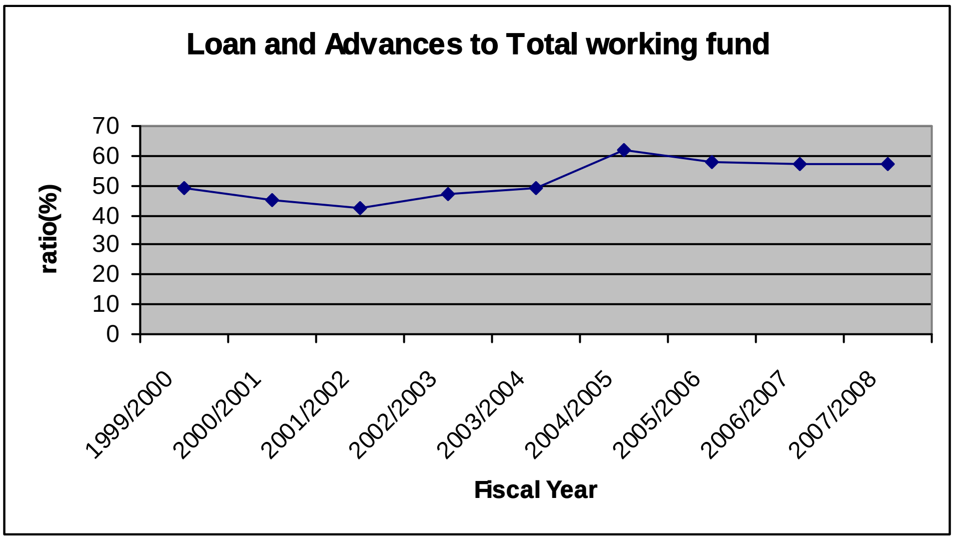
The below table shows the loans & advances to total working fund of NABIL from fiscal year 1999/2000 to 2007/2008 (See Annexure-B2)

Table-7 Loan & advances to Total working fund ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	48.82	45.32	42.19	46.83	48.91	62.08	57.87	57.04	57.54	51.84	6.88	13.28

Referring to the above table-7, we can see that NABIL has ratio of ranging from 42.19% in 2001/2002 and 62.08 in 2004/2005 with an average ratio of 51.84. So, we can conclude that NABIL has maintained medium loan & advances to total working fund ratio. The standard deviation is 6.88% and coefficient of variation is 13.28%, which shows that the loan & advances to working capital fund is less variable and consistent.

Figure-7 Loan & advances to Total working fund ratio (%)



4.2.3 Total Investment to Total Deposit Ratio

Total investment to total deposit ratio indicates how properly firm's deposits have been invested on government securities, and shares and debentures of the other; companies. This ratio can be computed by dividing the total investment by total amount of deposit collections. This can be calculated by using the formula:

We have, Total investment to total deposits ratio = $\frac{\text{Total investment}}{\text{Total deposits}}$

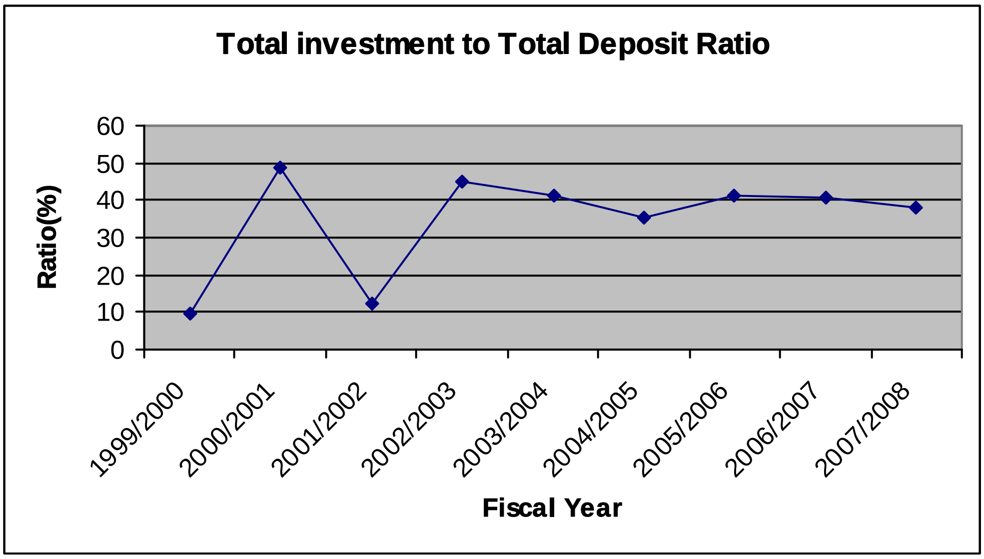
Where, Total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investment. The table below shows the ratio of total investment to total deposit of NABIL from fiscal year 1999/2000 to 2007/2008 (See Annexure-B3).

Table-8 Total investment to total deposits ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	9.79	48.64	12.25	44.85	41.33	35.42	41.28	40.8	38.3	34.74	13.96	40.19

In the Table-8, NABIL Bank has fluctuating trend regarding the ratios. During the study period the highest ratio was in FY 2000/2001 with 48.64% and the lowest in the (FY 1999/2000 with 9.79%. The mean value of NABIL is 34.74% and standard deviation of 13.96%. The coefficient of variation reveals that the investment policy has less consistency in the study period. The bank used to invest more when there is not sufficient level of loan and advance.

Figure-8 Total investment to total deposits ratio (%)



4.2.4 Investment on Government Securities to Total Working Fund Ratio

Investment of government securities to total working fund ratio shows how much pad of total investment is there on government securities in percentage. This ratio can be computed by dividing investment on government securities by total working fund. This can be shown as:

We have, Investment on government securities to total working fund ratio

$$= \frac{\text{Investment on Govt. securities}}{\text{Total working fund}}$$

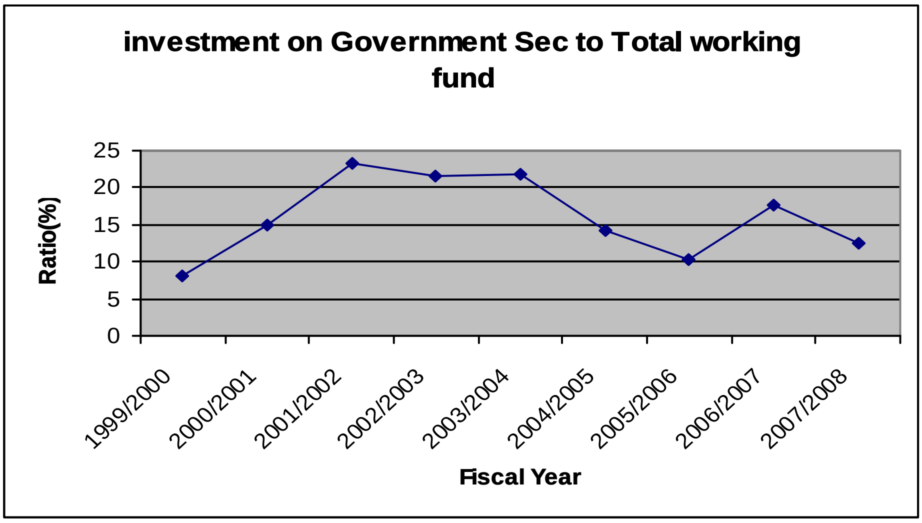
The table below shows the ratio of investment on government securities to total working fund ratio of NABIL from fiscal year 1999/2000 to 2007/08 (See Annexure-B4).

Table-9 Investment on government securities to total working fund ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	8.21	14.88	23.37	21.67	21.93	14.15	10.31	17.64	12.51	16.07	5.41	33.66

Referring to the above table-9, we can find that the investment on government securities to total working fund has the fluctuating trend. The mean ratio was found to be 16.07% with 5.41% standard deviation and coefficient of variation of 33.66%. The ratio seems to be consistent during the study period.

Figure-9 Investment on government securities to total working fund ratio (%)



4.2.5 Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of banks and other financial institutions on shares and debentures of the other companies in terms of total working fund. This ratio can be computed by dividing shares and debentures by total working fund

We have,

Investment on shares and debentures total working fund

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

The table below shows the ratio of investment on shares and debentures to working fund ratio of NABIL from fiscal year 1999/2000 to 2007/2008. (See AnnexureB-5)

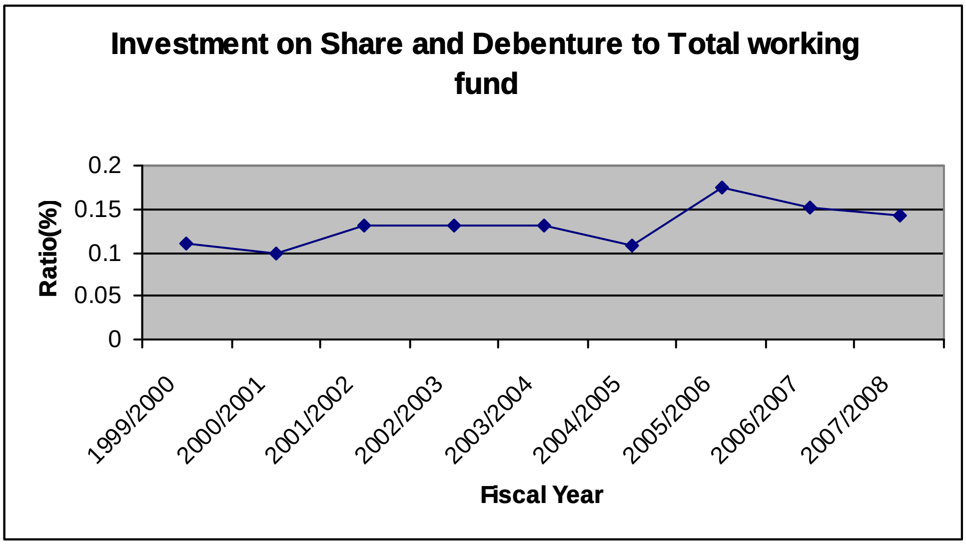
Table-10 Investment on shares and debentures total working fund ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	0.11	0.1	0.13	0.13	0.13	0.11	0.17	0.15	0.14	0.13	0.02	17.76

Banks may invest in shares and securities of anyone organized institution not exceeding 10 % of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the Core capital Fund.

Bank shall invest in the shares and securities of organized institutions, which are already listed in the stock exchange, or arrangement exists for listing within one year.

Figure-10 Investment on shares and debentures total working fund ratio (%)



4.3 Profitability Ratios

One of the major objectives of the commercial bank is to earn more profit. Management, owners and creditors of the bank expect reasonable and more return. Efficiencies of any firm can be measured in term of profit. Profitability ratio indicates public acceptances of the service of the bank and run competitively. In this study, the profitability ratios are computed by relating the profits of banks to their investment. To measure the profitability of NABIL bank following ratios have been calculated and analyzed.

4.3.1 Return on Total Assets Ratio

Return on total assets ratio measure the profitability with respect to total assets. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the bank's assets. A higher ratio usually indicates efficiently in utilization its overall resources and vice-versa. This ratio can be computed through following way.

We have, Return on total assets = $\frac{\text{Net Profit}}{\text{Total assets}}$

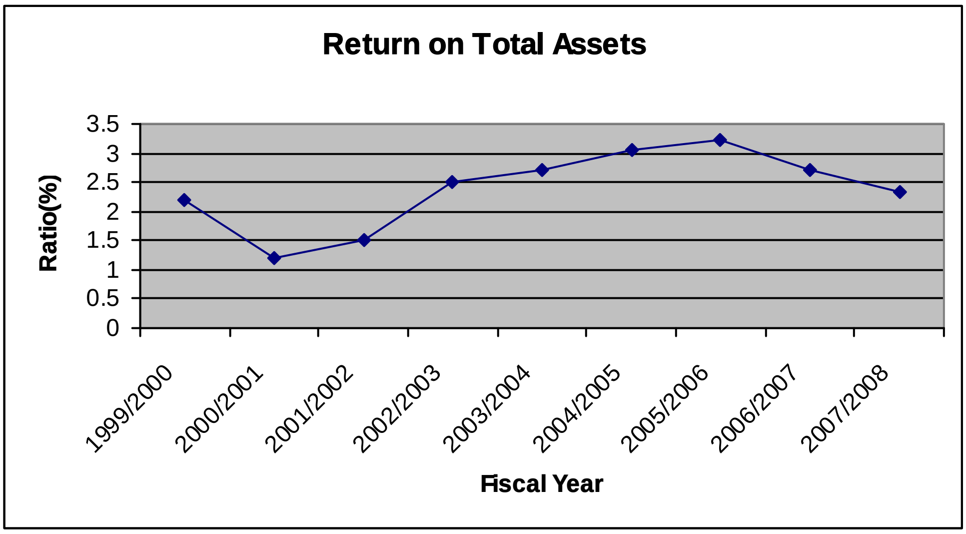
The table below shows the ratio of return on total assets of NABIL from fiscal year 1999/2000 to 2007/2008. (See Annexure-C 1)

Table-11 Return on total assets ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	2.2	1.2	1.5	2.5	2.7	3.06	3.23	2.72	2.32	2.38	0.67	28.25

The above Table-11 explains that the return on tota1 assets ratios is in increasing trend during the study period. The ratio ranges from 1.2% in 2000/2001 to 2.72% in 2006/2007. The mean ratio is found to be 2.38% with 28.25% C. V. between them, which indicates that the ratios are consistent and less variable.

Figure-11 Return on total assets ratio (%)



4.3.2 Return on Loan & Advances Ratio

Return on loan & advances ratio shows how efficiently the banks and other financial institutions have utilized their resources to earn good return from providing loan and advances. This ratio can be computed by dividing bet profit/loss by the total amount of loan and advances. This can be shown as,

We have, Return on loan & advances = $\dfrac{\text{Net profit}}{\text{Loan \& advances}}$

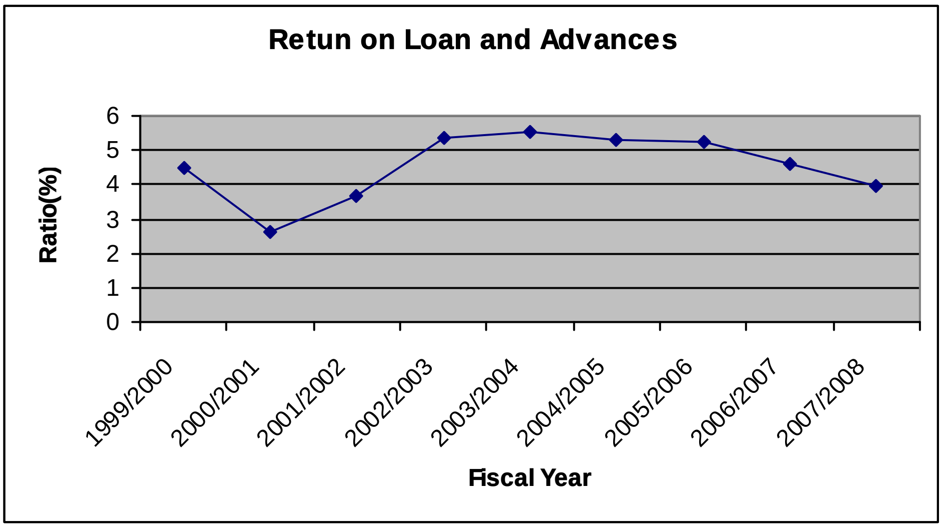
The table below shows the ratio of return on loan & advances of NABIL from fiscal year 1999/2000 to 2007/2008. (See Annexure-C2)

Table-12 Return on loan & advances ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	4.49	2.64	3.65	5.37	5.56	5.32	5.24	4.62	3.96	4.54	0.97	21.44

The above table-12 shows that the return on loan & advances ratios is in fluctuating trend. However, NABIL is able to make return of 4.62% on an average over its total loan and advances.

Figure-12 Return on loan & advances ratio (%)



4.3.3 Total Interest Earned on Total Assets Ratio

This ratio reveals how much interest mobilizing assets in the banks has generated. Interest occupies significant place in income for the banks. Generally, banks earn interest through the provision of loans & advances, overdrafts and investments in securities. This ratio can be calculated in the following way,

$$\text{We have, Total interest earned on total assets ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

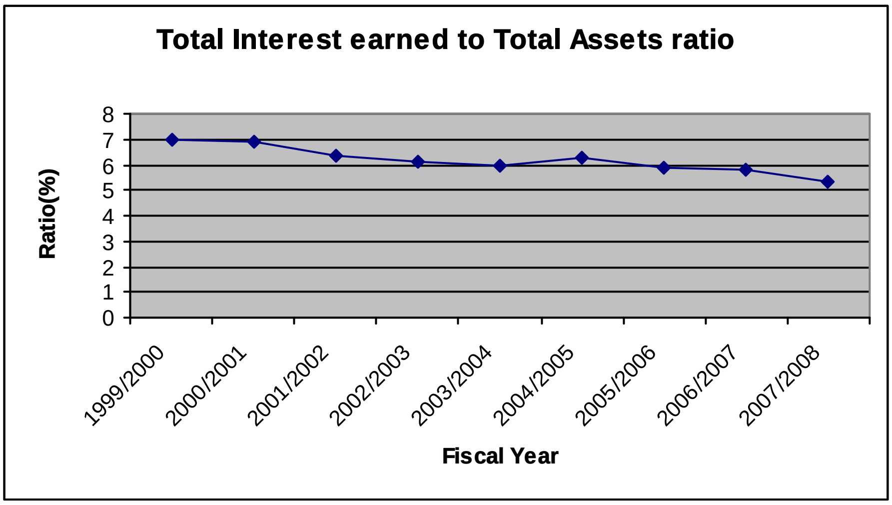
The below table shows the ratio of interest earned on total assets of NABIL from fiscal year 1999/2000 to 2007/2008. (See Annexure-C3)

Table-13 Total interest earned on total assets ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	6.97	6.9	6.35	6.15	5.98	6.26	5.87	5.83	5.33	6.18	0.52	8.40

The above table-13 reveals that the return on total assets is in decreasing trend. The average mean ratio is 6.18%, standard deviation of 0.52% and coefficient of variation of 8.40%. So; this ratio seems to be consistent and less variable.

Figure-13 Total interest earned on total assets ratio (%)



4.3.4 Interest Paid to Total Working Fund

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice versa. This ratio is calculated by dividing total interest expenses by total working fund.

We have, Interest paid to total working fund = $\frac{\text{Total interest paid}}{\text{Total working fund}}$

The below table shows the ratio of interest paid to total working fund of NABIL from fiscal year 1999/2000 to 2007/2008. (See Annexure-C5)

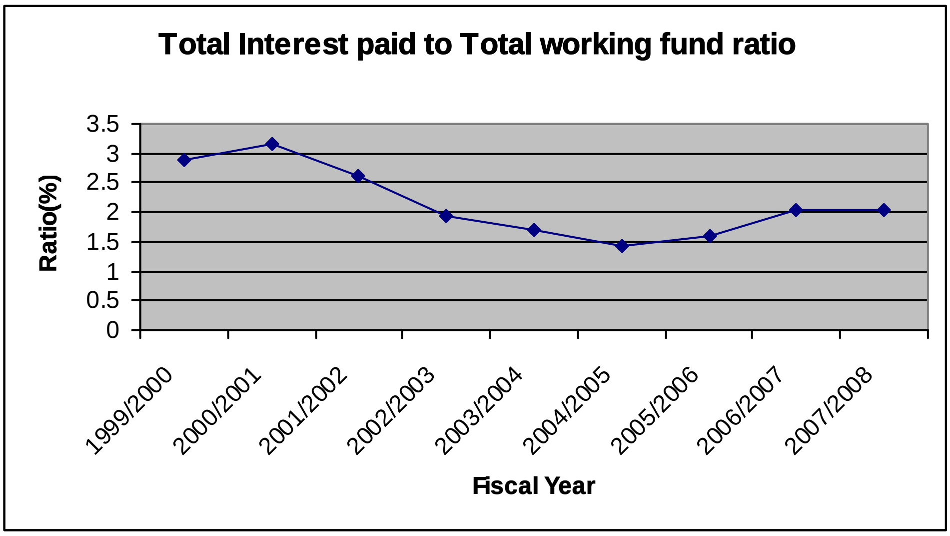
Table-14 Total interest paid to total working fund ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	2.88	3.15	2.62	1.92	1.69	1.43	1.6	2.04	2.04	2.15	0.60	27.80

The above Table-14 shows that the interest paid to total working fund ratio is in decreasing trend up to 2005/06 and it increased after that and stables up to 2007/08. The ratio ranges between 1.43% in 2004/2005 to 3.15% in

2000/2001. The mean of the ratio is found to be 2.15% with 27.8% C. V. between them, which means that the ratio is consistent during the study period.

Figure-14 Total interest paid to total working fund ratio (%)



4.4 Risk Ratios

The possibility of risk makes banks investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the bank opting for high profit has to accept the risk and manage it effectively. Through the following ratios, effort has been made to measure the level of risk.

4.4.1 Credit Risk Ratio

Credit risk ratio helps to check the probability of1oan non-payment or the possibility of loan to go into defaults. Credit risk ratio is expressed as the percentage of non-performing loan to total loan & advances. This ration can be calculated by dividing total loan & advances by total assets. It can be shown as,

We have, Credit risk ratio $= \dfrac{\text{Total loan \& advances}}{\text{Total assets}}$

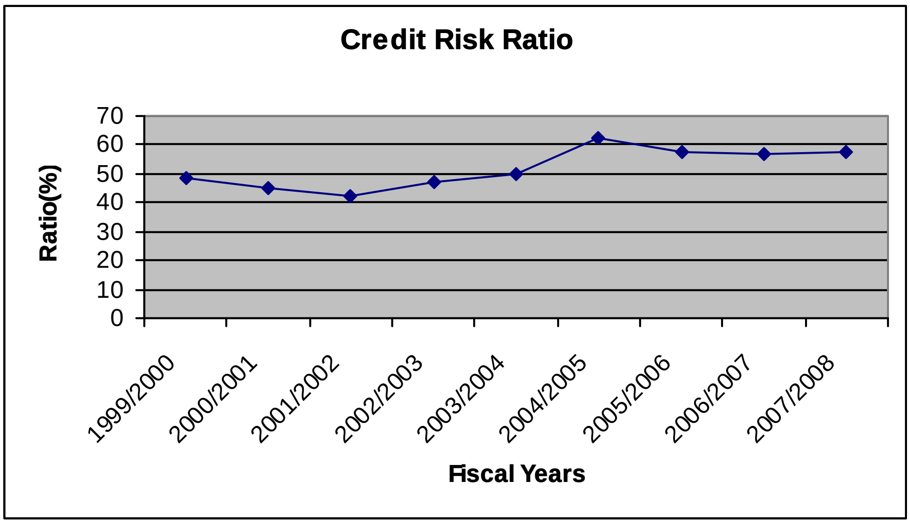
The below table shows the ratio of total loan & advances to total assets of NABIL from fiscal year 1999/2000 to 2007/2008. (See Annexure-D1)

Table-15 Credit risk ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	48.82	45.32	42.19	46.83	49.91	62.04	57.87	57.04	57.54	51.95	6.83	13.15

The ratio of NABIL has increased up to 2004/05 since 2001/02 by then it is stabilized at ratio of around 57%. The mean ratio is found to at 51.95% with standard deviation of 6.83% and coefficient of variation of 13.15%. It indicates that the credit policy of NABIL is consistent and stable.

Figure-15 Credit risk ratio (%)



4.4.2 Capital Risk Ratio

The capital risk ratio of a bank indicates how many assets value may decline before the position of deposition and other creditor is jeopardized. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate responsibilities. Capital risk ratio measures bank's ability to attract deposits and inter bank fund. It also determines the level of profit, a bank can earn if a bank chooses to take high capital risk and its ROE will be higher and vice versa.

We have, Capital risk ratio $= \dfrac{\text{Share capital}}{\text{Total assets}}$

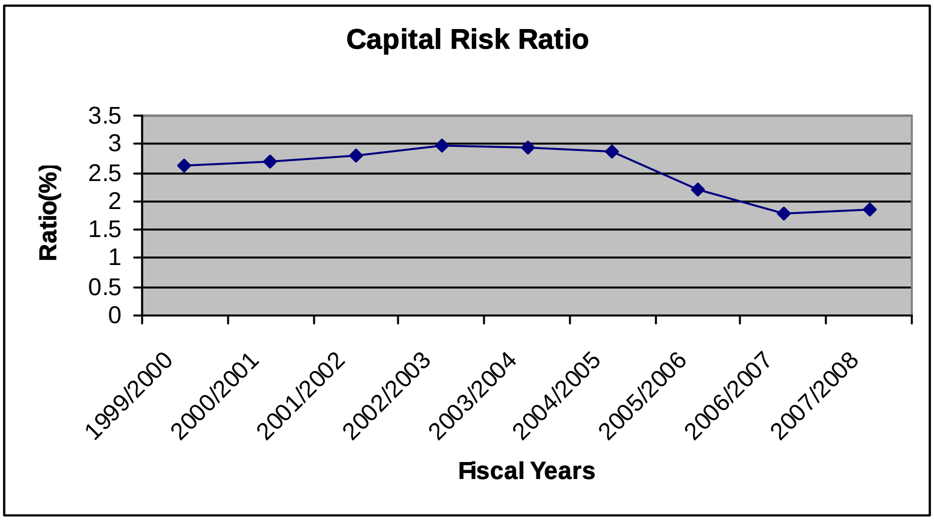
The below table shows the ratio of total loan & advances to total assets of NABIL from fiscal year 1999/2000 to 2007/2008. (See Annexure-D2)

Table-16 Capital risk ratio (%)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	2.61	2.68	2.79	2.97	2.93	2.88	2.2	1.8	1.86	2.52	0.46	18.06

The above table-16 shows that the capital risk ratio of the NABIL Bank has followed fluctuating trend. It ranges from 1.8% in FY 2006/2007 to 2.97% in FY 2002/2003 with mean of 2.52%, standard deviation of 0.46% and coefficient of variation of 18.06% which shows that the ratios are consistent and stable during the study period.

Figure-16 Capital risk ratio (%)



4.5 Activity or Performing Ratio

In this section the lending efficiency in terms of quality and turnover is measured. Lending on loan and advance is very risk activity and it also deserves high return too. Lending will not effective if there is not managed. Activity or performing ratio helps to describe over all investment policy and lending efficiency of the bank.

4.5.1 Non – performing loans to total loans and advances ratio

This ratio measures the proportion of non-performing loans the total volume of Loan and advances. This reflects the quality of quality assets that the bank have. Higher ratio reflects the bad recovery rate and vice versa. This ratio is computed by dividing the non-performing loans by total loans and advances (See Annexure-E1)

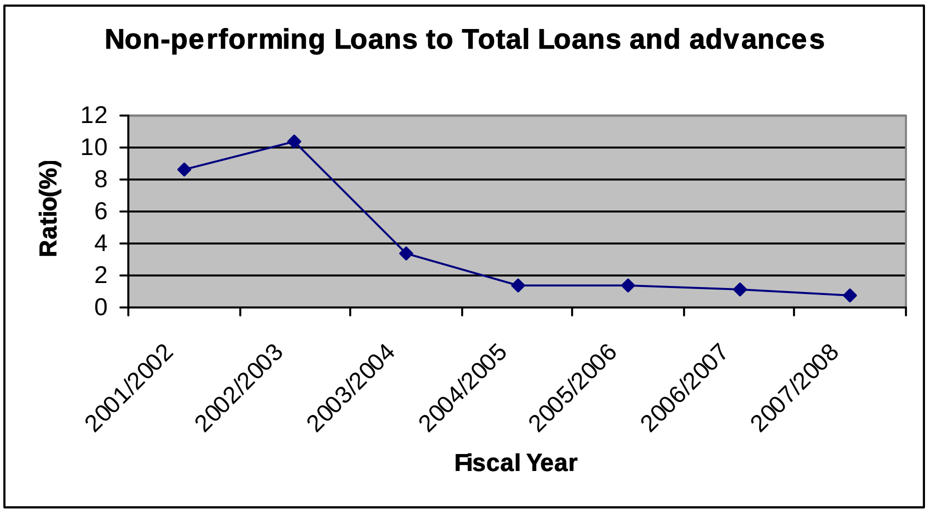
Table-17 Non-performing loans to total loans & advances ratio

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV
NABIL	N/A	N/A	8.58	10.34	3.35	1.32	1.38	1.12	0.74	3.83	3.97	103.47

Source: Financial statement of bank 2001/02 to 2007/08

The above Table-17 exhibits that the ratios for the study period are in decreasing trend since the year 2002/03. The ratio ranges from 0.74% in 2007/08 to 10.34% in 2002/03 with an average 3.83% and the C.V. between them is 103.47%, which indicates that the ratios are variable. The data of non-performing loan for the year 1999/00 and 2000/01 are not available. So, only 7 years data are taken for the study of non-performing loans to total loans & advances ratio. However the lower non performing loans to total loans and advances indicates good assets quality and it is good for the banks. The ratio indicates that NABIL's non-performing loans to total loans & advances ratio is at satisfactory and at safe level.

Figure-17 Non-performing loans to total loans & advances ratio



4.5.2 Loan loss provision to total loans and advances ratio: (Loan loss Ratio)

The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans & advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The positive ratio signifies the increase in loan loss provision than previous and negative ratio indicates the decrease in loan loss provision. This ratio is calculated by dividing the loan loss provision of the particular year by total loans & advances of the same year. (See Annexure-E2)

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Mean	SD	CV

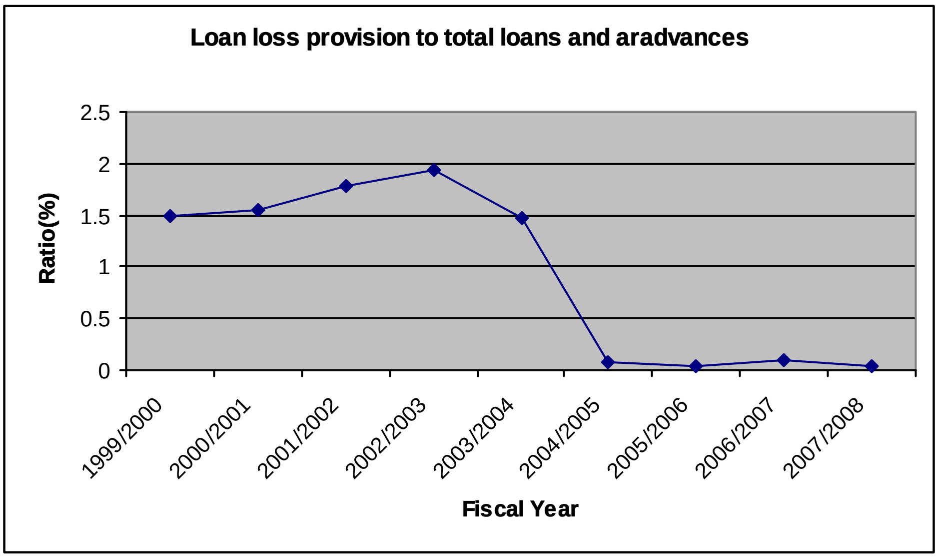
NABIL	1.5	1.55	1.79	1.93	1.48	0.08	0.03	0.09	0.03	0.94	0.85	90.35

Table-18 Loan loss provision & Loan and Advance Ratio

Source: Financial statement of bank

The ratio of the loan loss provision and total loan & advance ratio is in fluctuating trend. The Loan loss ratio depends upon the non performing loans. The lower the NPA lower will be the loan loss provision. The mean growth of the ratio in study period is 0.94% with standard deviation of 0.85% and coefficient of correlation of 90.35%, which means there is less consistency in the variables of the study period.

Figure-18 Loan loss ratio



Above analysis of loan loss provision reflects the increasing probability of non-performing loans in the volume of total loans & advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The low ratio signifies the good quality of assets in the total volume of loans & advances. The high ratio signifies the relatively more risky assets in the volume of loans & advances.

4.6 Growth Ratios

Growth ratio represents how well the banks are maintaining their economic and financial condition. It is related to the fund mobilization and investment management if the bank. The higher ratio represents the superior performance. To measure the risk ratios of NABIL bank following ratios has been calculated and analyzed.

4.6.1 Growth Ratio

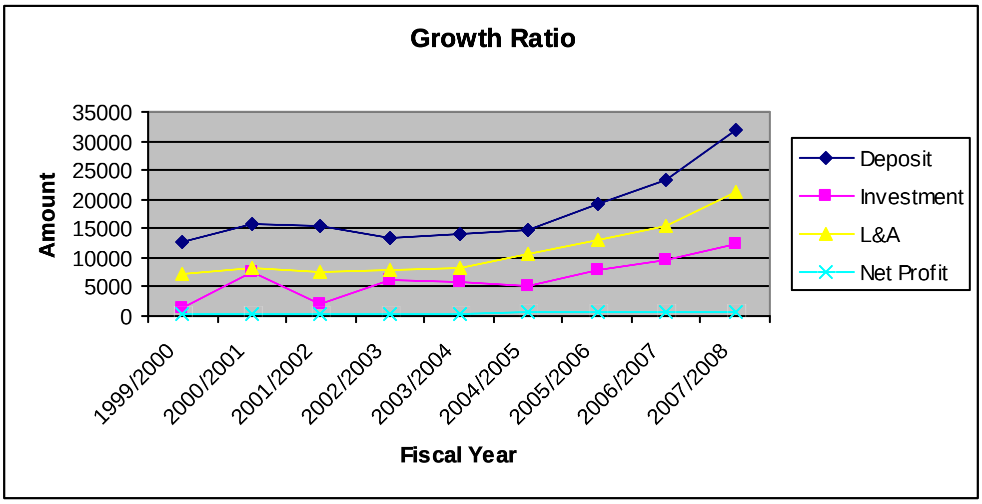
Table-19 Growth ratio

Bank\FY	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	Growth
Deposit	12779.5	15839	15506.4	13447.7	14119	14586	19347	23342	31915	13.36
Investment	1250.94	7704.31	1899.51	6031.18	5835.95	5167	7987.5	9524	12222	93.18
L&A	7334.76	8324.44	7437.89	7755.95	8189.99	10586	12922	15545	21365	15.22
Net Profit	329.1	219.38	271.64	416.24	455.31	520.11	635.26	673.96	746.47	13.29

The above table-19 explains the growth ratios of total deposits, total investment, loan & advances and net profit of NABIL during the study period. The analysis shows that the NABIL bank has not sufficient growth in total deposit i.e. 13.36% on an average. The total deposit was highest in 2007/2008 and lowest in 1999/2000.

The analysis of the total investment of the bank is in increasing but fluctuating. However it has sufficient level of growth rate of 93.18%. Similarly, loan & advances of the bank is also in increasing trend with the net growth rate of 15.22% during the study period. The profit of NABIL bank is in increasing trend. The bank has growth rate of 13.29% during the study period. (See Annexure-F1)

Figure-19 Growth ratio



4.7 Coefficient Correlation Analysis

Coefficient of correlation analysis us the mathematical method of measuring the degree of association between the two variables, i.e. one dependent and on independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- Coefficient of correlation between deposit and loan & advances.
- Coefficient of correlation between total deposit and total investment
- Coefficient of correlation between total loan and advances and net profit

The above analysis tools analyze the relationship between these the relevant variables and helps the bank .to make appropriate polices regarding deposit collection, fund utilization (loan & advances) and profit maximization.

To find out those relationships, the following formula is used:

$$\text{Coefficient of correlation (r)} = \frac{xy}{\sqrt{x^2}\sqrt{y^2}}$$

$$\text{P.Er.} = 0.6745 \text{ x } \frac{1 Z r^2}{\sqrt{N}}$$

The result of coefficient is always between -1 to + 1, when r = + 1, it means there is significant relationship between two variables and when -I, it means there is no significant relationship between two variables.

4.7.1 Coefficient of Correlation between Total Deposits and Loan & Advances

Deposits have played a very important role in the performance of a commercial bank and similarly loan & advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan & advances in a proper way or not. The Table-26 shows the c value of 'r', 'r^2', Probable Error (P.Er.) and 6P.Er.between total deposits and loan & deposits.

Table-20 Coefficient of correlation between Total Deposits and Loan & Advances

Correlation coefficient (r)	r^2	P.Er.	6*P. Er.	Remarks
0.97	0.95	0.0118	0.071	r>6*P. Er

4.7.2 Coefficient of Correlation between Total Deposits and Total Investment

Coefficient of correlation between total deposit and total investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and investment is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The table-27 shows the value of 'r', 'r^2', Probable Error (P.Er.) and 6P.Er.between total deposits and total investment.

Table-21 Coefficient of Correlation between Total Deposits and Total Investment

Correlation coefficient (r)	r^2	P.Er.	6*P. Er.	Remarks
0.83	0.686	0.0706	0.42	r>6*P. Er

4.7.3 Coefficient of Correlation between Total Loan and Advances and Net Profit

Coefficient of correlation between total outside assets and net profit measure the degree of relationship between these two variables. In this analysis, total outside asset is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether outside assets and net profit us significantly correlated or not. The table-28 shows the value of 'r', 'r^2', Probable Error (P .Er.) and 6P .Er. between total outside assets and net profit

Table-22 Coefficient of Correlation between Total outside Assets and Net Profit

Correlation coefficient (r)	r^2	P. Er.	6*P.Er.	Remarks
0.876	0.7665	0.0525	0.315	R>6*P.Er.

4.8 Major Findings of the Study

The preceding chapter have discussed and explored the facts and matters for the various parts of the study. Analytical part, which is the heart of the study, makes an analysis of various aspects of the investment policy of commercial banks by using some of important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestions for further improvement. This would be meaningful to the top management of the bank to initiate action and achieve the desire result. The objective of the researcher is only to point errors and mistakes but also to correct them and give directions for further growth and improvement.

The main findings of the study that are derived on the basis of financial data analysis of NABIL Bank Limited are presented below:

Findings from the Liquidity Ratios Analysis

From the analysis of the current ratio, current liabilities of NABIL have exceeded current assets in average of the study period from 1999/2000 to 2007/2008. The highest ratio ranges from lowest 1.06 in 1999/2000 to highest 0.76 in 2001/2001 with an average ratio of 0.90. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V) between the ratios for the study period is 10.24%, which shows that the current ratios during the study period are not so consistent. In general, the current ratio analysis of the bank over the five years period indicates that the bank has been able to meet its short-term obligations and has satisfactory liquidity position. However the current ratio of the NABIL is below standard level of 2:1, but for banks and financial institutions this ratio is not applicable. The ratio 1:1 is taken as standard current ratio for banks and financial institutions..

The cash & bank balance to total deposits ratio of NABIL Bank has fluctuating trend. The mean ratio of the study period is 6.18% with standard deviation of 1.98 % and coefficient of co--relation of 32.08%, which shows that the ratios are not consistent i.e. there is less uniformity in the ratios of study period. However the is able to keep sufficient level of cash and bank balance to current assets.

According to NRB guidelines, there should be minimum balance deposit liability. The above analysis indicates that the cash & bank balance position of NABIL Bank with respect to total deposit is better to serve its customers deposit withdrawal demands. It implies the satisfactory liquidity position or NABIL.

The cash & bank balance to current assets ratio of NABIL is in fluctuating trend. The highest ratio is 8.25% in 2002/2003 and the lowest is 3.41% in 2005/2006. The mean ratio for the study period is 6.45% and the C.V. between them is 27.49%. On the basis of C.V. the ratios seems to be more variable and less consistent.

It indicates that NABIL is in better position in maintaining its cash &bank balance to meet its daily requirements to make the payments on customers deposits withdrawal.

The investment on government securities to current assets ratio of NABIL has the fluctuating trend. The mean of the ratio for the study period is 19.97% and C. V. between them is 34.24%. On the basis of the C. V, it can be concluded that the ratios are variable and less consistent. Investment on government securities is the secondary defense mechanism for commercial banks. It shows the proportion of additional source of liquidity in addition to cash and bank balance in total current assets.

The loan & advances to current assets ratio of NABIL Bank is in fluctuating trend with mean ratio of 64.54% and C.V. of 16.25% which is consistent and less variable.

Findings from the Assets Management Ratio/ Activity Ratios

The mean ratio of loan & advances to total deposit ratio of NABIL Bank is 60.72% with C. V. of 13.12%. It has increasing trend. The C.V. between ratios shows that the ratio is satisfactorily consistent over the study period. The ratio is also called CD ratio i.e. Credit-Deposit ratio and around 70% of CD ratio is taken as standard. From this point of view, the loan & advances to total deposit ratio of the bank is lower than the standard. Loan and advances is the proportion of bank investment into most risky assets. High level of risk is not desirable for commercial banks as any default can create risk.

The loan & advances to total working fund ratio ranges from the minimum of 42.19% in 2001/2002 to the maximum of 62.08 % in 2004/2005. The mean ratio is 51.84% and the C. V. between them is 13.28%, which shows that the ratios are consistent over the study period. This shows that loan & advances comprise 51.84 % in average of the total assets of the bank. This shows that about fifty percent of the assets of the bank comprises loan & advances i.e. risky assets. Loan & advances is the most risky and most productive assets of the bank. High ratio suggests high risk and eventually high return of the bank. So, NABIL Bank has taken moderate risk towards the mobilization of its fund to risky assets.

The investment to total deposit ratios is in fluctuating trend during the study period. The highest ratio is 48.64% in 2000/2001 and lowest is 9.79% in 1999/2000 with mean ratio of 34.74%. The C. V. of 40.19% shows that the ratios are less consistent and more variable. The figures suggest that the bank has mobilized significant amount i.e. about one-third in average of its total deposits in government securities and shares and debentures of other companies.

Investment on government securities to total working fund ratio is in fluctuating trend during the study period. The mean ratio is found to be 16.07% with 33.66% C. V. between them, which indicates that the ratios are variable and not consistent during the study period. Investment on government securities is the risk free investment for the commercial banks. This ratio shows the proportion of risk assets in the total assets of bank. Analysis shows that the bank has mobilized about 16.07% on government securities i.e. low productive and risk free sector.

Investment on shares and debentures to total working fund ratio has ranged from 0.10% in 2000/2001 to 0.17% from 2005/2006. The ratios are stable after 2001/202. The mean ratio is found to be 0.13% with 17.76% C. V. between them, which indicates that, the ratio is not so consistent over the study period. So, NABIL Bank has invested very nominal percentage of total working fund into sires and debentures of other companies.

Findings from Profitability Ratios

Return on assets (ROA) ratios is fluctuating during the study period. The ratios range between 1.2% in 2001/2002 to 2.72% in 2006/2007. The mean of the ratios is found to be 2.38% with 28.25% C.V. between them, which indicates that the ratios are variable and less consistent during the study period. The return on assets of the bank is good in average and it indicates the good earning capacity of the bank assets and good utilization of its assets. And ratios are also in increasing trend too.

The return on loan & advances ratios are fluctuating with overall increasing trend ranging between 2.64% in 2000/2001 and 5.56% in 2003/2004. The mean of the ratios is found to be 4.54% with 21.44% C. V. between them, which indicates that the ratios are less variable and consistent.

The interest earned to total assets ratio of NABIL Bank has decreasing trend. The mean ratio is found to be 6.18% and coefficient of variation between them is 8.40% during the study period. The ratios are consistent and less variable.

The interest paid to working fund of NABIL Bank is in decreasing trend up to 2005/2006 and it increased after that and stables up to 2007/08. The mean ratio of total interest paid to total working fund during the study period is 2.15% with C.V. of .27.80%. The ratio seems to be consistent.

Findings from the Risk Ratios

The credit risk ratio of NABIL Bank has the fluctuating trend with the highest of 62.04% in 2004/2005 to lowest of 42.19% in 2001/2002. The mean ratio of the credit risk ratio during the study period is 51.95%. The NABIL bank has average lending policy. The ratio seems to be stable and consistent with 6.83% standard deviation and coefficient of variation of 13.15%.

The capital risk ratio of NABIL, Bank is in increasing trend. The ratio ranges highest 2.97% in 2002/2003 to lowest 1.8% in 2006/2007 with coefficient of variation of 18.06% which reveals that the ratios are consistent and less variable during the study period.

Findings of Activity Based Ratio

NABIL is able to decrease the Non performing loans to total loan and advances to 0.74% in 2007/08 from 8.58% in 2001/2002 which is very good sign for the bank. Similarly the loan loss provision is also in decreasing trend as trend of NPA to loan and advances.

Findings from Growth Ratios

The analysis of growth ratios of total deposits, total loan & advances, total investments and net profit of NABIL Bank during the study period shows that total deposits of bank is in increasing trend with the net growth rate of 13.36%. Similarly, loans & advances of the bank are also in increasing trend with the net growth rate of 15.22%. The analysis shows that the total investment of the bank is also in increasing trend with over the years having net growth rate of 93.18% during the study period. Relatively, the net profit of the NABIL Bank is also in the increasing trend with net growth rate of 13.29% during the study period.

The major source of fund of the bank is deposit from its customers and it is in increasing trend with slow growth rate. Similarly, the bank's utilization of its funds in the form of loan & advances and investment are also in increasing trend with satisfactory and high growth rate respectively. The bank has satisfactory growth rate of profit with increasing trend, which actually shows the performance of the bank in its overall operation.

Findings from the Correlation Analysis

The correlation between total deposits and total loan & advances shows that the correlation (r) between deposits and loan & advances of the bank is 0.97 and probable error multiplied by six is found to be 0.071. Since r >6*P .Er .and r is positive and near to 1. So, it is inferred that there is positive correlation between total deposits and loan & advances during the study period.

The increase and decrease of total deposit of the bank strong affects the volume of loan & advances.

The correlation between total investment and total deposit shows that the correlation coefficient (r) between total deposits and total investment of the bank is 0.83 and probable error multiplied by six is found to be 0.42. Since r>6*P .Er, it is significant and there is correlation between total deposit and total investments during the study period in NABIL Bank

The correlation between total loan and advances and net profit shows that the correlation (r) between deposits and loan & advances of the bank is 0.315 and probable error multiplied by six is found to be 0.315 Since r >6*P.Er, it is significant and there is positive correlation between total loan and advances and net profit.

CHAPTER-V

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of this includes summary, conclusion and recommendation which were developed from the fact findings through analysis of various aspects of investments of commercial banks by using some important financial as well as statistical tools.

5.1 Summary

The development of every country is always measured by its economic indicators. Therefore, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the economy. It will be diverted aboard or channelled into unproductive conspicuous consumption including real estate speculation.

Investment operation of commercial banks is a very risky one. It is the most important factor from the point of view of shareholders and bank management. 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 borrowers and lenders, which helps to increase the volume of quality deposits, loans and investment.

The major source of income of a bank is interest income from loan and investment and fee based income. As .loan and advances dominate the assets side of the balance sheet of any bank, similarly earnings from such loans & advances occupy major space in the income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loans-& advances. Hence loan is known as risky assets and investment operation of commercial banks is very risky one. Risk of and-payment of loan is known as credit risk of default risk. Performing loans have multiple benefits to the society by helping for the growth of economy while non- performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

Though several banks have been established in our country within short period of time, stable, strong and appropriate investment policy has not been followed by the commercial banks to sufficient return. They have not been able to utilize their funds more effectively and productively. Thus proper utilization of the resources has become more relevant and current issue for the banks. The directions and guidance provided by Nepal Rastra Bank mare the major policy statements for the Nepalese commercial banks. However, along term and published policy about their operation is not found even in the joint venture banks.

The main objective of this study is to evaluate the investment policy of NABIL bank and to suggest measures to improve the investment policy of the bank. This study has been constrained by various common .limitations.

The study is based on the secondary data from F/Y 1999/2000 to 2007/2008. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Beside this, personal contacts with the bank personnel have also been made.

Financial as well as statistical tools have been deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to investment function of commercial banks i.e. liquidity activity ratio, loans & advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some related tools i.e. co-efficient of correlation and trend analysis have been used. This analysis gives clear picture of the

In this study, the word investment is conceptualized as the investment of income, savings or other collected funds. The term investment covers a wide range of activities. It is only possible where there is an adequate saving. Investment policy is an important ingredient of overall national economic development because it ensures efficient also allocation of fund to achieve the materials and economic well being of the society as a whole.

The primary objective of these joint venture banks is always to earn profit by investing or granting loan & advances to people associated with trade, business and industry etc. That means they are required to mobilize their sources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank 19ans support the growth of new business and trade empowering the economic activities of the country.

The income and profit of the bank depends upon its lending procedure, lending policy and 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 significant for the promotion of commercial savings of a backward country like Nepal.

As there has been number of commercial bank established, the research has taken into consideration to single bank only.

"NABIL Bank Ltd." – NABIL Bank Limited (NABIL) was the first joint venture commercial bank established in 1984 by joint investment of Dubai Bank Limited and Nepalese promoters.

5.2 Conclusion

Liquidity

- The current ratio of the bank over nine years is 0.88 times on an average during the study period. Although the current ratio of 2:1 is considered as standard, acceptability of the value depends upon the industry. For the banks, a current ratio of 1: l or above would be considered acceptable. Therefore the liquidity position of NABIL banks is below the normal level.
- The cash and bank balance to total deposit ratio is also sufficient to meet the short-term obligation of the bank. The mean cash & bank balance to total deposit ratio of 6.45% shows that the bank has maintained enough liquidity to meet its short term liquidity.
- Similarly, 6.18% of mean cash & bank balance to total deposit ratio shows that, the bank has maintained enough balance of cash and bank balance to meet immediate need of cash for the depositors as per NRB guidelines.
- The investment on government securities to current ratio is 19.97% on an average during the study period, which indicates that the bank has maintained sufficient amount to adequate liquid assets to meet the

unexpected future liquidity needs. But the ratios over the study period do not seem consistent during the study period with 34.24% C. V.

- ❖ The loan & advances to current assets ratio is 64.54% on an average during the study period, which indicates that the bank has invested more than 50% of current assets as loan & advances. The ratio seems to be volatile during the study period.

Assets Management Ratios/ Activity Ratios

- ❖ The mean CD ratio of the bank is 60.72% which is less than the standard CD ratio. Around 70% of CD ratio is taken as standard. It not lending its deposit properly. The ratio seems to be consistent during the study period.
- ❖ The mean of loan & advances to working fund ratio is 51.84% in average and the ratios seems to be less volatile during the study period. This shows that NABIL is not satisfactorily utilizing its working fund for the purpose of income generation.
- ❖ The mean of investment to total deposit ratio is 34.74% and the ratios are more volatile. NABIL Bank has invested around one third of its total deposits into government securities and shares and debentures of other companies.
- ❖ NABIL Bank has invested 16.07% of total working fund on government securities in average. The ratios are inconsistent and fluctuating also. So the bank has less investment on risk-free area which has less return also. The inconsistency of the ratios shows that the bank has not specific policy for the investment on government securities. But it has mobilized about one-fifth of its fund on government securities i.e. low productive and risk free sector.
- ❖ The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.13% during the study period and the ratios are consistent with c. v. of 17.76%.

Profitability Ratios

- ❖ The return on assets ratios has a fluctuating trend with mean ratio of 2.38% on an average. The C. v. of 28.25% shows that the ratio seems inconsistent and variable during the study period.
- ❖ The return on loan & advances ratios is in increasing trend with the mean value of 4.54% in an average. The ratio seems to be less variable and consistent.

- ❖ The interest earned to total assets ratios is in decreasing with mean of6.18% in an average. The ratio during the study period seems to be consistent and less variable.
- ❖ The interest paid to working fund ratios is in decreasing trend with 2.15 % in an average during the study period. The ratio seems to be consistent and less variable. The reason for it may be due to decrease in the interest on deposit over study period.

Risk Ratios

The credit risk ratio of the balk has a fluctuating trend with 51.95% on an average during the study period. The bank has an average lending policy, i.e. it has been utilizing only around 50% of total assets as loan & advances. The ratio seems to be consistent during the study period.

The capital risk ratio of the bank is in increasing trend up to 2003/04 and afterwards it is in decreasing trend with 2.52% in an average during the study period. The ratios seem to be consistent and less variable due to the C. V. of 18.06 %.

Activity or performing

As all other commercial banks, NABIL has been also suffered from the Non-Performing loans. However the bank has been able to maintain 3.38% average ratio of non-performing loan which is less than the international standard of non-performing loan i.e. 10%. The bank has done excellent job by decreasing its non performing loans to 0.74% till 2007/08 and it very good and satisfactory.

Growth Ratios

The growth ratio of total deposits during the study period is 13.36% and the amount of deposits is in an increasing trend every year but in a slow pace. The growth ratio of total loan & advances of the bank during the study period is found to be 15.22% and is in increasing, trend every year. So, the total deposit and loan & advances are increasing with almost equal proportion. The growth rate of investments during the study period is 93.18% with the increasing trend. Similarly the net profit of the bank is also in an increasing trend with the net growth rate of 13.29% during the study period.

Hence, the above results show that the bank has been collecting the deposits funds in increasing trend and it has been increasing its loan & advances with similar rate. So, both the sources and uses of fund are in an increasing trend.

The investment has also the growth rate of 93.18% with increasing trend which shows that it doing the investment in increasing trend. And it is been achieving its profit through the investments. So, profit is also in increasing trend. Even though there is huge competition between the banks in the recent years, NABIL has been able to sustain the impressive growth rate in all assets and liabilities parts.

Findings from the Correlation Analysis

The correlation between total deposits and total loan & advances shows that the correlation (r) between deposits and loan & advances of the bank is 0.97 and probable error multiplied by six is found to be 0.071. The 1% increase or decrease in total deposit increases of decreased the loan and advances of the bank. Since r >6*P. Er and is positive, it is inferred that there is positive correlation between total deposits and loan & advances during the study period. The increase and decrease of total deposit of the bank strong affects the volume of loan & advances.

The correlation between total investment and total deposit shows that the correlation coefficient (r) between total deposits and total investment of the bank is 0.83 and probable error multiplied by six is found to be 0.42. Since r>6*P. Er., it is significant and there is correlation between total deposit and total investments during the study period in NABIL Bank and the correlation between them is highly significant. The increase or decrease of deposit affects the investment policy of the bank.

The correlation between total loan and advances and net profit shows that the correlation (r) between deposits and loan & advances of the bank is 0.876 and probable error multiplied by six is found to be 0.315. Since r >6*P. E r, it is significant and there is correlation between total loan and advance and net profit.

5.3 Recommendations

Suggestions help to take corrective actions in their activities in operating and taking decisions. On the basis of analysis and findings of the study, following suggestions can be advanced to overcome weakness, inefficiency and for the satisfactory improvement for the present" fund mobilization and investment policy of NABIL.

Improve current ratio

Current ratio shows the bank's ability to meet the current obligations. Generally 2:1 is considered as the standard current ratio but for the banks and financial institutions, 1:1 is considered as the standard current ratio. The current ratio of NABIL Bank seems to be less than 1, so it is suggested to increase the bank's current ratio as soon as possible as it could impose bad impact on depositors. Once the depositors' confidence is lost, it hard to bring it back.

Increase Credit Deposits (CD) ratio

The mean credit deposits ratio of NABIL Bank during the study period is 60.72% which seems to be lesser than the standard ratio. The 70% of CD ratio is considered as standard ratio, so it is suggested than NABIL should increase the CD ratio.

Increase Loans & Advances

The mean of loan & advances to working fund ratio is only 51.84% which shows that NABIL Bank is not efficient using its working funds. So it is suggested to lend more in the productive sectors to get income from the working fund. Increase investment in shares and debentures of the other company The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.13% during the study period. Banks may invest in shares and securities of anyone organized institution not exceeding 10 percent of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall capital fund. So NABIL Bank is suggested to investment debentures of other companies so it can get either dividend and capital gain after selling those shares and debentures in capital market after holding for some time.

Increase more Deposits

The main source of commercial banks is collecting deposits form public who don't need that fund recently. Without enough deposit collection, banks cannot operate smoothly. The growth rate of the deposits is very low, so it is suggested 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.

Liberal Lending policy and sound credit collection policy

Loans & advances are the main source of income and also utilization resources of commercial banks. So, commercial banks must utilize their deposits as loans and advances to get success in competitive banking market. Negligence in administrating these assets could be the cause of liquidity crisis in the bank and one of the main reasons of the bank failure. When the bank grants loan & advances, it must be collected after a certain period. Collection of loan has been the most challenging task for commercial banks these days, increasing on Non-performing assets discloses the failure of commercial banks in recovery of loan.

Therefore, it is recommended for NABIL to follow liberal policy when sanctioning loan & advances with sufficient guarantee and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal procedure if required.

Investment vision

The term investment is very important for commercial bank and main function also. Investment means use of their resource in different income sector. The study shows that the trend of investment of NABIL Bank is increasing satisfactory level. NABIL Bank is recommended to keep wide vision in investment while utilizing their resources and invest in different areas. The bank should focus both on retail lending and corporate lending as well as investment on shares and debentures of other corporate bodies.

Extend branches over the country

NABIL is one of banks which has large network within the country. Even though it has reached to some of the rural areas, but it is insufficient for the country to collect unutilized earnings and savings and to utilize them in productive and profitable sectors.

NABIL Bank is taken as the one of the most leading joint venture bank in Nepal. It is the one of tile most successful bank in Nepal with widest network than any other joint venture banks in Nepal. Today is the world of competition; the competition is growing day by day in the banking sector. It must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted onto cash whenever needed.

An income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank the higher will be the profitability. NABIL Bank Limited has achieved a remarkable success in banking 'sector in terms of market share and profitability compared to joint venture banks because of its reliable and professional services.

NABIL Bank is the innovator in introducing many new products such as credit cards, Tele Banking, Any branch Banking, ATM, 24 hours Banking Correspondent Network. Due to their prompt and quality services NABIL Bank has achieved its remarkable success in banking sector and has proved its high status in the eye of public. NABIL Bank has been improving its performance from very beginning since its establishment.

The bank is recognized as a premier financial institution in Nepal in terms of its range and quality banking services, human capital, assets quality and in come. After two decades of operation the bank has clearly exhibited that through consistently keeping its philosophy and its customers at the core of its business it stands today as the premier bank in the kingdom, poised to be the Bank of 1^{st} choice to all its stakeholders, going forward NABIL Bank today is full service bank in every sense, able to meet the entire large range of financial requirements of its customers. To achieve, its mission, NABIL Bank has set its values of Customer Focused, Result Oriented, Initiative, Synergistic and Professional. (CRISP).

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Annexure

Annex

Annexure-Al

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Current Assets	14788.9	13161.7	13313.4	13868.3	14244.9	13949.51	16324.85	22250	28959.16
Current Liabilities	13977.3	17226.2	16384.7	15135.4	15374.6	15406.44	20454.98	25196.35	34455.56
Ratio	1.06	0.76	0.81	0.92	0.93	0.91	0.80	0.88	0.84

Current ratio

Annexure-A2

Cash & Bank balance to Current Assets ratio

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
cash and Bank Balance	1088.75	812.9	1051.82	1144.77	970.49	536.06	556.18	1383.82	2340.9
Current Assets	14788.91	13161.68	13313.4	13868.3	14244.04	13949.51	16324.85	22250	28959.16
Ratio	7.36	6.18	7.9	8.25	6.8	3.84%	3.41%	6.22%	8.08%

Annexure-A3

Cash & Bank balance to total deposit ratio

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Cash and Bank Balance	1088.75	812.9	1051.82	1144.77	970.49	536.06	556.18	1383.82	2340.9
Total deposit	12779.51	15839.01	15506	13447.66	14119.03	14586.61	19347	23342.29	31915
Ratio	8.52%	5.13%	6.78%	8.51%	6.87%	3.68%	2.87%	5.93%	7.33%

Annexure-A4

Investment on Government securities to current assets ratio

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Investment on Government Securities	1233.82	2732..96	4120.29	3588.77	8672.04	2413.94	2301.46	4808.35	4646.82
Current Assets	14788.91	13161.68	13313.4	13868.3	14244.04	13949.51	16324.85	22250	28959.16
Ratio	8.34	20.76	30.95	25.88	24.78	17.3	14.10%	55.67%	72.39%

Annexure-A5

Loan & advances to current assets ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Loan and Advances	7334.76	8324.44	7437.89	7755.95	8189.99	10586.17	12922.54	15545.78	21365.05
Current Assets	14788.91	13161.68	13313.4	13868.3	14244.04	13949.51	16324.85	22250	28959.16
Ratio	49.6	63.25	55.87	55.93	57.49	75.89%	79.16%	69.87%	73.78%

Amlcxure-B1

Loan & advances to total deposits ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Loan and Advances	7334.76	8324.44	7437.89	7755.95	8189.99	10586.17	12922.54	15545.78	21365.05
Total Deposit	12779.51	15839.01	15506.43	13447.66	14119.03	14586.61	19347.4	23342.29	31915.05
Ratio	57.39	52.56	47.97	57.67	58	72.57%	66.79%	66.60%	66.94%

Annexure-B2

Loans and advances to total working fund ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Loan and Advances	7334.76	8324.44	7437.89	7755.95	8189.99	10586.17	12922.54	15545.78	21365.05
Working Capital Fund	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
Ratio	48.82	45.32	42.19	46.83	48.91	62.04%	57.87%	57.04%	57.54%

Annexure-B3

Total investment to total deposit ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Total Investment	1250.94	7704.31	1899.51	6031.18	5835.95	5167.28	7987.5	9524.85	12222.38
Total Deposit	12779.51	15839.01	15506.43	13447.66	14119.03	14586.61	19347.4	23342.29	31915.05
Ratio	9.79	48.64	12.25	44.85	41.33	35.42%	41.28%	40.81%	38.30%

Annexure-B4

Investment on Government securities to tot fund ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Government Securities	1233.82	2732..96	4120.29	3588.77	8672.04	2413.94	2301.46	4808.35	4646.82
Total working fund	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
Ratio	8.21	14.88	23.37	21.67	21.93	14.15	10.31	17.64	12.51

Annexure-B5

Investment on shares &debentures to total workin fund ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Inv on Share and Debenture	16.12	18.82	22.22	22.22	22.22	1855.71	3879.2	4147.96	5319.74
Total Working Fund	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
Ratio	0.11	0.10	0.13	0.13	0.13	0.11	0.17	0.15	0.14

Annexure-Cl

Return on total assets (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Net Profit	329.1	219.38	271.64	416.24	455.31	520.11	635.26	673.96	746.47
Total Assets	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
Ratio	2.2	1.2	1.5	2.5	2.7	3.06	3.23	2.72	2.32

Annexure-C2

Return on loans & advances (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Net Profit	329.1	219.38	271.64	416.24	455.31	520.11	635.26	673.96	746.47
Loan and Advances	7334.76	8324.44	7437.89	7755.95	8189.99	10586.17	12922.54	15545.78	21365.05
Ratio	4.49	2.64	3.65	5.37	5.56	5.32	5.24	4.62	3.96

Annexure-C3

Interest earned to total working fund (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Total Interest Earned	1047.03	1266.7	1120.18	1017.87	1001.62	1068.75	1310	1587.76	1978.7
Total working fund	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
Ratio	6.97	6.9	6.35	6.15	5.98	6.26%	5.87%	5.83%	5.33%

Annexure-C4

Total interest aid to Total working Fund Ratio Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Total Interest Paid	432.96	578.36	462.08	317.35	282.95	243.54	357.16	555.71	758.44
Total working fund	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
Ratio	2.88	3.15	2.62	1.92	1.69	1.43%	1.60%	2.04%	2.04%

Annexure-D1

Credit risk ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Loan and Advances	7334.76	8324.44	7437.89	7755.95	8189.99	10586.17	12922.54	15545.78	21365.05
Total Assets	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
Ratio	48.82	45.32	42.19	46.83	49.91	62.04%	57.87%	57.04%	57.54%

Annexure-D2

Cap ital risk ratio (Rs. In Million)

Fiscal Year	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Share Capital	392.8	491.65	491.65	491.65	491.65	491.65	491.65	491.65	689.22
Total Assets	15024.2	18367.15	17629.25	16562.62	16745.49	17064.08	22329.97	27253.39	37132.76
ratio	2.61%	2.68%	2.79%	2.97%	2.93%	2.88%	2.20%	1.80%	1.86%