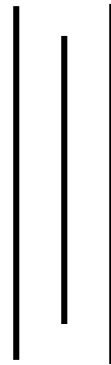


**INVESTMENT POLICY ANALYSIS OF NEPAL
INVESTMENT BANK LIMITED AND EVEREST BANK
LIMITED**

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**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**



*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)*

**Kathmandu, Nepal
August 2010**

RECOMMENDATION

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INVESTMENT POLICY OF COMMERCIAL BANK

**(A COMPARATIVE STUDY OF NABIL BANK LTD &
HIMALAYAN BANK LTD.)**

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according to the prescribed format. We recommend the thesis to
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DECLARATION

I hereby declare that the work reported in this thesis entitled “**INVESTMENT POLICY ANALYSIS OF NEPAL INVESTMENT BANK LTD AND EVEREST BANK LIMITED**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of Shankar Thapa of St. Xavier’s Campus.

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St Xavier's Campus

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ABBREVIATIONS

B.S.	:	Bikram Sambat
C.V.	:	Coefficient of Variation
e.g.	:	Example
EBL	:	Everest Bank Limited
Etc.	:	Extra
FY	:	Fiscal Year
Govt.	:	Government
i.e.	:	That is
JV	:	Joint Venture Banks
Ltd.	:	Limited
NIBL	:	Nepal Investment Bank Limited
No.	:	Number
NRB	:	Nepal Rastra Bank
P.Er.	:	Probable Error
r.	:	Coefficient of Correlation
Rs.	:	Rupees
S.D.	:	Standard Deviation
T.U.	:	Tribhuvan University

CHAPTER- I

INTRODUCTION

1.1 General Background of the Study

The well-organized financial system of a country plays a great role in the economic development of that country, as it transfers financial resources from savers to those who need them. As part of the financial system, financial institutions such as commercial banks, finance companies and financial cooperative societies are important vehicles for the development of economy, trade and business and other productive sectors that contribute to the economic growth of the nation. The mobilization of financial resources, capital formation, and their proper utilization play key role in the economic development of the country. Among them, the role of commercial banks is perhaps the most important in the economic development in the country.

Commercial banks provide capital for the development of industry, trade and business by investing the saving collected as deposits from the public. They render various other services to their customers facilitating to improve their economic and social life. They are the most important instruments for the country's development. Therefore, a competitive and reliable banking system is essential to every country to develop.

The word 'investment' connotes the investment of income, saving or other collected funds. Investment is possible only when there is adequate saving. If all the incomes are consumed now for fulfilling basic needs, then there is nothing to investment. Therefore, both the saving and investment are interrelated. A distinction is often made between investments and saving, saving is defined as foregone consumption; investment is restricted to real investment of the sort that increases national output in the futures. It is always true that all people want to invest their money in the most profitable opportunities for good return, but there is always risk associated with it.

Jack C. Francis, (1983:5) states, "Investing involves making a current commitment of funds in order to obtain an uncertain future return. It is a risky business that demands information. To process information effectively and select the best investment

requires goals that are clear cut and realistic. In simple term investment is making a current commitment of funds that is expected to generate additional money in future. Nevertheless, in the broadest sense it means the sacrifice of current rupees for future rupees that take place at present and certain time. Similarly, William Sharpe (1986:9) defines "Investment in the actual sense refers to the sacrifice of current dollars for future dollars". Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude of which is uncertain. In some cases, the element of time predominates (for example, call option on common stock). In yet others, both time and risk play a dominant role (for example, share of common stock).

Therefore, it can be said that investment is concerned with the management of the investor's wealth. Funds to be invested come from trade assets already owned, borrowed money, and saving or foregone consumption. By foregoing consumption today and investing the saving, investors expect to enhance their future consumption possibilities, i.e. they are invested to increase wealth. Investors also seek to manage their wealth effectively by obtaining the most profit while protecting it from inflation, taxes and other factors. Thus investment policies are the strategies of finding out the answers of where to invest? How much to invest? When to invest? And where to invest? However, there are no specific rules regarding investment policy of a bank and thus it has to keep increasing the safety and liquidity of its resources to meet the potential demand of its costumers. Since the objective of profitability conflicts with those of safety and liquidity, the wise investment policy is to strike a judicious balance between them. Therefore, a bank has to lay down its investment policy in such a manner to ensure the safety and liquidity of its funds and at the same time maximizing its profits.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the saving account of a bank, the bank may invest by lending the funds to various business firms. These firms in return may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds

to invest its projects, such as the construction of dams, roads and schools. Nepal Rastra Bank on behalf of the Government of Nepal issues bonds, treasury bills to finance the long-term and short-term needs of the government. All such investments by individuals, firms and government involve present sacrifice of income to get an expected future benefit. As a result of which, investment raises a nation's standard of living.

1.2 Statement of the Problem

After the restoration of democracy, the first elected government in 1991 adopted liberalized and market-oriented economic policies followed by liberalization in the financial sector and its reforms. As a consequence, many commercial banks, development banks, financial institutions, financial cooperative societies and NGOs operating in micro finance have mushroomed in the country. There are substantial numbers of commercial banks, development banks and other financial institution that is operating to assist the process of economic development of the country.

All commercial banks play vital role in the mobilization of financial resources by accepting deposits from the public and providing loans and advances to industrial and trading organizations, and as such they gear up the development of business in the country. The economic development of the country thus depends on the volume of investments made by the commercial banks. However, due to the growing competitions among the commercial banks themselves and with other financial institutions they seem to be unable to enhance their investments *vis-à-vis* the large amount of deposits raised from the public. In other words, commercial banks seem to be unable to formulate and implement strategic investment policy to invest their funds. Meanwhile, they are also facing some criticism that these banks serves only richer community of limited urban areas and not the poor communities in the vast rural areas of the country, and thus they do not seem to be able to invest their funds in vast areas of the country. Their investment policies generally seem to be guided by the philosophy of “be less risky and high liquid”. Therefore, all banks and financial institutions tap the same market for their investment of funds, which is really a risky as well as less profitable affair. They have to redesign their investment policy and strategy to explore new markets for investment.

Effective utilization of fund is possible only through the formulation and implementation of sound investment policy and strategy of these banks. Due to the lack of formulation of sound investment policy and strategy, Due to the lack of sound investment policy of commercial banks, however, these banks seem to be fallen in the trap of risk. They seem to be failed to make proper analysis of various types of risk such as financial risk, interest rate risk, liquidity risk, business risk, and so on.

Besides, it seems that the most of Nepalese commercial banks have not formulated their investment policy in an organized manner. They simply seem to be complying the instructions and guidelines issued by Nepal Rastra Bank. It seems that they do not have clear view of their investment policy. Commercial banks seem to have prompted to invest their funds in limited areas for higher profits. This may be regarded as very risky affair, which may lead them to lose profits as well as their investment. Although profit is important, however, the investment must be safe in the first place and then profitability. Therefore, the formulation of an appropriate investment policy is a must in all the commercial banks, joint venture and other financial institutions.

Financial system of Nepal is still in its preliminary stage of development. Small and fast growing financial sector comprises of commercial banks and other financial institutions like development banks, finance companies, cooperatives, insurance etc. So, for development of financial services in the country is uneven commercial bank are more emphasized to be making loan in short term basis against movable merchandise. There is less interest to invest on long-term project because they are much more safety minded. Therefore, they follow conservative loan policy, which is based on strong security.

The present study has sought to answer the following research questions about the selected commercial banks:

- Are NIBL's and EBL's investment strategy successful to utilize its available fund?

- Is the liquidity, profitability, risk positions in asset management of these commercial banks satisfactory?
- How are the growth ratios of loan and advances and total investment with respect to growth rates of total deposits and net profit of these banks?
- Is there any relationship between the banks' total deposits and loans and advances, total deposit and total investment and total outside assets and net profit?
- What are the trends of their deposits, loans and advances, investment and net profits?

1.3 Objectives of the Study

The main objective of the study is to assess the investment policy and strategy adopted by the banks selected for the study, point out their shortcomings, and offer suggestions for the improvement in their investment policy and strategy. Besides, the following specific objectives seek to pursue the basic objective of the study, which are as follows:

- To examine the fund mobilization fund and investment policy of NIBL and EBL selected for the study.
- To assess the liquidity, profitability, risk positions in asset management of these commercial Banks.
- To evaluate the growth ratios of loan and advances, total investment with respect to growth rates of total deposits and net profit of these banks.
- To find out the relationship between the banks' total deposits and loans and advances, total deposit and total investment and total outside assets and net profit.
- To examine, interpret and forecast the trend of their deposits and loan and advances, investment and net profit.

1.4 Significance of the Study

A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. So the investment policy

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

Nepal is one of the least developed countries with poorest economic condition of the world. As the financial services industry becomes more complex, the financial information is more difficult to understand. Quality governance is impossible with 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 their financial institutions. The study will certainly help to the management of the concerned banks to improve their performance and would help them to take corrective actions.

Thus, this study lies mainly in filling a research gap on the study of investment policy of commercial banks. The study is basically confined to reviewing the investment policy of commercial banks in the six years periods. This study is expected to definitely provide a useful feedback to the policy makers of commercial banks of Nepal and also to the government and the NRB in formulating appropriate strategies for the improvement in the financial performance. This study is also expected to be beneficial for the related persons in the field of investment and institution. And also help to find out the causes of failure and success of the bank by using the various financial and statistical tools. This research reports helps to gain and share some practical knowledge of banking and management of the commercial banks in the perspective of improving financial performance.

Similarly, depositors can take decision to deposit on their money, also useful to more people and organization such as trade creditors, investors, academicians, general public, stockbrokers etc. It will prove to be an important value for the entire individual interested in commerce and banking field.

1.5 Limitations of the Study

The study suffers from some limitations. The main limitations of the study have been as follows:

- The study is carried out only period of five years of trend of concerned commercial banks.
- This study uses the primary and secondary data. For primary data it is collected from questionnaire and secondary data, it is collected from the annual report of concerned banks.
- Only two commercial banks are selected for the study, which are NIBL and EBL.
- The study focuses only on investment aspect of banks' performance.
- Out of numerous affecting factors, only those factors related with investment policy are considered.
- This study deals with limited financial and statistical tools. Hence, the drawbacks and weakness of those tools are the limitations of the study as well.

1.6 Organization of the Study

The study is organized in the following five chapters.

Chapter – I:	Introduction
Chapter – II:	Review of Literature
Chapter – III:	Research Methodology
Chapter – IV:	Data Presentation and Analysis
Chapter – V:	Summary, Conclusion & Recommendations

The first chapter, Introduction, introduces the main topic of the study like general background, history of banking, banking in Nepal, commercial bank, statement of problem, objectives and significance with limitation of the study and other introductory frame work.

The second chapter, Review of Literature, reviews of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research words as wells thesis. It also includes the investment policy of commercial bank.

The third chapter, Research Methodology, presents research methodology of the study i.e. research carried out in this size and shape. For this purpose various financial tool and statistical tool are defined which will be used for the analysis of the presented data.

The fourth chapter, Data Presentation and Analysis, deals with the presentation and analysis of the relevant collected data. Analysis is done as per described in chapter III. This chapter is the heart of the study.

The fifth and last chapter, Summary, Conclusion and Recommendations, summarizes the study, lists the major findings and conclusions, and offers recommendations and suggestions based on the analysis and interpretation of the data.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

The purpose of this chapter is to review the relevant literature regarding the investment policy of commercial banks in Nepal so as to formulate the appropriate research problem, hypotheses, and the research gap between the previous research studies and the present study. Such a review has been made from various sources of literature available in different libraries, documentation centre, Nepal Stock Exchange Ltd., other information bureaus and the concerned commercial banks, i.e., NIBL and EBL. This chapter first presents the conceptual review, review of articles, research papers and previous research studies relevant to this study, and the research gap.

2.2 Conceptual Review

Conceptual review of various different literature provided by different authors, research scholars, practitioners, etc. have been presented in the following sections:

2.2.1 History of Banking

The term 'bank' derives from the Latin 'Bancus', which refers to the bench on which the bankers would receipts money and his records. Some persons trace its origin to the French 'Benqee' or to the Italian 'Benca', which means a bench for keeping lending and exchanging of money or coins in the market place by moneylenders moneychangers. With the gradual development of bank, its functions are also increasing. It only dealt with the exchanges of money in its preliminary phase, but later it started accepting deposits from the public against interest and providing them in the form of loans to the needy persons were the basic functions defined. Today, however, banks cover wide range of activities.

The Bank of Venice", the first public banking institution was established in Italy in 1157 A.D. Subsequently, "Bank of Barcelona" of Spain, the world's second bank was established in 1401 A.D., and "Bank of Geneva" of Switzerland was established in 1407 A.D. "Bank of Amsterdam" The Netherlands was set up in 1609 A.D. was among the very popular commercial banks in the world. The Bank of 'Hindustan',

regarded as India's first commercial bank, was established in 1770. As so in 1694 A.D., "The Bank of England" was established, which changed the process of establishing the banking institutions remarkably. This was a big landmark in the history of banking development. The idea of commercial banks was rapidly spread to all over the world only after the establishment of this bank.

In course of time, banks are among the most important financial institutions in the economy and essential business in thousands of local town and cities. In this context, there is much confusion about exactly what a bank is? Certainly, banks must be identified by the functions they perform in the economy. However, the word bank is generally used to denote a certain kind of trading in money, which mainly consists the exchanging of money, the lending of money, the depositing of money and the transmitting of money.

Due to the rapid modernization and industrialization of the world, banking institutions have been indispensable for the resource mobilization and all round development of the country as they are important to individuals and institutions such as the public, businesses, organizations, government and other institutions. It provides resources for economic development that maintains economic confidence of various segments and expands credit to people. The bank accumulates surplus money form the public, who cannot use the money at the time and lends to those who are in need of that to use for productive purposes. It refers to any institution that deals in money. However, today banks are established for specific purpose such as commercial bank, industrial bank, merchant bank, development bank, rural bank, and so on. When the bank lends the loan to the customers for earning interest, the bank draw the money from institution or individual or people pay the interest amount by the certain interest rate. There are different types of bank focus on different types of service to their customers although the basic principle is sane i.e. mobilize idle resources from productive sectors to the growth of trade, industry and commerce. Today, banks in different countries render various different services to the people for strengthening the whole country's economy.

2.2.2 Banking in Nepal

The history of organized banking in Nepal is not very old. In the past, however, indigenous individuals, wealthy agriculturists, lenders, merchants and traders conducted some banking activities along with their other business occupations. These activities were fragmented and mostly localized. The creation of "Kaushi Tosha Khana" as a banking agency during the regime of King Prithvi Narayan Shah could be regarded as first step towards development of banking in Nepal. However, the establishment of "Tejarath Adda" around 1877 A.D., during the Prime Ministership of Ronoddip Singh to provide credit facilities to public at a very concessional rate of interest could be regarded as a primer foundation of modern banking in Nepal. The Tejarath Adda was set up to provide credit; it did not accept deposits from the public. Therefore, the concept of saving was loan existence in Nepal until the establishment of the first ever commercial bank, i.e. "Nepal Bank Limited" under the Nepal Bank Act, 1937 with Rs.10 million Authorized Capital.

Thereafter, the then government felt the need for a central bank and established "Nepal Rastra Bank (NRB) as the central bank of the country under the Nepal Rastra Bank Act 1956 A.D. in 1956 A.D. It played important role in the monetization and the development of banking sector in the country. Likewise, due to the increasing popularity of the banking functions and rising needs of banking operations in different areas of the country, NRB suggested for the establishment of another commercial bank and in 1966 A.D., Rastriya Banijya Bank was established as a fully government-owned commercial bank whose branches are scattered all over country.

Apart from the commercial banks, NRB also initiated the incorporation of some development banks in the country. As a result, Nepal Industrial Development Corporation was established in 1959 A.D. and Agricultural Development Bank established in 1976 A.D. After the then government adopted the liberalization and privatization economic policy during 1980s, Nepal welcomed the foreign banks to operate joint venture banks in the country. Consequently, Nepal Arab Bank Ltd. was the first joint venture bank established in 1984 A.D., a joint venture of United Arab Emirates Bank. Then two other banks Nepal Indosuez Bank Ltd. with Indosuez Bank of France and Nepal Grindlays Bank Ltd. with Grindlays Banks of London were

established in 1986 A.D., but recently these banks' name have been changed as Nepal Investment Bank Ltd. (NIBL) and Standard Chartered Bank Nepal Ltd. respectively. And other commercial banks, development banks and financial institutions are continued to establish and are contributing to the economy and the banking sector in Nepal.

After the restoration of democracy in Nepal in 1990 A.D., the government took a liberal policy in the banking sector. As an open policy of the government to get permission to invest in banking sector from private and foreign investors under Commercial Bank Act. 1975 A.D. (2031 B.S.), different private banks were provided permission to establish with the joint venture of other countries. Out of which Everest Bank Ltd.(EBL) is one of them which started its function in 1994 with joint venture of Punjab National Bank LTD. Of India. Nowadays, there are 25 commercial banks operating in the Nepalese financial market along with 9 joint venture with foreign investors, 20 development banks and 5 rural development banks, 57 finance companies, 44 NGOs and 116 post office saving banks are 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.

2.3 The Commercial Bank

The most important kind of banks is the commercial bank. Besides it is the most common kind of Bank with which almost every one of us comes so often in contact. As its very epithet suggests this bank has its connection with the commercial class of people. It collects their floating capital and finances, the temporary needs of commercial transaction. Its deposits are purely demand obligation and hence it is by nature quite incompetent to offer any long-term accommodation. It has, rather need a rule amongst this class of bank not to grant permanent loan and provide capital for investment purpose. Nor does it furnish the whole fixed capital for trading purposes but it supplies as much as is occasionally needed for carrying on business or making investment in it. It has to distinguish between a genuine borrower and speculative investor as well.

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

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-operative, regional rural development banks, development banks, financial companies and NGOs. Banks play 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 a new picture - a picture of innovation in practice of wider horizon and of new enterprises. The most remarkable diversification of banking function is increasing participation in medium- and long-term financial industries and other sectors; so, they are not only financial institution of finance agricultural 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.

2.3.1 Functions of Commercial Banks

The commercial banks in every nation of the world have key role in the pursuit of attaining the goal of rapid economic development. Commercial banks are the heart of financial sector, which occupy important place in the framework of the economy. They hold deposits of the people, government and business units. They make funds available through their lending and investing activities to borrowers like individual,

business and government sector. Therefore, as they provide capital for the development of the industry, trade, business and services they contribute large portion on the economic growth of the nation commercial banks make sound investment in various sectors of the economy, which boost the quality of investment as well as achieves, its own objectives of profit maximization. Thus, well-formulated and sound investment policies- coordinated and planned efforts accelerate the pace of economic growth.

Commercial banking as we have seen grew but of the need for a safe place of deposit when the people of London entrusted their savings to the goldsmiths. It did not take much time for them to realize that the business could be made profitable by re-lending what was receives, provided it could be returned before it was required. Gradually, they learnt that the daily payments were more than counter balanced by the daily receipts and hence there was no necessity of this stipulation. It is obvious that borrowing and lending are two leading functions of banking business. There are a few other functions as well which are now performed by these banks. They include the following:

1. Receiving Deposits

Deposits are received under different heads of accounts, the most important of which is the current account, others being the fixed deposit account, the saving bank account, the home safe account, etc. The first deposits received were, however, under fixed deposit account but "the goldsmith found by experience that they could take deposits withdrawal not at a fixed future date, if such deposits were on a large scale, a sufficient proportion of them would always be left untouched for a certain period to enable the holder to lend up to something like that proportion. These have become the foundation of the 'current account' on which the depositor can draw at his will".

2. Lending Money

The second major function of a commercial bank is to lending of money, which it receives by way of deposits. Direct loans and advances are given to all types of persons against the personal security of the borrowers or against the security of movable and immovable properties. Loans are granted by banks in four forms i.e. overdrafts, cash credit, direct loans and discounting bills of exchange.

3. Agency Functions

Bankers also act as agents of their customers in various ways. They collect and pay their cheques, bills, promissory notes, coupons, dividend warrants, subscriptions, rents, income tax, insurance premium and other periodical receipts and payments. They purchase and sell on their behalf shares, stocks, debentures and bonds; etc, on the stock exchanges, and other valuables in other markets. They also act as administrators, trustees, executors and attorneys.

4. Miscellaneous Functions

Under miscellaneous functions may be included a number of functions performed by the bankers.

- They receive their customers' valuables ornaments and jewels, documents and deeds, etc. for safe custody and also act as their referee.
- They also make confidential enquiries about the creditworthiness of a prospective customer to enable their customers to enter into important business dealings with them.
- They issue letters of credit of various kinds and bank drafts to their customers for the transfer of money from one place to another.

2.4 Concept of Investment

The development of a country is always measured by its economic indices. Therefore, every country has given emphasis on enlistment of its economy. The banks are such types of institutions, which deal with money and substitute for money. They deal with deposit, credit and credit instruments. Good circulation of credit is very much important for financial institutions and banks. Unsteady and unevenly flow of credit harms the economy and the profitability of the commercial banks. Thus to collect fund and utilize it in good investments is the prime objective of commercial banks. Diverse and safe investment of fund is the question of stability and existence of the bank. 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 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; 1972:1162). Generally, investment means to flow cash in different sector with profit motive. In a broad sense, however, investment means to sacrifice current rupee in the present and certain for the future purpose rupees, which comes later and is uncertain. The concept of investment and profitability mentioned by different authors in their books and paper are summarized in the paragraphs that follow:

(Shakespeare Baidya, 1997:44) has given his view on sound investment policy. He has said that, "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and bank on the other hand, Moreover risk in banking sectors trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn. So the bank investment policy must be such that it is sound & prudent in order to protect public funds."

(L.V. Chandler, 1973:46) says in this regard, "A banker seeks optimum combination of earning liquidity and safety, while formulating investment policy." Emphasizing the importance of investment policy puts the importance of investment policy in this way, "Lending is essence of commercial banking, and consequently the formulation and the implementation of sound policies are among the most important responsibilities of bank director's and management. Well conceives lending function effectively and minimize the risk inherent in any extension of credit". He further adds, the formulation of sound lending policies for all bank should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate.

(Cheney and Mosses, 1995:13) are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, "The investment objective is to increase systematically the individual wealth, defined as assets minus liabilities. The higher level of desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk"

According to (Jones, 1991:92) "Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with managing an investor's wealth, which is the sum of current income and present value of all future incomes".

In the words of (Valla and Tutesa, 1983:2) "There are basically three concepts of investment.

- Economic investment that is an economist's definition of investment,
- Investment in a more general or extended sense, which is used by 'the man on the street', and
- The sense in which we are going to be very much interested namely financial investment".

They further maintain, "Banks are those institutions which accepts deposit from the public and in turn provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is very risky job. *Ad hoc* investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence, sound investment policy is another secret of a successful bank"

In view of (Chone, 1997:1) "Investment has many factors. It may involve putting money into bond treasury bills, or notes or common stocks, or paintings of real estate, or mortgage or oil ventures, or cattle or the theater. It may involve specially in bull markets or selling short in bear markets. It may involve options, straddles, rights, warrants, convertibles, margin, gold, silver, mutual funds, money market funds, index

funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the rewards may be substantial. For the uniformed results can be disastrous".

(Sharpe and Gordon, 1999:5) define investment in this way: "Investment in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value". In the view of Sharpe and Gordon, the investment is the venture that the return is uncertain. Therefore, they have presented their view in the books that bank should look for the safe and less risky investment.

(Pandey, 1999:407) defines in this way, "In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flows are more important than accounting profit. It may also be pointed out that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's fund maximization. Investments will add to the shareholder's wealth if it yields benefit in excess on the minimum benefit as per the opportunity cost of capital".

In the words of (S.P. Singh and S. Singh, 1983:5) "The investment (credit) policies of bank are conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course his banker's credit policy also in mind". As per the above definition, government and central bank have to make a sound policy about the investment policies of commercial banks.

They further state, "The field of investment is more challenging as it offers relatively greater scope to bank or for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly, during recent years, the credit function has become more complex".

(Sunity Shrestha, 1995:42) in her book "Portfolio behavior of commercial bank in Nepal" holds that "The commercial banks fulfill the credit needs of various sectors

and the lending policy of commercial bank is based on profit maximizing of the institution as well as the economic enhancement of country".

(Radhaswami, 1979:24) says that a bank must strike a balance sheet between liquidity, profitability and safety. "The secret of successful bank is to distribute resource between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its shareholders".

From the above definitions and views of various authors it is clear that an investment means to trade, a known rupee amount today for some expected future stream of payments or benefits. That will exceed the current outlay by an amount that will compensate the investor for the time the fund are committed for the expected change in prices during the period of uncertainty involve in expected future cash flows. Thus, investment is the most important function of commercial banks. Therefore, a bank has to be very cautious while investing funds in various sectors. The success of a bank heavily depends upon the proper management of its invest able funds.

Investment management of bank is guided by the investment policy adopted by the bank. Investment policies can be varied from bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk. Therefore, that an investment word is attached to economics risk and return theory of future result (Frank & Reily, 1986:92).

2.5 Principles of Sound Investment Policy of Banks

The commercial banks are inspired with the goal of earning profit. There are many reasons for having profit as their goal. A bank is like a legal person where shareholders are the owners of the bank, the board of directors is the agent of the bank that operates the bank. There are many employees who were appointed to run the banks and to run the banks, it needs a great amount of expenses, whether it is direct or

indirect, there is continuous expense in the bank. The main aim of any person or institution to invest the money in the bank is to earn more profit only. There is only one bank i.e. central bank which is established without the aim of gaining profits. Other banks are inspired with the objective 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, 2003:126).

Without investment, a bank cannot gain profit. The bank cannot be successful until it gains profit. Therefore after the establishments of bank it collects much deposit, get 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 be able to clear the policy of its investment by making a deep study on the subject 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:

2.5.1 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. They have liability to deposit and also quick deliver of the money at the time when depositors asked. For this purpose, the bank should keep adequate liquid fund. And also they should gain profit by utilizing the deposit as a loan and advances. If bank cannot keep their promises such as cannot return the deposits at the time of demand then it may lose the customer and their trust. And if adequate liquid fund is kept, then they can

return the deposits as per the demand but such bank cannot run for a long time. In a same way, if they invest the whole deposit as loan and advances, they cannot give it at the time of demand by the depositors. So, the commercial banks try to maintain the liquidity and profit together. It is a great challenge for the manager of the bank.

The commercial banks should attract their customer to deposit because a deposit is called raw materials of banking, without which bank cannot run. It is important thing in which sectors the amount of each deposit is to be invested. There is no interest in 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 at 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 coordination between the property and the liquidity properly 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.

2.5.2 Principle of Profitability

The main objective of any commercial bank is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The investments or granting loan and advances by the bank is highly influenced by profit margin. 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 bank 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 there is more risk, there is more profit. But sometimes it may create a situation where the bank should face the great economic loss. So, the profit and liquidity are the two opposite principles. If the bank pays its attention only for profit, the liquidity becomes less, and if it pays its attention towards liquidity then it cannot be a loan-term investment and cannot get profit. So, it should be maintained. The profit of the bank estimates 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.

2.5.3 Principle of Safety

A bank should pay special emphasis on safety. Why people are encouraging to deposit their valuable ornaments, jewellery, important document, and money in the bank for the sake of safety. So, if the invested area is unsafe, it isn't good sign for the bank. So, the bank should pay much emphasis on the principles 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 profit 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 loan-term loan including these all various reasons will make unsafe of the banks investment. They should be avoided as much as they can. There will be no loss, if the banks invest in profitable sector. So, the bank should seriously study whether they are as a possibility of investment or not. It should invest in a safe sector. If the property held as security is ruined, a security is low in standard or low valued and if there is no possibility of sale of the security, the bank suffer from loss. Therefore, the bank should follow the principle of safety, 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 domestic and foreign company's share debentures and government bonds, etc.

2.5.4 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, then its investment policy will not be successful one. The bank should invest only after the studying and analyzing the different sectors of different alternatives to earn more profit from little 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. And there may be loss too in some sector. On the whole a bank should be able to be a competent. If it happens, 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 principles, on the basis of gold, silver, diamond, development bond, shares of company, debentures, goods. Imports and export, bills and other appropriate securities, the bank has to move a head of their investment policy. The banks always get success in their working capacity from such investment and the bank becomes successful in its goal.

2.5.5 Principle of Marketability

A bank should adopt the principle of marketability in investment policy. In certain way, the bank moves its investment of 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 if Nepal is small, in such market in order to livingness to its banking transaction, a bank should flow its loan by taking first class securities. The bank should keep in mind, the main principle of marketability while doing investment. And the goods which are taken as securities will be 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 attention to the different aspects; it should be study how the market will evaluate the goods which is taken as security. The bank should not invest 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. As far as possible the bank should take such goods which can be keep 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 cannot be sold in time. Therefore, if the bank provides loan by taking reasonable goods as security, then make sure that they are easily saleable in the market and the bank feels secured as well.

2.6 Review of NRB Directives

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

Maintenance of Liquidity (Part Two, Chapter IX: 1-3)

Meaning

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 shortfall 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 shall be calculated at such highest refinance rate.

Regulations relating to Investment in shares and securities by commercial banks (Part Two, Chapter XX: 1-3).

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

Banks shall prepare written policy relating to investment 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 issued by Nepal Government and Nepal Rastra Bank

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

3. Restriction put by circular no Bai. Bi. Ni. Ni. 94/05/60 dated 2059.9.19/January 3, 2003.

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.

4. Arrangement relating to investment in shares and securities of organized institutions

- Banks may invest in shares and securities of any one 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.
- 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 on which the bank has financial interest shall be limited to 20 percent of the paid up capital of the bank. For the purpose calculation of capital fund, the amount of such investment in shares and securities shall be deducted from the core capital fund.
- 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.
- 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.
- 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 is listed. The outstanding amount in "Investment Adjustment Reserve" shall be included under supplementary capital.
- 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 relating 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.

2.7 Review of Articles

In this section, attempt has been made to review some relevant articles in different economic/finance journals, The World Bank Bulletins, dissertation papers, magazines, newspapers and other related literature.

Morrios, (1990) in his discussion paper, "Latin America's banking system in the 1980s" has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While analyzing loan, portfolio quality, operating efficiency and soundness of bank investment management have largely been over looked. The huge losses now found in the bank's portfolio in many developing countries are testimony to the poor quality of their oversight investment function. He further adds that management in financial institutions has involved inadequate and over-optimistic loan appraisal, tax loan recovery, high-risk diversification of lending and investment, high-risk concentration, connected and lending loan mismatching. This has led many banks of developing countries to the failure in 1980s.

Pradhan, (1996) has presented a short glimpse of banks' investment in different sectors, its problem and prospects through his article, "Deposit mobilization, its problem and prospects". In his article, he has expressed that "For any financial institution it may be commercial bank, finance company, cooperative or non-government organization, deposit is like a life blood". He also added in consideration of 10 commercial banks and nearly three dozen finance companies, the latest figure

does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks other organizations rely heavily on the business deposit receiving and credit disbursement.

In regarding this, Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective.

- Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
- Unavailability of the institutional services in the rural areas.
- No more mobilization and improvement of the employment of deposits in the loan sectors.
- Due to the lack of education most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

Pradhan mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Sunity Shrestha (1997) in her article, "Lending operation of commercial banks of Nepal and its impact on GDP" has presented the objectives to make and analysis of contribution of commercial banks lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependant variable and various sectors of lending viz. Agriculture, Industrial, Commercial, Service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e., there has been positive in GDP by lending of commercial banks in various sectors of economy, except service sector investment. Likewise, Dr. Shrestha has analyzed the financial performance of commercial banks using both descriptive and diagnostic approach. In her study, she has concluded the following points:

- The structures of commercial banks shows that bank invest on the average 75% of their total deposit on the government securities and the resources.
- The analysis of resources position of commercial banks showed quit high percentage of deposit as cash reserve.
- Return ratio of all the banks show that most of the time foreign banks have higher risk of Nepalese banks.
- The debt equity ratios of commercial banks are more then 100% in the most of the period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing everyday.
- Income of analysis of the management achievement foreign banks has comparatively higher total management achievement index.
- Thus comparing all the banks through the time period financial condition and performance are better in joint venture banks than local banks.

Bodhi B. Bajracharya's (1990) article entitled "Monetary policy and deposit mobilization in Nepal", he has conducted that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary generating resource in the form of deposits from private sector and providing credit to the investor in different sectors of the economy.

Ramesh Lal Shrestha's (1991) article, "A study of deposits and credits of commercial bank in Nepal" concluded the credit deposit ratio would be 51.30%, other things remaining the same in 2004 AD, which was the lowest under the period of review. Therefore, he had strongly recommended that the commercial banks should try to give

more credit earning to new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

2.8 Review of Research Papers

There are not many research papers or articles published on the investment policy of commercial banks in Nepal. In the context of Nepal, there is a need of research of investments in commercial banks and financial institutions as their routine work. And some of the author who did research on relevant topic (investment policy) is given below:

One of the research papers entitled “Financial Management and Practices in Nepal” of Radhe S. Pradhan, (1992) has inquired about financial functions, sources and types of financing, financing decisions involving debt effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy. The major findings of the study related to financial management are presented below:

- Bank and retained earnings are the two most widely used financing sources.
- The enterprises have a definite performance for bank loans at a lower level of debts.
- Generally, there is no definite time to borrow and issue stocks, that is, majorities of respondents are unable to predict when interest rate will low or go up or are unable to predict when the stock will go down or up.
- Most enterprises do not borrow from one bank only and they do switch over between banks whichever offer most attractive interest rates.
- Most enterprises find that banks are flexible in interest rates as per their convenience.

To sum up, it can be said that out of numerous studies in the capital market in Nepal, this study is established itself as a milestone and an outstanding one.

In the research of Dr. Sunity Shrestha (1993) entitled “Investment planning of commercial banks in Nepal”, Dr. Shrestha has made remarkable efforts to examine the investment planning of commercial banks in Nepal. Based on her study, she concludes that bank portfolio (loans and 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 of the government and heavy regulatory procedure of Nepal Rastra Bank. Therefore, 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 that "...commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects".

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

Among various commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit and also turning towards negative from time to time. Because of non-recovery of accrued interest, the margin of 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.

At the end of article, he concludes that by its varying nature of the public sector the domestic banks couldn't compete with the private sector banks. Therefore, only remedy to the problem of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Rastra Bank has given a short glimpse on the "Portfolio management in commercial banks - theory and practice".

Shiva Raj 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 aspects:

- Higher return, which is comparable with alternative opportunities available according to the risk class of investors.
- High liquidity with adequate safety and profitability of investment.
- Maximum tax concession.
- Economic, efficient and effective investment mix.
- Flexible investment.
- Certain capital gains.

According to above aspects, some following strategies are 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, Shrestha has also presented following approach to be adopted for designing a good portfolio and its management:

- To find out instable assets (Like Securities) having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability etc.

- To find out the risk of the securities depending upon the attitude of 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 primary objective of wealth maximization at lower risk.
- To identify securities for investment to reduce volatility of return and risk.

Shrestha has presented two types of investment analysis techniques one is fundamental analysis and another is technical analysis. And this analysis technique is necessary to consider any securities such as equity, debenture or bonds and other money and capital market instruments. He has stressed 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. At last, Shrestha has put out the following remarks:

- For the survival of every bank it has to depend upon its own financial health and various activities.
- Portfolio manager of investment management methodology have to reflect.
- High standard in order to develop and expand the portfolio management activities successfully and have to give their clients the benefits of global strength, local insight and prudent philosophy.
- To always earn superior return, a portfolio manager have to enhance the opportunity for each investor (client) with disciplined and systematic approach to the selection of appropriate countries, financial assets and the management of various risk.
- The Nepalese banks having greater network and access to national and international capital market have to go for portfolio management activities.
- The increment of their fee based income as well as to enrich the client based and to contribute in national economy.

2.9 Review of Earlier Studies

A number of researchers who conducted their research study on the investment policy of commercial banks. The following are the review of those studies:

Raja Ram Khadka (1998) conducted a study on "Investment Policy Nabil Bank Ltd in comparison to other joint venture banks in Nepal." With objectives that follow:

- To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets
- To identify the investment priority sectors of sampled commercial banks
- To assess the impact of investment on profitability
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks
- To provide suggestions and possible guidelines to improve investment policy and its problems

The study was conducted based on the primary and secondary data. The research findings of the study were the following:

The liquidity position of Everest Bank Ltd. (EBL) was comparatively better than that of Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Ltd. (BOK). All the three banks had met the normal standard current asset ratio to meet the short-term obligations of their customers. EBL had invested the most in Government Securities, followed by BOK and NABIL. BOK had mobilized a huge sum its funds to earn the profit. From the analysis of assets management ratio, EBL was in better position than NABIL and BOK. The loans and advances to total deposit ratio, loan and advances to total working fund ratio of EBL lied in between those of NABIL and BOK. EBL had invested the highest portion of its total working fund on government securities as compared to NABIL and BOK. Investment on shares and debentures to total working fund ratio was higher in BOK. Overall analysis of profitability ratios showed that EBL was on an average profitable in comparison to other bank i.e. NABIL and BOK. The return on loan and advances ratio and return on assets of EBL was lowest of all. The degree of risk was average on EBL. EBL had shown its good performance by increasing earnings by providing loan to clients. The trend of the total investment, total deposit, loan and advances and net profit of EBL showed better position than that of NABIL and BOK.

Saju Shrestha, (2007) conducted a study on "A Comparative Analysis on investment performance of commercial banks in Nepal" with the following objectives:

- To analyze the investment activities and fund mobilization with respect to fund based on-balance sheet transactions and fee based off-balance sheet transactions
- To study the asset utilization system, profitability and risk position of commercial banks under study
- To assess the deposit utilization trends and its projection for the future
- To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit
- To appraise the suggestion on the basis of findings for further growth of the banks under study

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The liquidity position of NIBL was stronger than NABIL and HBL. At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks. NIBL had the least investment in Government Securities, which considered the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks' profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets.

From the trend analysis study, it was found that all banks were mobilizing their total deposits into loans and advances in increasing trend, which was the indication of efficient mobilization.

Geeta Regmi (2006) conducted "A Comparative Study on Investment Policy of Everest Bank and Himalayan Bank Limited" with the objectives as given below:

- To find out the relationship between total investments, deposits, loans and advances, net profit and assets and compare them.
- To evaluate the liquidity, asset management, efficiency, profitability and risk portion of EBL and HBL.
- To analyze the deposit utilization trend and its projection for five years of HBL and EBL
- To provide package of a workable suggestions and possible guidelines to improve investment policies.

The study was carried out the basis of secondary data. The research findings of the study were:

The liquidity position of EBL was comparatively better than HBL. EBL had the highest cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio than that of HBL. Both EBL and HBL had almost same pattern of investment on government securities, but fluctuating ratios showed the unstable policy of investment. EBL has higher loan and advances to current assets ratio and successful in deposit collection as well. The assets management ratios of both banks are satisfactory. Both bank EBL and HBL had provided its most portion of deposit as loan and advances. Moreover, EBL had invested its more portions as loan and advances, in case of investment in other sectors, HBL had adopted diversified investment policy. EBL invest its working fund in government securities and other companies share and debentures than that of HBL, So HBL is less effective in comparison to EBL. In profitability analysis, HBL had maintained high profit margin regarding profitability position. HBL was more successful to generate income through loan and advances and operating income and it has earned more from total outside assets and total working fund. From the study, it was concluded that

profitability of HBL was better than that of EBL. From the risk point of view, HBL had borne lower liquidity risk and credit risk in comparison to EBL regarding various aspects of banking activities. It could be said that HBL had followed a stable liquidity policy justified by lower coefficient of variation.

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 objectives that follow:

- To discuss fund mobilization and investment policy of EBL, NABIL and BOK Ltd.
- To evaluate the liquidity, efficiency and 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 and BOK.

The secondary data were used to conduct the study. The research findings of the study were:

The liquidity position of the EBL was better than NABIL and BOK. EBL had the highest cash and bank balance to total deposits and cash and bank balance to current assets ratio. Nabil had the lowest liquidity position. EBL had good deposit collection and made enough investment on Government Securities, but it maintained a moderate investment policy on loans and advances. From the analysis of assets management or activity ratio, it was concluded that EBL was average, or in between NABIL and BOK. The total investment of EBL was in between the other two banks. In the study, loans and advances to total deposit was higher in BOK, but total investment to total deposit was higher in NABIL. Investment on shares and debentures to total working fund ratio was higher in BOK. However, the coefficient of variation was higher in EBL. In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. However, overall analysis of profitability ratios showed that EBL was

an average in comparison to other compared banks i.e., NABIL and BOK. From the viewpoint of risk ratio, EBL had higher capital risk ratio, but average of credit risk ratio of 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 presented below:

- 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 of secondary data. The main findings of the study were as follows:

The bank was in good liquidity position to meet the daily cash requirements as it maintained the average cash and bank balance in respect to total deposit. The performance of NIBL regarding deposit collection, granting loan and advances and investment was quite satisfactory but did not seem to follow a definite policy. Nabil had not efficiently utilized its equity capital; hence, return on equity was not satisfactory because of the lack of around investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL was high. However, bank failed to maintain net profit. The analysis of coefficient of correlation showed that there was positive and significant relation between total deposits and loan and advances and current assets and current liabilities and loan loss provision and loans and advances, but there was 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 were in increasing trend.

Upendra Shrestha (2002) Has conducted on " Investment Policy Analysis of Joint Venture Banks. With Special Reference to Nepal SBI Bank, Bank of Kathmandu and Everest Bank Limited with the following objectives:

- To evaluate whether the liquidity management assets management, efficiency, profitability position, risk position and investment practices of Nepal SBI Bank, BOK and EBL
- To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets

The study used secondary data. The research findings of the study were as follows:

Liquidity position of SBI Bank was slightly good as compared to BOK and EBL. However, the liquidity positions of the banks under study were not so satisfactory. Therefore, banks should improve their liquidity position to meet their current obligations. The study of assets management ratio showed that SBI Bank was not in a better position regarding its on balance sheet activities. The profitability position of SBI was not as good as of other banks. Risk ratio of BOK was the highest and the capital risk ratio of EBL was the highest of all. It indicated that BOK and EBL must be careful about risk. Growth ratio of SBI and BOK had not successful to increase their source of funds. EBL had succeeded to maintain its higher growth rate of total deposit. Trend analysis of total deposits, loan and advances, total investment and net profit and projection of the next 5 years of SBI, BOK and EBL revealed that SBI had increasing trend values in total deposit, total investment and loan and advances of BOK and EBL had an increasing trend value of all types of trend analysis.

Indra Bahadur Bohara (2002) has conducted a research entitled "A comparative study on Investment policy of Joint Venture Banks and Finance Companies of Nepal".

The objectives of the study were as follows:

- To find out the liquidity position and profitability position of above mentioned JBV's in comparison with finance companies.
- To find out the relationship between profitability and asset structure.

- To analyze the deposit utilization trend and its future projections for next five years for JVB's and finance companies.
- To study the various risks in investment of JVB's in comparison with finance companies.
- To analyze the relationship between deposits and investment, deposit and loan and advances, net profit and total assets of JVB's in comparison with finance companies.
- To provide suggestion and recommendation on the basis of findings.

The major findings of the study were as follows:

- Liquidity position JVB's is comparatively better than that of finance companies. Finance companies have made nominal amount of investment in government securities.
- Finance companies have mobilized their deposits smoothly in comparison with JVB's. The average loan and advance to total deposit ratios of finance companies is higher than JVB's.
- Profitability position of JVB's except for BOKL is better than that of finance companies, but profitability position of finance companies in terms of return on total assets is better. Interest income in relation to proportion of total assets and operating income is higher in finance companies in comparison to JVB's.
- The growth ratio of deposits, net profit, loan and advances are higher than that of JVB's and are increasing every year, which indicates good performance of the finance companies.
- The risk ratios of finance companies are less variable than the JVB's. The interest risk ratios of finance companies are higher whereas the capital risk ratios of JVB's are comparatively higher than that of finance companies.
- JVB's are in a better position in mobilizing deposits as loan and advances, but so far finance companies have been successful in utilizing their sources of funds and in their mobilization.

Lila Prasad Ojha (2002) conducted a study on "Lending Practices: A Study of NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd." with the objectives that follow:

- 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 behavior of lending and measuring the ratio and volume of loans and advances made on agriculture, priority and productive sector
- To measure the lending performances in quality, efficiency and its contribution in total income.

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The measurement of liquidity had revealed that the mean current ratios of all the three banks were not widely varied. All of them were capable in discharging their current liability by current assets. The measurement of lending strength in relative terms had revealed that the total liability to total assets of SCBNL had the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. HBL had 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 had resulted with the lowest ratio of loans and advances to total assets, whereas NABIL had the highest due to steady and high volume of loans and advances throughout the period of study. The ratio of investment-to-investment on loans and advances had measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks did not have deviate significantly. The loans and advances and investment to deposits ratio had shown that NABIL had deployed the highest proportion of its total deposits in earning activities. This was the indication of the fact that in fund mobilizing activities NABIL was significantly better. The absolute measures of lending strength had revealed that the mean volume of net assets and deposits is highest in SCBNL with moderate variation. The volume of net assets of HBL was the least due to the low share of capital, reserves and surplus in its capital mix. However, the volume contributed by

HBL in case of loans and advances was highly appreciable compared to its net assets. The volume of loans and advances contributed by NABIL was the greatest in the five years of study period. The mean investment of NABIL was the highest, but the investment on government securities of SCBNL was the highest. The portfolio analysis had revealed that the flow of loans and advances in the agriculture sector was the lowest priority sector among these commercial banks. The contribution of all the banks in the industrial sector is the greatest that of SCBNL is the least. The lending in commercial purpose was the highest in case of NABIL and the least in case of SCBNL. SCBNL had highest contribution in service sector lending. It contributed 24.47 percent of its total credit in general use and social purpose. The measurement of efficiency in lending had revealed that the loan loss provision to loans and advances analysis showed that NABIL had 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 sub-standard loan} only. It indicated that the volume of sub-standard loan in the loan mix of NABIL was higher and the volume of non-performing loan in the mix of NABIL Bank Ltd. was likely to increase in the future. The mean ratio of interest income to total income had concluded that the contribution of interest income in total income was higher in case of HBL and lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in HBL was the highest and that of SCBNL was the least. The total income to total assets ratio measured the earning power of each rupee employed by the bank. NABIL's ratio in this case was the best. The ratio of total income to total expense reflected the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL was the best. The performance of SCBNL was significantly better than two banks in case of profitability. EPS was 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 Bank Ltd.)." The objectives of the study were as follows:

- To examine the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparison with NABIL and NGBL

- 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 by collecting the secondary data. The research findings of the study were 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 with regard to utilization of the fund to earn profit is not better to compare to NABIL and NGBL.

2.10 Research Gap

Investment in different sectors is made on the basis of the directives and instructions of Nepal Rastra Bank as well as the investment policy and guidelines of the concerned commercial bank itself. Commercial banks should follow these directives and circulars. Furthermore, their own investment guidelines and policies should be in line with NRB directives and circulars. Therefore, the up to date study over the change of time frame has been a major concern for the researcher, concerned organization as well as the banking industry as a whole. This study covers the more recent financial data, NRB guidelines and instructions than those of studies previously conducted.

Portfolio management is the major part of the bank's investment policy and it is the major concern of stakeholders to know the portfolio behaviors of the bank. To reduce the default risk of credit, there should be the optimum diversification of loan and advance. This study puts its effort to find out the proportion to total loan and advances of the bank disbursed to different sectors of economy and analysis the diversification of its investment.

Not much more research study has been conducted in this topic. A very few study based on only one bank has been conducted before 2003, but this study is based on analysis of two listed commercial banks namely NIBL and EBL up to the financial year 2008/09. So, this research work is very much centered to identify responsible causes, to analyze them and recommend improvement measures for the betterment of the banks under study and to analyze the investment position of the two leading banks.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Introduction

In order to achieve the objective of the study, certain method of research has to be used. This chapter is, therefore, devoted to describe the methods used for carrying out the research. The following methodology has been followed to conduct the present study.

3.2 Research Design

Research design is an essential part for each research work. It is plan structure and strategy investigations conceived to obtain answer to reach questions and to control variances. It is the systematic and objective process of collecting, verifying and evaluating evidence to reach conclusion. It is overall operational pattern of framework of the study that stipulates what information is to be collected from which source by what procedure. Therefore, descriptive design of research is used in this study.

3.3 Nature and Source of Data

To carry out the research, both primary as well as secondary data have been used in the study.

Primary Data

The primary data are those that are collected a fresh and for the first time and thus happen to be original in character. Primary data has been collected through questionnaire distributed to the respondents and the response has been collected from the questionnaire duly filled by them.

Secondary Data

The secondary data, on the other hand are those, which have already been collected by someone else for some other purposes and already published for that matter.

The study is mainly based on secondary data. The secondary sources of data collections are balance sheet, profit and loss accounts, and loans and advances respectively, which are obtained from the annual reports and financial statements of the concerned banks. Some supplementary data and information have been collected from the source like Tribhuvan University Central Library, Shanker Dev Campus Library, Nepal Commerce Campus Library, different journals, magazines, reports and unpublished masters' degree theses. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives of the present study. Formal and informal talks with the concerned authorities of the banks were so helpful to obtain the additional information of the related problem.

The data for the study are also collected from record available from the Security Board of Nepal and Annual Reports of the concerned banks. Moreover, various Stock Exchange publications formed and important supplementary source of the data for this project study particularly on investment policy.

3.4 Population and Sampling

Since new commercial banks are being incorporated every year, the number of commercial banks in Nepal has been increasing rapidly. Some have already been started and others are in the process of starting their business. Currently, however, there are 25 commercial banks functioning all over the country and most of their stocks are traded actively in the stocks market. In this study, all the listed commercial banks form population the study. The population for the study has been as follows:

- i. Nabil Bank Ltd. (NABIL)
- ii. Standard Chartered Bank Ltd. (SCBNL)
- iii. Himalayan Bank Ltd. (HBL)
- iv. Nepal SBI Bank Ltd. (NSBIB)
- v. Nepal Investment Bank Ltd (NIBL)
- vi. Everest Bank Ltd. (EBL)
- vii. Nepal Credit and Commerce Bank Ltd. (NCCBL)

Among them NIBL and EBL have been selected as sample for the study. Since the two sample banks are performing well and they are providing traditional as well as modern transaction facilities, they are chosen as sample for the purpose of the study.

Table 3.1

List of Sample Companies (Commercial Banks)

S.N	Name of Commercial Bank	Year	Observation
1	Nepal Investment Bank Limited	2005,06,07,08,09	5
2	Everest Bank Limited	2005,06,07,08,09	5
Total observation			10

3.5 Data Presentation and Analysis Techniques

The data presentation and analysis are focal part of the study. A number of financial, statistical and accounting tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data has been done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation, regression analysis and the technique of least square are adopted in this study. In the same way, some useful financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The data extracted from annual reports, financial statements and other available information are processed and tabulated in various tables and charts under different headings according to their nature.

3.6 Tools for Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. Their ratios, percentages, mean, standard deviations and coefficients of variations are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated. Likewise, trend analysis is also used to know the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.6.1 Financial Tools

Financial ratios have been calculated to ascertain the financial condition of the firm. Financial tools have been used to examine the financial strength and weakness of bank. It is the relationship between financial variables contained in the financial statements (i.e., balance sheet, profit and loss account and income statements). There are several financial to spot out the financial strength and weakness of the firm. There are several financial tools, which could be applied in order to analyze the investment policy of commercial banks. The financial tools used in this study are as follows: Liquidity Ratio, Activity Ratio, Profitability Ratio, Risk Ratio and Growth Ratio.

A. Liquidity Ratio

A liquidity ratio measures the firm's ability of fund, solvency of the firm and ability to pay its obligation when balances are due. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. Short-term liquidity involves the relationship between current assets and current liabilities. The current ratio and quick ratio measure the liquidity position of the company. These ratios are calculated to judge the long term as well as short-term financial position of the concerned firm.

Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. A high degree of liquidity shows inability of proper utilization of funds where as 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. Therefore, commercial banks need liquidity to meet loan demand and deposit with drawls. Without good liquidity, bank is not able to operate its function. To measure the bank's solvency position or ability meet its short-term obligation, various liquidity ratios are calculated.

A. 1 Current Ratio

Current ratio shows the short-term solvency and the relationship between current asset and current liabilities. Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short- term solvency position of the bank. The current

ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety. The higher the current ratio, the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations. Current asset includes cash and bank balance, Money at call of short notice, loan and advances, Investment on government securities and other interest, overdraft, bills purchase and discount, receivable and miscellaneous current assets where as current liabilities includes deposit and other accounts.

2:1 is standard of current ratio is widely acceptable or more is considered as satisfactory. It is not hard and fast assumption that the current ratio must be 2:1. Therefore, many firms below this standard are also seen sound and meeting those obligations efficiently.

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

A. 2 Cash and Bank Balance to Current Assets 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. In the 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 and Bank Balance to Total Deposits Ratio

Cash and bank balance are the liquid current assets of a firm, cash bank balance to total deposits ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed by dividing the amount of cash and balance by the total deposits, such that:

$$\text{Cash and Bank Balance to Total Deposits Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

Where, total deposits on current account, saving account, fixed account, money at call and other deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

A. 4 Loans and Advances to Current asset Ratio

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

$$\text{Loan and Advances to Current Assets Ratio} = \frac{\text{Loans and Advances}}{\text{Total Current Assets}}$$

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 loans and 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.

A.5 Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated by dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows.

$$\text{Investment on Government Securities to Current Assets Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

Where, investment on Government Securities involves treasury bills and development bonds etc.

B. Assets Management Ratio

The funds of creditors and owners are invested in various assets to generate sales and profit. These ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio indicates how quickly certain current assets are converted into cash. From this ratio it can be known whether or not the business activities are efficient and effective. It is also called as the Activity or Turnover Ratio. The greater the rate of turnover or conversion, the more efficient is the management utilization of assets. These ratios moreover help in measuring the banks ability to utilize their available resources. Following ratios are use under the Assets Management Ratio.

B.1 Loans and Advances to Total Deposits Ratio

This ratio assesses to what extent the banks are able to utilize the depositor's fund to earn profit by providing loans and advances. In other words, the ratio shows how quickly total collected deposits are converted into loan and advances given to the client to earn income. It is computed by dividing the total amount of loan and advances to total deposits fund. Higher ratio indicates higher/proper utilization of funds and low ratio is the signal of inefficiency or remaining idle.

$$\text{Loans \& advances to Total Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Total Deposits}}$$

B.2. Loans and Advances to Total Working Fund

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

$$\text{Loan \& Advances to Total Working Fund} = \frac{\text{Loans and Advances}}{\text{Total Working Fund}}$$

Where, 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 Deposit Ratio

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

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}}$$

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 calculated as follows:

$$\text{Investment on government securities to total working fund ratio} = \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

B.5 Investment on shares and debentures to Working Fund Ratio

This ratio shows the bank investment on shares and debentures of the subsidiary and other companies. This ratio can be calculated by dividing investment in shares and debentures by working fund. This is calculated as follows:

$$\text{Investment on Shares and Debentures to Working Fund Ratio} = \frac{\text{Investment on Shares and Debentures}}{\text{Total Working Fund}}$$

This numerator includes investment on debentures, bonds and shares of the other companies.

C. Profitability Ratio

The profitability ratio's, the name suggests measure the operating profitability in terms of profit margin return on equity and return on total investment, reflects the overall efficiency and effectiveness of management. Shareholders, bankers, government, tax collectors, employees are concerned with the profitability of the company; the shareholders are interested with their rate of return, employees in the future prospect of the company, government in companies' tax payment capacity and bankers in the perspective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment. Profitability can be measured in terms of a relationship between net profit and assets. This ratio is also known as profit-to-asset ratio. It measures the profitability of investment. Various ratios can be developed based upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the profitability ratios calculated in this study are:

C.1 Return on Total Working Fund Ratio

A bank has to earn satisfactorily return on assets or working fund for its survival. Return on total working fund or total assets ratio measure the overall profitability. Net profit includes the portion of income left to the internal equities after all costs, all the charges expenses have been deducted.

This ratio can be calculated by dividing net profit by total working fund, such that.

$$\text{ROI} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

C.2 Return on Loans and 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.

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profits}}{\text{Loans and Advances}}$$

C.3 Total Interest Earned to Total outside Assets Ratio

The main assets of a bank are its outside assets, which include loan & advances, bills purchased and discounted investment and government securities, investment and debentures and other all types of investments. This ratio reflects the extent on which the banks are successful to earn interest on all the outside assets; a high ratio indicates high earning on such assets and vice versa. This ratio is calculated by dividing total assets earned by total outside assets.

$$\text{Total Interest Earned to Total Outside Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

C.4 Total Interest Earned to Total Asset Ratio

It is calculated to find the percentage of interest earned to total assets. Higher ratio indicates the better performance of the bank in terms of earning interest on its total assets. This ratio is calculated by dividing total interest earned by total assets.

$$\text{Total Interest Earned to Total Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Assets}}$$

C.5 Total Interest Paid to Total Working Fund Ratio

This ratio shows the percentage of total interest expenses against working funds (total assets). A high ratio reflects high interest expenses on total working fund and vice versa. The ratio is computed by dividing total interest paid by total working fund. Total interest paid includes total expenses on deposits liabilities, loan & advances and other deposits.

Mathematically,

$$\text{Total Interest Paid to Total Working Fund} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

D. Risk Ratios

Risk means uncertainty, which lies in the business transaction of investment management. This ratio measures the level of risk associated with the liquid asset i.e. cash, bank balance that are kept in the bank for the purpose of satisfying deposits demand for cash. Following two ratios are used to interpret and analyze the investment policy of concerned banks.

D.1 Capital Risk Ratio

The capital risk ratio of a bank shows how much asset values may decline before the position of depositors and other creditors is jeopardized. The capital risk is directly related to the return on equity (ROE). Higher the ratio, lower is the capital risk. This ratio is computed by dividing (paid up capital + reserves) by risk-weighted assets as computed under the Basel Committee's formula. This can be mentioned as:

$$\text{Capital Risk Ratio} = \frac{\text{Capital (Paid up + Reserves)}}{\text{Risk Weighted Assets (RWA)}}$$

D.2 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.

$$\text{Credit Risk Ratio} = \frac{\text{Total Loans And Advances}}{\text{Total Assets}}$$

E. Growth Ratio

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

1. Growth ratio of total deposits
2. Growth ratio of total investment
3. Growth ratio of loan and advances
4. Growth ratio of net profit

3.6.2. Statistical Tools

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

A. Arithmetic Mean

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

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

Where,

X = Arithmetic average

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

N = Number of terms

B. Standard Deviation

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

Standard deviation is represented as:

$$\sigma = \sqrt{\frac{\sum d^2}{n-1}}$$

where

σ = Standard deviation

$\sum d^2$ = Sum of the squares of the deviations measured from the arithmetic average, and

n = Number of items

C. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater risk relative to the average.

Mathematically,

$$C.V = \frac{\sigma}{\bar{X}}, \text{ where}$$

C.V = Coefficient of Variation

σ = Standard deviation, and,

\bar{X} = Arithmetic average

D. Coefficient of Correlation

Correlation is a statistical tool, which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r , the coefficient of correlation +1, there is perfect relationship between two variables and vice versa. When r is 0, there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below:

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

Also, the test of significance of correlation coefficient has been in this study. In order to test whether the correlation coefficient is significant to the correlation between the correlations between the two variables, paired sample t-test has been applied at the standard significance level of 5%. If calculated value of t is greater of equal to its tabulated value, correlation is significant or else it is not significant. The formula of the calculation of t value is,

$$t = \frac{r(\sqrt{n-2})}{\sqrt{1-r^2}}$$

E. Trend Analysis

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of NIBL Bank Limited that helps to make forecasting for next five years. The following trend value analyses have been used in this study.

- i. Trend analysis of total deposit
- ii. Trend analysis of loan and advances
- iii. Trend analysis of total investment
- iv. Trend analysis of net profit

The trends of related variables can be calculated as, $Y = a + bx$

F. Test of Hypothesis

Test of hypothesis means a statistical statement about the values of one or more parameters of the population. After setting the hypothesis, it is necessary to test the reliability of such statistical statements. Under this analysis the effort has been made regarding the parameter of the population of the basis of sample drawn from the population. The following steps have been followed from the test hypothesis:

- i. Formulating hypothesis {Null hypothesis and Alternative hypothesis}
- ii. Computing the test statistic
- iii. Fixing the level of significance
- iv. Decision making

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is devoted to the presentation of the data collected and analysis by using various statistical tools so as to summarize them and obtain results thereof. The statistical results are then interpreted to find their meaning and implications.

4.1 A Brief Profile of the Concerned Commercial Banks

NIBL Bank Ltd

Nepal Investment Bank Ltd., previously Nepal Indosuez Bank Ltd, was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez a subsidiary of one of the largest banking group in the world.

The shareholding are distributed as follows:

- 50% is owned by a group of companies.
- 15% is owned by Rastriya Banijya Bankiya
- 15% by the Rastriya Beema Sansthan
- 20% is owned by general public.

Over the past 7 years ,the bank have grown to become one the biggest commercial banks in Nepal.The overall growth of bank increased tremendously during these 7 years.The overall growth in deposit,lending,net profit and capital base has shown positive trend and is increasing day by day.

The bank has recorded total loans and advances of NRs.36.83 billion.

Total deposit of NRs 46.7 billion was recorded in current year.

The paid up capital base of NRs 2.84 bilion .

The highest capital base with NRs. 3.86 billion was recorded.

The bank has shown net profit gain of 1460% in these 7 years.

NIBL has been awarded “**The Bank Of The Year** award for 2008 for the third time since 2003. There are all together 26 commercial banks working in Nepal till the end of 2009. Despite of intense competition and challenging economic atmosphere and political uncertainty, NIBL attained a substantial market share of 8.9%, 10.2% and 8.41% in terms of deposit, loans and total assets.

In FY 08/09 the bank added total of 11 new branches making a total of 30 branches all over Nepal. And the target is to reach 50 by the end of 2010. Also it has a total of 57 ATM's working in Nepal.

Everest Bank Limited.

Everest Bank Limited started its operation in 1994 with a view and

Objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network.

EBL aim to help Nepalese Citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by Nepalese citizens in countries like U.A.E, Kuwait, Singapore, U.K etc.

EBL has a joint venture with Punjab National Bank (holding 20% equity in the bank) which is the largest nationalized bank in India.

The bank look for new business avenues instead of concentrating only on the trading and industrial activities because of difficulty faced the nation and the resultant slackness witnessed in the economy.

The bank has opened its representative office in New Delhi, India with an aim to facilitate the opening of account of Nepalese residing and working in India and remitting their fund to any EBL branch in Nepal.

The bank has opened 6 more branches during the FY 08/09 total being 35 in all over Nepal. The bank has also launched its own remittance package Everest Remit to help Nepalese working overseas.

The bank provides various facilities such as:

- Tele banking
- 24 hour banking
- Credit card facilities
- Automatic Teller Machine (ATM)
- Visa Card
- L.C. Service
- Safe deposit locker
- Foreign currency transaction etc.

The ownership composition of EBL is as follows:

Subscriptions % Holding	
Foreign Institutions-PNB (India)	20%
Other Institutions	9.34%
Individual	40.66%
General Public	30%
Total	100%

4.2 Data Presentation

Most of the data used in the study are secondary in nature. The data were collected, processed and then were presented in different tables and figures with a view to systematically analyze them.

4.3 Analysis of Data

The data collected and presented for the purpose of analysis were analyzed in absolute rupee values, ratios in terms of percentages, number of times, etc., and statistical tools such as arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation, etc.

Table 4.1
Composition of Investment Pattern of NIBL and EBL
(Rs. in million)

Banks	FY	Loans and Advances	Fixed Assets	Govt. Securities	Shares and Debentures
NIBL	04/05	10126.05	320.59	1948.5	17.74
	05/06	12776.20	343.45	2522.3	17.74
	06/07	17286.42	759.45	3256.4	17.74
	07/08	26996.65	970.01	3155.0	54.54
	08/09	36241.20	1060.75	2531.3	67.27
EBL	04/05	8,913.72	118.37	2588.56	17.11
	05/06	10,001.85	152.09	3998.87	19.08
	06/07	11,951.87	170.09	3431.73	19.89
	07/08	12,424.52	360.51	5469.73	101.15
	08/09	14,642.56	427.15	5144.31	102.03
	06/07	16,998.00	574.06	6454.87	73.42

Source: Annual Reports of NIBL and EBL during 2004 and 2009

Table 4.1 shows the composition of investment pattern of two commercial banks, viz., NIBL and EBL. Both the banks' investments comprised Loans and Advances, Fixed Assets, Government Securities, Shares and Debentures, and other investments. When analyzing the investment pattern of the two banks in the table, it revealed that they gave the highest priority to the investment in Loans and Advances followed by Government Securities, Fixed Assets, and Shares and Debentures during the period of the study. The investments of both the banks in Loans and Advances showed an increasing trend. NIBL invested Rs. 10,126 million in year 2004/2005, which was more than triple i.e. Rs. 36,241.30 million in year 2008/9. Similarly, the investment of EBL in Loans and Advances in year 2004/05 was Rs. 5,884.12 million; while that was Rs. 23,884.67 million in year 2008/09. In case of investment in Government Securities, NIBL's investment showed an overall increasing trend during the study period barring year 2008/09; similarly EBL's investment in Government Securities showed an increasing trend during the period except for the period 2008/09. NIBL's investment in Fixed Assets keeps on increasing the entire study period also for EBL's investment in Fixed Assets.

4.3.1 Liquidity Analysis

In simple words, liquidity is the paying ability of a firm to meet its current expenses and obligations. Therefore, every firm has to maintain adequate liquidity for that purpose. However, the need and importance of liquidity in banking companies is much more than non-banking companies. The reason for this is that depositors draw their deposited amount from bank whenever they need it. In case the bank is unable to encash the cheques drawn by their customers due to the short of liquidity, it will send wrong signal to the bank's customers and as a consequence, they will panic and rush to their bank to withdraw their deposited amounts as soon as possible. This is called run to bank in the banking literature. Therefore, the regulating authority of banks such as the central bank has made provisions to ensure adequate liquidity in the bank to avoid any kind of untoward situation that the bank might face due to the shortage of liquidity.

In order to examine the liquidity position of the banking companies, some liquidity ratios, such as current ratio, cash and bank balance ratio to total current assets ratio, cash and bank balance to total deposit ratio, cash and bank balance to total deposit ratio, loans and advances to current assets ratio and investment on Government securities to current assets ratio.

Liquidity Ratios

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 a fair liquidity position to satisfy the credit needs of the community, to meet demands for deposit withdrawals, pay matured obligations in time and convert non-cash into cash to satisfy immediate needs without loss to the bank and without consequential impact on long-run profitability of the bank.

Current Ratio

The calculation of current ratio is based on a simple comparison between current assets and current liabilities. This is the broad measure of liquidity of the bank. The

standard of current ratio for banking companies is 2:1, which means the bank has to maintain total currents double of its total current liabilities.

Where, current assets consist of cash and bank balance, money at call on short-term notice, loans and advances, investment in Government Securities and other interest receivable and other miscellaneous current assets. Current liabilities, on the other hand, consist of deposits, loan and advances, bills payable, tax payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Current ratios of NIBL and EBL, and their means, standard deviations and coefficients of variation during the period of study between 2004/2005 and 2008/2009 are presented in Table 4.2.

Table 4.2
Current Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	2.58	1.57	2.19	1.01	1.00	1.67	0.7058	42.26%
EBL	2.37	2.33	1.90	3.33	1.83	2.35	0.7927	33.73%

Source: Annexure A1

In table 4.2, current ratio of NIBL shows a fluctuating trend, while that of EBL a decreasing trend except for the year 2007/08. However, EBL registered the highest current ratio of 3.33:1 in the FY 2007/08, while NIBL registered the highest ratio of 2.58:1, in FY 2004/05. Similarly, EBL recorded the lowest current ratio of 1.83:1 in FY 2008/09 and NIBL recorded the lowest current ratio of 1:1 in the same year. The mean current ratio of EBL during the period of study was 2.35, higher than that of NIBL, i.e. 1.67:1. Similarly, the comparison between the mean current ratios of the two banks shows that NIBL had maintained even lower liquidity than that of EBL. In addition, a look at the coefficient of variation of current ratio of EBL showed 33.73% while that of NIBL was 42.26% during the study period. It indicates the fact that EBL's ratios were more instable and inconsistent than those of NIBL.

Cash and Bank Balance to Total Current Assets Ratio

This ratio shows the banks' liquidity position in terms of the most liquid assets i.e. cash and bank balance. A high cash and bank balance to current ratio indicates high proportion of the most liquid assets in total current assets. This further indicates the banks' ability to meet daily cash payments for the requirement of their depositors. However, much higher of this ratio is not preferred as the bank has to pay interest on deposits and will increase the cost of fund that might impair their profitability. Likewise, lower of this ratio is detrimental to the bank, as the bank will have hard times to make the payments against the cheques presented by customers. Therefore, bank has to strike a balance of cash and bank balance, which is just adequate for the customers demand against deposit when required, and less interest payable against the cash deposit.

Table 4.3 shows the cash and bank balance to total current assets of NIBL and EBL, and their means, standard deviations and coefficient of variation during FY 2004/05 to 2008/09:

Table 4.3
Cash and Bank Balance to Total Current Assets Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.09	0.17	0.10	0.12	0.18	0.132	0.042	32.36%
EBL	0.09	0.12	0.12	0.07	0.19	0.118	0.194	16.50%

Source: Annexure A2

In table 4.3, it is exhibited that cash and bank balance to current assets ratios of NIBL were increasing during the period research has been conducted. The average of the ratio in case of EBL was 11.8%, while that of NIBL was 13.2%, which indicates that liquidity position of NIBL, is better in this regards. The coefficient of variation of the above ratios of EBL is 16.5%, which is lower than 32.36% of NIBL, which shows that the ratios of NIBL were more stable and consistent than that of EBL during the period.

Cash and Bank Balance to Total Deposits Ratio

The ratio between the cash and bank balance and total deposits measures the ability of bank to meet the banks immediate funds to cover their (current margin, call margin and saving) deposits. Higher the ratio, the greater will be the ability to meet sudden demand of deposit. However, a very high ratio is not desirable since banks have to pay interest on deposits. This will also maximize the cost of fund to the bank

The total deposits include current, saving and fixed deposits as well as call money deposits and certificate of deposits. Table 4.4 shows the cash and bank balance to total deposits ratio of NIBL and EBL

Table 4.4
Cash and Bank Balance to Total Deposits Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.09	0.12	0.10	0.11	0.17	0.118	0.017	14.35
EBL	0.08	0.10	0.09	0.08	0.18	0.106	0.040	38.65

Source: Annexure A3

From the table 4.4, it is apparent that ratio of cash and bank balance to total deposits ratios of both banks during the study period were fluctuating. The highest of this ratio for NIBL during the period was 17% in the year 2008/09 and the lowest 9% in the FY 2004/05. Similarly, EBL registered the highest ratio of 18% in FY 2008/09 and the lowest ratio of 8% in FY 2004/05 and 2007/08.

EBL had mean ratio of 10.6%, which is lower than that of NIBL's 11.8%, This shows NIBL's more readiness to meet customers' requirement than EBL's. A comparison of the coefficient of variation of the two banks' ratios shows NIBL's ratios were relatively less instable and inconsistent than those of EBL. In other word, the ratios of NIBL were more stable than those of EBL. Since the EBL had maintained lower cash reserve ratios during the study period, therefore NIBL was in a better position to meeting the demand of its customers any time on their deposit. That means it

operated at lower risks of failing to meet customers' demand for drawing from their deposits, although high ratio shows the inefficiency in terms of the bank's profitability.

Loans and Advances to Total Current Assets Ratio

The ratio shows the relationship between loans and advances to total current assets or it show the banks' liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. If the bank cannot grant sufficient loans and advances, it will have to pay interest on those unutilized deposits funds and at the same time may lose substantial earnings. However, too little and too high of high loans and advances may be undesirable to the bank, as too little investment in loans and advances will result in high amount of unutilized funds and too high investment in loans and advances will result in lack of liquidity and difficulty in collecting them at the time of their maturity. Thus, the bank has to invest in appropriate level of loans and advances *vis-à-vis* current assets.

Table 4.5 shows the ratio of loan and advances to current assets ratio of NIBL and EBL from the fiscal year 2004/05 to 2008/09.

Table 4.5
Loan and Advances to Current Assets Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.73	0.76	0.92	1.26	1.56	1.05	0.35	33.84
EBL	0.85	0.85	0.96	0.72	0.73	0.822	0.098	11.94

Source : Annexure A4

The above table clearly shows the increasing trend of loan and advances of NIBL during the period of study in comparison to EBL. The ratio is least position i.e. .73% in FY04/05 and have take the highest position 156% at the FY08/09 of NIBL while in case of EBL highest ratio is 96% in FY 2006/2007 and lowest is 72%in FY 2007/2008. The average mean ratio of NIBL is higher in comparison to EBL

i.e. $1.05 > 0.822$. The S.D. is 0.35 of NIBL, which is highest than EBL. Similarly, C.V. ratio is 33.84% of NIBL which is also highest than EBL C.V. i.e. 11.94%.

Above analysis depicts that NIBL is better to mobilize its funds as loan and advances with respect to current assets in comparison to EBL. However, the ratios are not uniform over the study period in comparison to other banks, which have highest percentage in coefficient of variation.

Investment on Government Securities to Current Assets Ratio

The ratios the current assets invested in Government Securities, Treasury Bills and Development Bonds, which are issued by government. These securities are regarded as safest investment for the bank in terms of its riskiness, but are not so much liquid as cash and bank balance. These securities are marketable and therefore, they are easily converted into cash and as such are risk-free.

The Table 4.6 shows the ratio of Investment on Government Securities to Current Assets Ratio of NIBL and EBL from FY2004/05 to 2008/09.

Table 4.6
Investment on Government Securities to Current Assets Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.14	0.15	0.17	0.15	0.12	0.146	0.018	12.70
EBL	0.36	0.29	0.33	0.19	0.10	0.254	0.11	42.41

Source: Appendix A5

From Table 4.6, it shows that investment on Government Securities to current assets ratios of NIBL had a decreasing trend and EBL had a fluctuating trend over the study period. From the above five years period, it is evident that the average mean ratio of EBL is higher i.e., 25.4% than that of NIBL, i.e. 14.6%. This shows that greater portion of current assets of EBL consists of Government Securities. A study of coefficient of variation of shows that EBL's ratios have been more consistent. From

the above analysis, it is clear that NIBL has made less investment in Government Securities as it has injected more funds in other productive sectors.

4.3.2. Analysis of Assets Management

Assets management is another important aspect of a commercial bank's investment policies. Unless its assets are properly and judiciously managed, it cannot have the full benefits of its investment policies. In order to assess the effectiveness of the assets management of the selected commercial banks *vis-à-vis* their investment policies, therefore, a number of ratios have been calculated and presented in table 4.7, 4.8, 4.9, 4.10 and 4.11.

Loan and Advances to Total Deposits Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposits on loan and advances for profit generation. Therefore, the higher the ratio, the better is the mobilization of total deposits in terms of loan and advances. However, higher the ratio the better only from the point of view of liquidity, as the loans and advances are not as liquid as cash and bank balance.

The Table 4.7 shows the ratio of loan and advances to total deposits ratio of NIBL and EBL from the fiscal year 2004/05 to 2008/09.

Table 4.7
Loan and Advances to Total Deposits Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.71	0.68	0.71	0.78	0.78	0.73	0.049	6.78%
EBL	0.73	0.71	0.75	0.77	0.72	0.74	0.024	3.31%

Source: Annexure B.6

From the table 4.7, it is obvious that loan and advances to total deposit ratio are not in constant trend, all are fluctuating over the study period. In case of NIBL, the lowest ratio was recorded 68% in the FY 2004/05, and the highest 78% in FY 2007/08 and 2008/09. In case of EBL, highest ratio was registered 77% in FY 2007/08, and the lowest ratio 71% in FY 2006/07. On an average, EBL had maintained higher ratio

than NIBL, i.e. 73% of NIBL compared to 74% EBL. From the above study, C.V. of EBL was lower than that of NIBL, i.e. 3.31% of EBL compared to 6.78% of NIBL. It shows that the loans and advances of NIBL were more stable and consistent than those of EBL. NIBL seems to be strong in terms of mobilization of its total deposits as loan and advances when compared to EBL.

Loans and Advances to Total Working Capital Ratio

Working funds play very crucial role in income generation through its fund mobilization in the form of loan and advances. The commercial banks have to be very careful in mobilizing the total assets in the form of loans and advances to an appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are successful in mobilizing their assets in the form of loans and advances for generating income. Therefore, it is higher the ratio the better in mobilization of funds as loans and advances, or *vice versa*.

Table 4.8 presents the ratio of loans and advances to total working fund of N[BL and EBL from the fiscal year 2004/05 to 2008/09.

Table 4.8
Loans and Advances to total Working Capital Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.62	0.60	0.62	0.70	0.68	0.64	0.045	0.070
EBL	0.61	0.61	0.64	0.68	0.65	0.63	0.033	0.052

Source: Annexure B.7

Table 4.8 reveals that loan and advances to total working fund ratios of both banks registered a fluctuating trend of the ratios during the study period. NIBL had registered the highest ratio in year 07/08 and lowest in year 05/06, i.e. 70% and 60% respectively. EBL had the highest ratio of 68% in year 2007/08 and lowest is 61% in year 2004/05 and 2005/06. On an average, NIBL maintained highest mean ratio of 64%, while EBL maintained it at 63%. The coefficient of variation of EBL was remarkably lower at 5.2%, while NIBL had the higher of it at 7.0%.

The above table shows that the mean ratios of the two banks were not much different but their coefficients of variation are markedly different. This indicates that even though EBL has the lowest ratio, its ratios are more consistent.

Total Investment to Total Deposit Ratio

This ratio measures the extent to which the banks are able to mobilize their deposits in investments in various securities and other investments. Higher ratio indicates the success in mobilizing deposits in securities and vice versa. This ratio can be computed by dividing the total investment by total amount of deposits collections.

The table 4.9 shows the ratio of total investment to total deposits of NIBL and EBL from the fiscal year 2004/05 to 2008/09, where total investments include investment on government securities, debentures and bonds, shares in subsidiary companies, shares in other companies and other investments.

Table 4.9
Total Investment to Total Deposit Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.28	0.30	0.26	0.50	0.15	0.30	0.1273	42.45
EBL	0.31	0.30	0.27	0.21	0.18	0.25	0.057	22.80

Source: Annexure B.8

From the table 4.9, it indicates that the ratio of total investment to total deposits ratio are not in increasing trend, all exhibits fluctuating trend over the study period. EBL has highest ratio 31% in the year 2004/05 and lowest ratio of 18% in the year 2008/09 and NIBL has highest ratio of 50% in FY 2007/08 and lowest of 15% in FY 2004/2005. From the above table, it is clear that NIBL had higher mean ratio than that of EBL, i.e. 30% of NIBL compared to 25% of EBL. Thus, from the mean ratio perspective, NIBL had been more successful in mobilizing deposits on various forms of investment. Similarly, the coefficients of variations of EBL had lower C.V. than that of NIBL i.e., 22.80% of EBL compared to 42.45% NIBL. In conclusion, the

above analysis reveals that NIBL had been more successful in mobilizing its resources on various forms of investment during the period of study.

Investment on Government Securities to Total Working Fund Ratio

From the liquidity and security point of view, a Government Security is a safe medium of investment though it is not liquid as cash and bank balance. Therefore, this ratio is very important to know the extent to which the banks are successful in mobilizing their total funds on different types of Government Securities to maximize its income. The high ratio indicates better mobilization of funds as invest on government securities, vice versa.

The table 4.10 shows the ratio of investment on government securities to total working fund of NIBL and EBL from the fiscal year 2004/05 to 2008/09.

Table 4.10
Investment on Government Securities to Total Working Fund Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.12	0.12	0.12	0.08	0.05	0.10	0.032	32
EBL	0.26	0.21	0.22	0.18	0.09	0.20	0.064	32

Source: Annexure B.9

Table 4.10 presents the ratio between investments on Government Securities to total working fund ratio (total assets). A study of the ratios of the two banks show that NIBL's ratios were in decreasing trend, while EBL's ratios were fluctuating over the study period. The highest ratio of NIBL was 12% in first three years of research study i.e. 04/05, 05/06, 06/07 and the lowest 5% in FY 2008/09. EBL registered the highest ratio of 26% in FY 2004/2005 and the lowest of 9% in FY 2008/09. Considering the means of the ratio, NIBL seemed to be given less importance to Government Securities than EBL, i.e. 10% of NIBL compared to 20% of EBL in mobilizing their total assets on Government Securities. When compared coefficients of variation of both the banks, ratios of both the banks i.e. NIBL and EBL are same but overall study reflects that EBL were more consistent than NIBL. From the above analysis, it can be deduced that that EBL had been successful in mobilizing its funds on Government Securities.

Investment on Shares and Debentures to Total Working Fund Ratio

Nowadays, a commercial bank is interested in investing its fund not only on Government Securities, but also in shares and debentures of other companies. Most of the commercial banks in Nepal have invested in the shares of Regional Rural Development Banks. However, some of these have purchased the shares of other companies too. The ratio of investment on shares and debentures to total working fund shows the investment of banks on shares and debentures of the other companies in terms of their total working funds. The higher the ratio, the more is the amount of investments on shares and debentures out of the total working fund, and vice versa.

The table 4.11 shows the ratio of investment on shares and debentures to total working fund of NIBL and EBL from the fiscal year 2004/05 to 2008/09.

Table 4.11
Investment on Shares and Debentures to Total Working Fund Ratio

BANKS	Fiscal Year					Mean	S.D.	C.V (%)
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.001	0.0008	0.0006	0.001	0.001	0.0009	0.0002	20
EBL	0.002	0.002	0.0009	0.004	0.003	0.003	0.022	7.45

Source: Annexure B.10

When analyzing the ratio of investment on shares and debentures to total working fund of the two selected banks as presented in Table 4.11, it is revealed that both the banks have invested minimum percentage of total working fund in corporate shares and debentures. The table shows that EBL had been increasing its investment in corporate shares and debenture, while NIBL was not pretty sure about to increase or decrease in the investment of its working funds in the corporate securities because the ratio showed a fluctuating trend throughout the period of study. NIBL registered the highest ratio of 0.1% for three years during the period of study ie..04/05,07/08,08/09 and lowest of 0.06% in FY 2006/07, whereas EBL registered the highest ratio of 0.4 % in FY 2007/08 and the lowest of 0.09% in FY 2006/07 during the period. Likewise, the ratio of the two banks reveal that EBL had invested slightly higher amount of total working fund on shares and debentures than NIBL, 0.3% of EBL as compared to 0.09% NIBL. It indicates that EBL had been more successful in mobilizing its fund as investment in shares and debentures than in NIBL. The study of coefficients of

variation of the ratios of EBL was 0.7%, which was higher than 0.2% of NIBL. It means that the ratios of EBL were stable and consistent than NIBL.

4.3.3 Analysis of Profitability

Profit is the difference between total revenue and total expenses over a period of time. Profit is the end result of a commercial bank operations and it will have no future of it if it fails to make sufficient profits. Therefore, one of the important objectives of the commercial bank is to earn profits, as all stakeholders such as stockholders, management, and creditors of the bank expect the bank has to earn reasonable return. In addition, the bank's efficiency is also measured in terms of its profit and profitability.

In order to measure the profitability of the selected banks, therefore, profitability ratios have been calculated and analyzed, as they indicate the banks have won public acceptance of their service even in an intense competitive situation and earned profits. In this study, the profitability ratios are computed on the basis of profits of banks *vis-à-vis* their investment. To measure and analyze of profitability of NIBL and EBL following ratios have been computed and presented in table 4.12, 4.13, 4.13, 4.14, 4.15 and 4.16.

Return on Total Assets Ratio

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

Table 4.12 exhibits the ratio of return on total assets of NIBL and EBL from the fiscal years 2004/05 to 2008/09.

Table 4.12
Return on Total Working Fund Ratio

<i>Banks</i>	<i>Fiscal years</i>					<i>Mean</i>	<i>S.D.</i>	<i>C.V. %</i>
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.01	0.02	0.03	0.03	0.03	0.024	0.01	41.67
EBL	0.05	0.05	0.01	0.02	0.02	0.030	0.02	62.36

Source: Annexure C.11

The above table reveals that the ratio of return on total working fund of NIBL registered an increasing trend during study years, whereas EBL registered a fluctuating trend during the period. NIBL recorded its highest ratio of 3.00% in last three years of study i.e. FY 06/07,07/08,08/09 and the lowest 1.00 % in FY 2004/05. EBL, however, registered its highest ratio of 5.00% in first two years of study i.e.04/05,05/06 and the lowest of 1.00% in FY 06/07. Again, EBL registered higher mean ratio of return on total working fund than that of NIBL i.e. 2.4% of NIBL compared to 3% of EBL. This shows that EBL had been able to earn higher profit on total working fund than NIBL.

The fact is also supported by the coefficient of variation. Since of the coefficient of variation of EBL's ratio is more consistent than NIBL i.e. 62.36% of EBL compared to 41.67% of NIBL. Both banks need to exert more effort in mobilizing its working assets even more efficiently.

Return on Loan and Advances

Return on loan and advances ratio measures how efficiently the banks have utilized their resources to earn good return on loans and advances provided. Put it another way, it measures the earning capacity of commercial banks on its deposits used in the form of loans and advances.

Table 4.13 shows the return on loans and advances of NIBL and EBL during the fiscal year 2004/05 and 2008/09. Mostly loans and advances include loan cash credit, overdraft, bills purchased and discounted.

Table 4.13
Return on Loans and Advances

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.02	0.03	0.03	0.02	0.02	0.02	0.007	35.35
EBL	0.03	0.02	0.02	0.02	0.03	0.02	0.007	35.35

Source: Annexure C.12

Table 4.13 shows that during the period of study the ratios of both the banks registered fluctuating trends. NIBL registered the highest ratio of 3% in FY 2005/06 AND 2006/07 and the lowest ratio of 2% in FY 04/05,07/08,08/09 while EBL recorded the highest ratio of 3% in FY 04/05 and 08/09 the lowest ratio of 2% in the rest of the years i.e.05/06,06/07,07/08. Their mean ratios of the selected banks were almost same i.e.2%, meaning both the banks was able to earn higher return on loans and advances during the period of study. This is also supported by the coefficients of variation of the ratio, which is again same for both the banks.. It shows that both the banks have been successful in earning higher return on loans and advances during the period. In conclusion, it can be said that NIBL's profit earning capacity by utilizing available resources is almost same in comparison to EBL .

Interest and Dividend Earned to Total Investment Ratio

This ratio measures the capacity of the firms for earning interest and dividends through appropriate utilization of investments made in loans and advances, Government Securities, and corporate shares and debentures. Therefore, the higher the ratio, the higher will be the earning power of total investments made.

Table 4.4 exhibits the total interest earned on total investment ratio of NIBL and EBL for FY 2004/05 to FY 2008/09.

Table 4.14
Interest Earned to Total Investment Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.06	0.06	0.07	0.06	0.07	0.064	0.007	10.94
EBL	0.28	0.22	0.23	0.29	0.37	0.27	0.060	22.37

Source: Annexure C.13

Table 4.14 shows the ratio of total interest earned total investments of NIBL and EBL. It shows that the ratios of both the banks had showed fluctuating trends. NIBL registered the highest ratio of 7% in 06/07 and 08/09 and lowest in 6% in FY 04/05, 05/06,07/08, whereas EBL recorded the highest ratio of 37% in FY 08/09 and lowest of 22% in FY 05/06. The mean ratio of NIBL is less than EBL with a great difference i.e 6.6% in case of NIBL and 27% in case of EBL.. It is clear that EBL had earned much higher amount of interest on its investments than NIBL had. The coefficient of variation of NIBL's ratios during the period was 10.94%, which lower than that of EBL i.e. 22.37%.

These revealed that the total interest earned on total working fund ratio of EBL were consistent and stable as compared to NIBL. From the analysis, it can be concluded that the ratio of total interest earned on total working fund of EBL is satisfactorily as compared to NIBL.

Interest Paid to Total Working Fund Ratio

Interest paid is the expenses of every bank. This ratio measures the percentage of total interest expenses and its interest on fixed deposits, call deposits, saving deposits and interest on borrowing with respect to total working fund. A high ratio indicates higher interest expenses on total working fund and vice versa.

Table 4.16 shows the ratio of total interest paid to total working fund of NIBL and EBL from the fiscal year 2004/05 to 2008/09.

Table 4.16
Interest Paid to Total Working Fund Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.02	0.02	0.02	0.02	0.03	0.022	0.063	2.87
EBL	0.03	0.03	0.02	0.02	0.27	0.074	0.313	4.23

Source: Annexure C.15

When analyzing the table 4.16, it can be said that the ratio of total interest paid to total working fund of NIBL is more or less consistent during the period of research whereas in the case of EBL it has been highly fluctuating. The highest ratio of NIBL is 3% in FY 08/09 and the lowest ratio is 2% in in rest of the periods of research study, and the highest ratio of EBL is 27% in FY 2008/09 and lowest is 2% in 2005/06 and 2006/07. The mean ratio of EBL was higher than NIBL i.e. 7.4% of EBL compared to 2.2% of NIBL. It reveals that EBL had higher credit risk than NIBL, which indicates that the unstable credit policy followed by the banks. The standard deviation was less than EBL i.e. 6.3 % of NIBL 31.3% of EBL. And coefficient of variation is lower than EBL i.e. 2.87% of NIBL as compared to EBL's 4.23%.

To sum up, it can be said that EBL is in a better position from interest payment point of view than NIBL. EBL seems to have collected its funds from cheaper sources than NIBL.

4.3.4 Risk Analysis

Risk means variations in actual returns on investment than expected. There is a positive relationship between risk and return, viz. higher the risk, higher the return and vice versa. Therefore, a bank has to take high risk, if it expects high return on its investment. Thus, the banks have to face the challenge posed by the presence of risk in investment. This ratio examines the degree of risk involved in the banks' investment and other financial operations. Through the following ratios, efforts have been made to measure the banks' level of risk during the period of study.

Capital Risk Ratio

Capital risk ratio measures banks ability to attract deposits and inter bank funds. It also determines the level of profit a bank can earn it. Bank chooses to take high capital risk and it will not be higher and vice versa. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities.

Table 4.17 shows the capital risk ratio of NIBL and EBL from the fiscal years 2004/05 to 2008/09.

Table 4.17
Capital Risk Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.04	0.03	0.03	0.03	0.06	0.038	0.109	2.86
EBL	0.07	0.05	0.04	0.04	0.04	0.048	0.089	1.86

Source: Annexure D.16

It is apparent from Table 4.17 that the capital risk ratios of NIBL registered a fluctuating trend during the period of research analysis. It first showed decreasing trend during first three years of study and then after increased in the last year. EBL ratios, however, registered almost a decreasing trend during the period. NIBL recorded the highest ratio of 6% in FY 08/09 and the lowest ratio of 3% in middle years i.e.05/06,06/07,07/08 of the study. While EBL had highest ratio of 7% in FY 04/05 and lowest in 4% in last three years of study. The mean ratio of NIBL was 3.8%, which was lower than that of EBL, i.e. 4.8%. It means EBL had higher credit risk than NIBL had. In case of coefficient of variation of the ratio, it was 2.86% for NIBL, which was higher than that of EBL i.e. 1.86%. From the above analysis it can be observed that EBL's average ratio is greater than NIBL but C.V is higher in case of NIBL.. Thus, we can say that overall performance of EBL is better than NIBL. All it reveals that EBL faces greater credit risk than NIBL.

Credit Risk Ratio

Credit risk ratio helps to check the profitability of loan non-payment or the possibility of loan to go into default or it is also said that it measures the risk behind making investment or granting loan. The ratio is calculated by dividing the total loans and advances by the total assets of the bank and is expressed in percentage.

The table 4.18 shows the credit risk ratio of NIBL and EBL from the fiscal year 2004/05 to 2008/09.

Table 4.18
Credit Risk Ratio

Banks	Fiscal years					Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09			
NIBL	0.62	0.59	0.62	0.69	0.68	0.64	0.043	6.7
EBL	0.61	0.61	0.64	0.68	0.65	0.63	0.031	4.9

Source: Annexure D.17

When analyzing Table 4.18, it is revealed from the ratio that NIBL had taken highest position on credit risk during the period of study. The credit ratios of NIBL registered overall a growth trend, 69% in FY 2007/08 and lowest ratio is 59% in FY 2005/06. In case of EBL highest ratio was measured as 68% in FY 2007/08 and lowest as 61% in 2004/05 and 2005/06., averaging out of NIBL's 64%, which was higher than that of EBL i.e. 63%. The coefficient of variation of NIBL is 6.7%, which is higher than EBL i.e. 4.9%. It indicates that the ratio of EBL bank is less uniform than the NIBL bank.

4.3.5. Growth Analysis

A firm seeks not only to survive by generating profits, but also to achieve growth. A growing firm is, therefore, regarded as a successful firm in the end. Therefore, in order to assess the success or potential for achieving success in the end, it is essential to analyze the growth that the bank has achieved in terms of deposits it has received, loans and advances it has provided, investments it has made, and its profitability.

Growth of Total Deposits

Table 4.19 exhibits the growth total deposits from FY 2004/05 to FY 2008/09.

Table 4.19
Growth Ratio of Total Deposits

Banks	Fiscal Years (Rs in million)					Growth Ratio (%)
	04/05	05/06	06/07	07/08	08/09	
NIBL	14254.57	18927.30	24488.86	34451.72	46698.10	34.5
EBL	8063.90	13802.44	18186.25	23976.3	33322.94	42.57

Source: Annexure E.18

When analyzing the table 4.19, growth of total deposit of EBL is 42.57%, which is higher than in compare to NIBL i.e. 34.5%. Total deposits of both the banks are in increasing trend during study period but deposit of EBL is increasing with higher rate as compared to NIBL. Comparatively we can say that deposit position of EBL is more satisfactory than NIBL.

Growth of Total Loans and Advances

Table 4.20 shows the growth ratio of total loans and advances from the fiscal year 2001/02 to 2006/07.

Table 4.20
Growth Ratio of Total Loans and Advances

Banks	Fiscal Years (Rs. in million)					Growth Ratio (%)
	04/05	05/06	06/07	07/08	08/09	
NIBL	10126.05	12776.20	17286.42	26996.65	36241.20	47.30
EBL	5884.12	9801.31	13664.08	18339.09	23884.67	40.70

Source: As Annexure E.18

Table 4.20 shows the growth ratio of NIBL's loans and advances is higher than that of EBL. NIBL has maintained 47.3% and EBL has maintained lower than that of NIBL i.e.40.70%. When analyzing the loan and advances mobilization, NIBL has increase its loan and advances sharply over the study period in compare to EBL. It can be said that investment policy of NIBL increase year by year for profit generating activities

on behalf of processing loan and advances which maximize the value of the organization.

Growth of Total Investments

Investments are major activities of commercial banks. All the deposits collected by the banks are ultimately for investments whereby they generate revenues and profits for their survival and growth. If the banks are achieving steady growth in their investment activities, they can prosper in the long run, or *vice versa*. Therefore, it is essential to examine the growth of the banks selected for the purpose of study.

The table below shows the growth ratio of total investment from the fiscal year 2004/05 to 2008/09.

Table 4.21
Growth Ratio of Total Investments

Banks	Fiscal Years					Growth Ratio (%)
	04/05	05/06	06/07	07/08	08/09	
NIBL	3934.18	5602.87	6505.68	6874.02	7399.81	17.10
EBL	2535.66	4200	4984.31	5060	5948.48	23.75

Source: As Annexure E.18

Table 4.21 shows that the growth ratio of total investment of NIBL registered lower than that EBL, i.e., 17.10% of NIBL compared to 23.75% of EBL. The investments of EBL were increasing year by year over the period; as such, it registered the overall growth ratio of 23.75%. It reveals that NIBL did not much emphasize its investment policy as compared to EBL.

Growth of Net Profit

Table 4.22 shows the growth ratio of Net Profit from FY 2004/05 to FY 2008/09.

Table 4.22
Growth Ratio of Net Profit

Banks	Fiscal Years (Rs. in million)					Growth Ratio (%)
	04/05	05/06	06/07	07/08	08/09	
NIBL	232.14	350.53	455.3	501.40	696.73	18.7
EBL	143.57	237.29	296.41	451.22	638.73	45.23

Source: As Annexure E.18

When analyzing the above table, growth ratio of total net profit of EBL was 45.23%, which is much higher than that of NIBL, which was only 18.7%. It reveals that EBL maintained the higher growth rate of total net profit in comparison to NIBL.

4.4 Statistical Analysis

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

4.4.1 Correlation Analysis

It is statistical tools that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two set of figure. The variable method of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The coefficient of correlation is always between +1 and -1. When r, the coefficient of correlation is +1, there is perfect positive relationship between two variables (i.e. one dependant variables and one independent variable), when r is -1, there is perfect negative relationship between two variables, dependant and independent variable. And when r is equals to 0 there is no relationship between variables. So this topic tries to find out relationship between the following variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization and profit maximization.

- Coefficient of Correlation between Total Deposits and Loan and Advances.
- Coefficient of Correlation between Total Deposits and Total Investment.
- Coefficient of Correlation between outside assets and net Profit.

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

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

Here, the probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of coefficient of correlation. The probable error is defined by:

Probable Error(P.E) =

$$r \times \frac{1-r^2}{\sqrt{N}}$$

Where, r= Correlation coefficient

N = Number of pairs of observations

Conclusion:

1. If $r < \text{P.E.}$, the value of 'r' is not significant, i.e. there is no evidence of correlation between the variables.
2. If $r > 6\text{P.E.}$ the value of 'r' is significant i.e. there is evidence of correlation between the variables.

Coefficient of Correlation between Total Deposits and Loan and Advances

Coefficient of correlation between total deposits and loans and advances measures the degree of relationship between dependant variable i.e. deposit and independent variable i.e. loan and advances.

The main objective of computing 'r' between these two variables is to justify whether deposit of three banks are significantly used as loan and advances in a proper way or not. The table below shows the value of r, r^2 , P.Er. and 6 P.Er. between deposits and

loan and advances of NIBL and EBL for the five years study period i.e. 2004/05 to 2008/09.(See Details in Annexure)

Table 4.23

Coefficient of Correlation between Total Deposits and Loan and Advances

Banks	Correlation Coefficient(r)	r ²	P.Er.	6P.Er.	Remarks
NIBL	0.9980	0.9960	0.5534	3.3204	r<6P.Er
EBL	0.5598	0.3134	0.1719	0.86	r<6P.Er

Sources: Annexure F.19

When analyzing Table 4.23, the correlation coefficient between total deposit and loan and advances of NIBL and EBL is 0.9980, and 0.5598 respectively. It is inferred that there is positive correlation between deposit and loan and advances. Similarly, considering the value of 'r' and comparing it with 6P.Er., in both cases it is found that the value of 'r' is smaller than the value of 6P.Er., i.e. 0.9980<3.3204 and 0.5598<0.86 respectively. This reveals that the values of 'r' in case of NIBL and EBL are not significant, i.e. there is no evidence of positive correlation between the variables.

Coefficient of Correlation between Total Deposits and Total Investment

When analyzing the investment policy of banks selected for the study, their deposits and total investments play very important role in that there is direct relationship between these two variables of the banks. Hence, the coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables. As is known that the investment always depends upon deposits, so in this analysis, deposit is independent variable and i.e. X and investment is dependant variable i.e. Y. The main objective of computing 'r' between these two variables is to find out whether deposits are significantly used as investment or not.

Table 4.24 shows the values of 'r', r², P.Er. and 6P.Er. between deposits and investments of NIBL and EBL for the five years study period i.e. 2004/05 to 2008/09.

Table 4.24

Coefficient of Correlation between Total Deposits and Total Investment

Banks	Correlation Coefficient(r)	r^2	P Er.	6P.Er.	Remark
NIBL	0.9180	0.8427	0.0645	0.387	$r > 6P.Er$
EBL	0.1405	0.0197	0.0615	0.3080	$r < 6P.Er$

Sources: Annexure F.20

When analyzing Table 4.24, it is found that the correlation coefficients between total deposits and investments of NIBL and EBL are 0.9180 and 0.1405 respectively. They indicate that there were positive relationships between the two variables deposits, i.e. independent variable, and investment, i.e. dependant variable of both banks because value of 'r' was between +1 and -1. Similarly, when considering the value of 'r' and comparing it with 6P.Er. in case of NIBL $r > 6P.Er$ which shows that there was significant relationship between deposit and investment but in the case of EBL the value of 'r' was less than the value of 6P.Er., i.e. $0.1405 < 0.3080$, which meant that there was no significant relationship between deposits and investments.

Coefficient of Correlation between Total Investments and Net Profit

Outside asset means total assets of bank, it is referred that how much the total assets affects the volume of net profit. So, coefficient of correlation between total outside assets and net profit measures the degree of relationship between these two variables i.e. total assets (X) which is independent variables and net profit (Y) dependent variable which is dependent with volume of total outside assets. Objectives of finding out coefficient of correlation between these two variables are whether the net profit is significantly correlated to total outside assets or not.

Table 4.25 shows the value of r, r^2 , P.Er. and 6Er. between outside assets and net profit of NIBL with comparison to EBL for the five years study period i.e. 2004/05 to 2008/09.

Table 4.25

Coefficient of Correlation between Total outside Assets and net Profit

Banks	Correlation Coefficient (r)	r ²	P. Er.	6P.Er.	Remarks
NIBL	1.07	1.144	0.513	2.56	r<6P.Er.
EBL	0.9036	0.8164	0.082	0.41	r>6P.Er

Sources: Annexure F.21

When analyzing Table 4.25, the correlation coefficients between outside assets and net profit of NIBL and EBL were 1.07 and 0.9036 respectively. It indicated that the correlation coefficient between these variables of NIBL and EBL were positive, because value of 'r' was between +1 and -1. Similarly, when considering the value of 'r' and comparing with 6P.Er., the value of 'r' was less than 6P.Er. in case of NIBL whereas it was more than 6P.Er in case of EBL and. It thus reveals that the value of 'r' was significant in case of EBL and not significant in case of NIBL, i.e. there was evidence of correlation between the variables (total outside assets and net profit) in EBL and there was no evidence of correlation between variables in NIBL.

4.4.2 Trend Analysis

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

- Trend analysis of Total Deposits.
- Trend analysis of loans and advances.
- Trend analysis of Total investment
- Trend analysis of net profit

The trends of related variables can be calculated as,

$$y=a + bx.....i)$$

Where, a, b = constant coefficient

y = Estimating variable

x = Explained variable (Time variable)

Using the least square method

$$\sum y = na + b\sum x \dots\dots\dots \text{ii)}$$

Again multiplying eqⁿ.i) by x, we get

$$\sum xy = a\sum x + b\sum x^2 \dots\dots\dots \text{iii)}$$

When Deviation from mean (mid year)

i.e. $\sum x = 0$

From the eqn. ii)

$$\sum y = na + 0$$

$$a = \frac{\sum y}{n} \dots\dots\dots \text{iv)}$$

From the eqn. iii)

$$\sum xy = 0 + b\sum x^2$$

$$b = \frac{\sum xy}{\sum x^2} \dots\dots\dots \text{v)}$$

From the eqn.(iv) and (v), the values of (a) and (b) have been found, the required trend line $y = a + bx$ with the help of given time, i.e. the value of y can be estimated.

Trend Analysis of Total Deposits

Table 4.26 shows the trend values of total deposits of NIBL and EBL for five years from FY 2004/05 to 2008/09 and forecasted the same for the 2009/10 to 2013/14

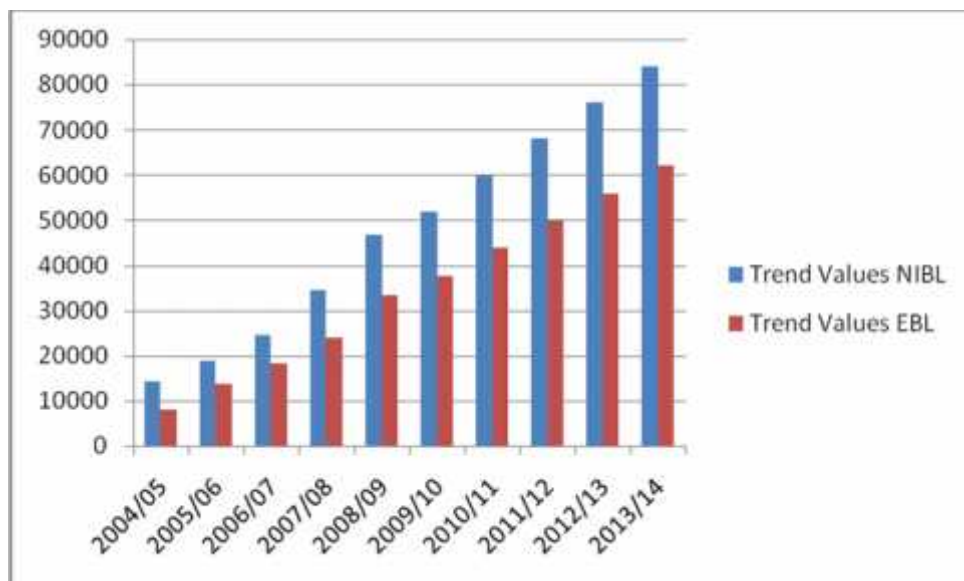
Table 4.26
Trend Values of Total Deposits of NIBL and EBL

(Rs. in million)

Years	Trend Values NIBL	Trend Values EBL
2004/05	14254.57	8063.90
2005/06	18927.30	13802.44
2006/07	24488.86	18186.25
2007/08	34451.72	23976.30
2008/09	46698.10	33322.94
2009/10	51885.41	37677.85
2010/11	59928.51	43747.01
2011/12	67969.61	49816.17
2012/13	76010.71	55885.33
2013/14	84051.81	61954.49

When analyzing the table 4.26, it is clear that the total deposits of NIBL and EBL are in increasing trend. In other things remaining constant, the total deposits in FY 2013/14 will be Rs.84051.81 and Rs.61954.49 of NIBL and EBL respectively. From the above trend analysis, it is found that the deposits collection position of EBL is better than NIBL. (See Details in Annexure G.22)

Figure 4.1
Trend values of Total Deposits of NIBL & EBL



Trend Analysis of Loan and Advances

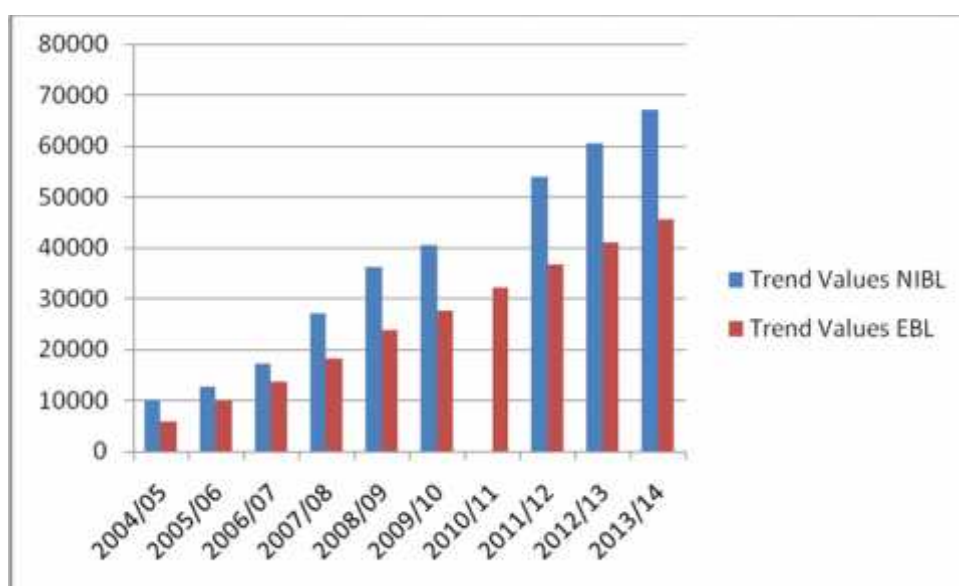
Table 4.27 shows that the trend value of total loan and advances of NIBL and EBL for five years FY 2004/05 to 2008/09 and forecast of the same for the next five years i.e. till 2013/14.

Table 4.27
Trend Values of Loans and Advances of NIBL and EBL

(Rs. in million)

Year	Trend Values NIBL	Trend Values EBL
2004/05	10126.05	5884.12
2005/06	12776.20	9801.31
2006/07	17284.42	13664.08
2007/08	26996.50	18339.09
2008/09	36241.20	23884.67
2009/10	40620.05	27676.29
2010/11	47265.11	32130.17
2011/12	53910.17	36584.05
2012/13	60555.23	41037.93
2013/14	67200.29	45491.81

Figure 4.2
Trend values of Loans & advances of NIBL & EBL



When analyzing table 4.27, it is clear that the total loans and advances of NIBL and EBL are in increasing trend. If other things remaining constant, the total loans and advances in FY 2013/14 reaches Rs 67200.29 Rs. 45491.81 of NIBL and EBL respectively. According to the trend analysis, EBL had best performance on loans and advances mobilization in comparison to NIBL (See Details in Annexure).

Trend Analysis of Total Investment

Table 4.28 shows that the trend value of total loans and advances of NIBL and EBL for five years FY 2004/05 to 2008/09 and forecast of the same for the next five years, i.e. till 2013/14

Table 4.28

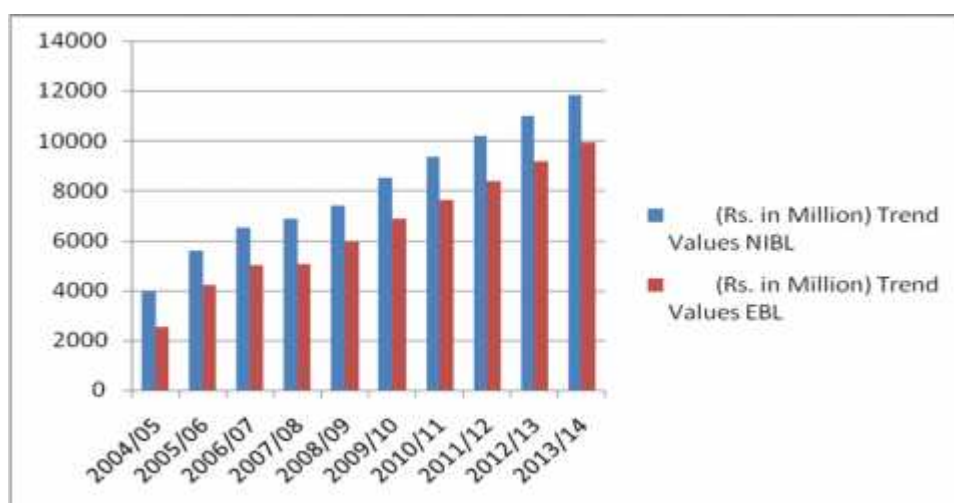
Trend values of Total Investments of NIBL and EBL

(Rs. in Million)

Year	Trend Values NIBL	Trend Values EBL
2004/05	3934.18	2535.66
2005/06	5602.87	4200.00
2006/07	6505.68	4984.31
2007/08	6879.02	5060.00
2008/09	7399.81	5948.48
2009/10	8526.53	6851.37
2010/11	9347.27	7619.93
2011/12	10168.01	8388.49
2012/13	10988.75	9157.05
2013/14	11809.49	9925.61

Figure 4.3

Trend Values of Total Investment of NIBL & EBL



When analyzing Table 4.28, it is obvious that the total investments of NIBL and EBL were in increasing trend. If other things remaining constant, the total investment in FY 2013/14 reaches Rs.11809.49 and Rs.9925.61 of NIBL and EBL respectively. According to the analysis, it was seen that total investment position of EBL was better than that of NIBL. (See Details in Annexure)

Trend Values of Net Profit

Table exhibits that the trend value of net profit of NIBL and EBL for five years FY 2004/05 to 2008/09 and forecast of the same for the next five years i.e. till 2013/14.

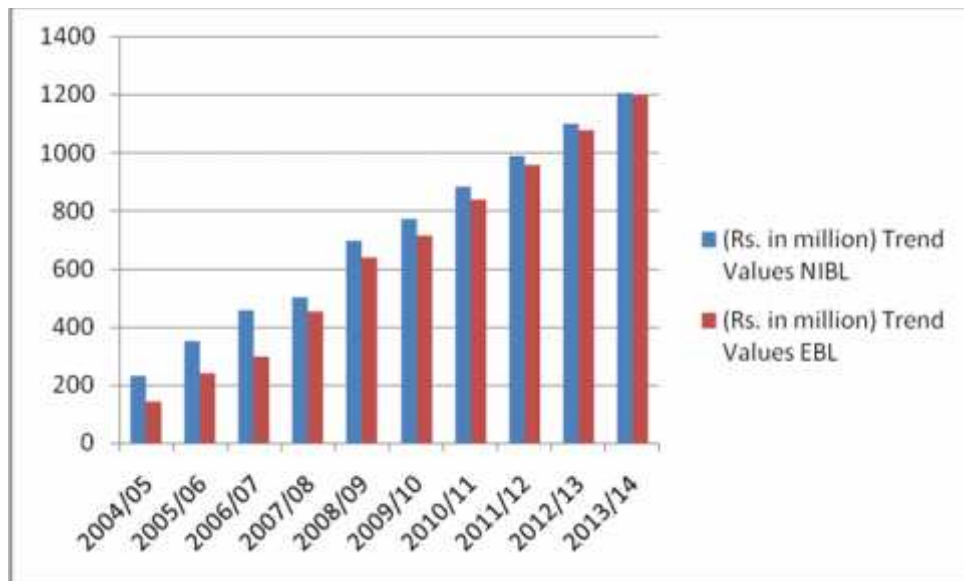
Table 4.29

Trend values of Net Profit of NIBL and EBL

(Rs. in million)

Year	Trend Values NIBL	Trend Values EBL
2004/05	232.14	143.57
2005/06	350.53	237.29
2006/07	455.30	296.41
2007/08	501.40	451.22
2008/09	697.73	638.73
2009/10	772.05	714.73
2010/11	880.26	835.16
2011/12	988.47	955.59
2012/13	1096.68	1076.02
2013/14	1204.89	1196.45

Figure 4.4
Trend Values of Total Profit of NIBL & EBL



When analyzing the table 4.29, it is apparent that the net profits of NIBL and EBL were in increasing trend. If other things held constant, the net profit in FY 2013/14 will reach to Rs.1204.89 and Rs.1196.45 of NIBL and EBL respectively. According to the trend analysis, it is seen that the net profit position if NIBL was better in the study period, as the forecast trend position of net profit was more than that of EBL.

4.5. Testing of Hypothesis

A hypothesis is a statistical statement of the relation between two or more variables. It always in declarative sentence form and they relate either generally or specifically variables to variables. After setting the hypothesis it is necessary to test the reliability of such statistical statement. Under this analysis hypothesis test has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. The following steps have been followed from the test of hypothesis.

1. Formulating and test of Hypothesis
 - H_0 – There is no significance difference between mean ratios of two variables.
 - (H_1) – There is significance difference between mean ratio of two variables.
2. Computing the test static
3. Fixing the level of significance

4. Finding the critical region

5. Decision Making

A. Test of Hypothesis on Total Investment to Total Deposits Ratio between NIBL with EBL (See details in Annexure)

Here,

$$X_1 =$$

$$X_2 =$$

$$1.49/5=0.30$$

$$1.27/5=0.254$$

a. Test of significance difference between NIBL and EBL

Here,

Null hypothesis H_0 : There is no significant difference between mean ratios of total investment to total deposits of NIBL and EBL.

Alternative hypothesis H_1 : There is significant difference between mean ratios of total investment to total deposits of NIBL and EBL.

We have,

$$S^2 = \frac{1}{n_1+n_2-2} \{ (X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2 \}$$
$$= \frac{1}{5+5-2} (0.0648+0.0143) = 0.99\%$$

Test Statistics:

$$T = \frac{\bar{X}_1 - \bar{X}_2}{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)} = \frac{1.49 - 1.27}{0.99 \times 2} = 0.101$$

$$\text{Degree of Freedom (df)} = n_1 + n_2 - 2$$

$$= 5 + 5 - 2$$

$$= 8$$

Critical Value at 5% level, 8 at two tailed test is 2.203%.

Decision

Since calculated value of Student's 't' is less than the table value, the null hypothesis is accepted. Therefore, there is no significance difference between mean ratios of total investment to total deposits of NIBL and EBL

B. Testing of Hypothesis on Loan and Advances to total Deposits Ratios between NIBL and EBL (See details in Annexure)

Here,

$$\begin{aligned} X_1 &= & X_2 &= \\ &= 3.66/5 = 0.732 & &= 3.68/5 = 0.736 \end{aligned}$$

a) Test of significance difference between NIBL and EBL

Here,

Null Hypothesis (H_0): There is no significant difference between mean ratios of loan and advances to total deposits of NIBL and EBL.

Alternative Hypothesis (H_1): There is significant difference between mean ratios of loan and advances to total deposits of NIBL and EBL

We have,

$$\begin{aligned} S^2 &= \frac{1}{n_1+n_2-2} \{(X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2\} \\ &= (0.0008+0.0005)/8 = 0.016\% \end{aligned}$$

Test Statistics:

$$T = \frac{X_1 - X_2}{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)} = (3.66-3.68)/0.016*2 = -0.625 \text{ or } 0.625$$

$$\begin{aligned} \text{Degree of Freedom (df)} &= n_1+n_2-2 \\ &= 5+5-2 \end{aligned}$$

$$= 8$$

Critical Value at 5% level, 8 at two tail is 2.203%.

Decision

Since calculated value of student's 't' is less than table value i.e. $0.625 < 2.203$. So, null hypothesis is accepted. Therefore, there is no significance difference between mean ratios of loan and advances to total deposits of NIBL and EBL.

C. Test of Hypothesis of Investment on Government Securities to Current Assets Ratios between NIBL and EBL.(See details in Annexure)

Here,

$$\begin{aligned} X_1 &= & X_2 &= \\ 1.39/5 &= 0.278 & 1.27/5 &= 0.254 \end{aligned}$$

a) Test of significance difference between NIBL and EBL

Here,

Null hypothesis (H_0): There is no significant difference between mean ratios of Investment on Government securities to Current Assets ratios of NIBL and EBL

Alternative Hypothesis (H_1): There is significant difference between mean ratios of investment on government securities to current assets ratios of NIBL and EBL

We have,

$$\begin{aligned} S^2 &= \frac{1}{n_1+n_2-2} \{(X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2\} \\ &= (0.187+0.0462)/8 = 2.91\% \end{aligned}$$

Test Statistics:

$$T = \frac{X_1 - X_2}{S^2 \left(\frac{1}{n} + \frac{1}{n} \right)} = (1.39 - 1.27) / (2.91\% * 2) = 0.0201$$

Degree of Freedom (df) = $n_1 + n_2 - 2$

$$=5+5-2$$

$$= 10$$

Critical Value at 5% level, 8 at two tail test is 2.203%.

Decision

Since calculated value of 't' is less than tabulated value i.e. $0.0201 < 2.203$. So, null hypothesis is accepted. Therefore, there is no significance difference between mean ratios of Investment on Government securities to current assets ratios of NIBL and EBL

D. Test of hypothesis on loan and advances to current Assets ratios between NIBL and EBL (See details in Annexure)

Here,

$$X_1 =$$

$$5.27/5 = 1.054$$

$$X_2 =$$

$$4.11/5 = 0.822$$

a) Test of significance difference between NIBL and EBL

Here,

Null hypothesis (H_0): There is no significant difference between mean ratios of loan and advances to current assets ratios of NIBL and EBL

Alternative Hypothesis (H_1): There is significant difference between mean ratios of loan and advances to current assets ratios of NIBL and EBL

We have,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \{(X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2\}$$

$$(0.505 + 0.380)/8 = 11.06$$

Test Statistics:

$$t = \frac{X_1 - X_2}{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)} = (5.27 - 4.11) / 11.06 * 2 = 0.052$$

$$\begin{aligned} \text{Degree of Freedom (df)} &= n_1+n_2-2 \\ &= 5+5-2 \\ &= 8 \end{aligned}$$

Critical Value at 5% level of significance, 8 at two tail test is 2.203%.

Decision

Since calculated value of Student's 't' is less than tabulated value, i.e. $0.052 < 2.203$. So, null hypothesis is accepted. Therefore, there is no significance difference between mean ratios of loan and advances to current assets ratios of NIBL and EBL

E. Test of hypothesis on Return on loan and advances ratios between NIBL and EBL (See details in Annexure)

Here,

$$\begin{aligned} X_1 &= & X_2 &= \\ 0.12/5 &= 0.024 & 0.11/5 &= 0.022 \end{aligned}$$

a) Test of significance difference between NIBL and EBL

Here,

Null hypothesis (H_0): There is no significant difference between mean ratios of return on loan and advances of NIBL and EBL.

Alternative Hypothesis (H_1): There is significant difference between mean ratios of return on loan and advances of NIBL and EBL.

We have,

$$\begin{aligned} S^2 &= \frac{1}{n_1+n_2-2} \{(X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2\} \\ &= 1/8*(0.0002+0.000008) = 0.0026\% \end{aligned}$$

Test Statistics:

$$t = \frac{X_1 - X_2}{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)} = (0.12 - 0.11) / 0.0026 * 2 = 1.92$$

$$\begin{aligned} \text{Degree of Freedom (df)} &= n_1+n_2-2 \\ &= 5+5-2 \\ &= 8 \end{aligned}$$

Critical Value at 5% level, 8 at two tail test is 2.203%.

Decision

Since calculated value of the Student's 't' is less than tabulated value i.e. 1.92<.2.203. So, null hypothesis is accepted and alternative hypothesis is rejected. Therefore, there is no significance difference between mean ratios of total investment to total deposits of NIBL and EBL

F. Test of hypothesis on Total Interest Earned to Total outside Assets ratios between NIBL and EBL (See details in Annexure)

Here,

$$\begin{aligned} X_1 &= \frac{\sum X_1}{n} & X_2 &= \frac{\sum X_2}{n} \\ &= \frac{0.32}{5} & &= \frac{1.39}{5} \\ &= 0.11 & &= 0.28 \end{aligned}$$

a) Test of significance difference between NIBL and EBL

Here,

Null hypothesis Ho: There is no significant difference between mean ratios of Total Interest Earned to Total outside Assets ratios between NIBL and EBL.

Alternative hypothesis (H₁): There is significant difference between mean ratios of Total Interest Earned to Total outside Assets ratios between NIBL and EBL.

We have,

$$S^2 = \frac{1}{n_1+n_2-2} \{(X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2\}$$

$$= 1/8 * (0.00008 + 0.0224)$$

$$= 0.281\%$$

Test Statistics:

$$t = \frac{X_1 - X_2}{S^2 \left(\frac{1}{n} + \frac{1}{n} \right)} = (0.32 - 1.39) / 0.281 * 2 = -1.90 \text{ or } 1.90$$

$$\text{Degree of Freedom (df)} = n_1 + n_2 - 2$$

$$= 5 + 5 - 2$$

$$= 8$$

Critical Value at 5% level, 8 at two tail test is 2.203%.

Decision

Since calculated value of the Student's 't' is less than tabulated value i.e. $1.90 < 2.203$. So, null hypothesis is accepted. Therefore, there is no significance difference between mean ratios of total interest earned to total outside ratio of NIBL and EBL.

4.6 Analysis of Primary Data on the Investment Decisions of the Banks

With a view to analyze the responses on the investment decisions of the commercial banks, the concerned officials of the banks selected for the study and other banks were provided questionnaire. The various types of questionnaire relating the investment decisions of the banks was prepared and distributed to banks' officials on a stratified random sampling basis. Altogether 25 sets of questionnaires were administered to the bank officials. To get the quick and full response, all the questions were objectives types. The summarized collected responses from respondents have been presented below:

People responsible for making investment policy decision

The first question put forth to the respondents was the people responsible for making the investment decision. The responses of them have been presented in the Table 4.30.

Table 4.30

People Responsible for Making Investment Policy Decision

S. No.	Source	No. of Respondents	%
1	Credit Department	4	16
2	B.O.D.	2	8
3	Top level management	6	24
4	All of them	13	52
Total		25	100

Table 4.30 shows that the majority of the respondents (52%) said all of them such as credit department, B.O.D. and top level management of the banks were responsible for making investment decisions. Only 8% of them said the BOD was responsible, while 16% and 24% of them said credit department and top level management were respectively responsible for making final decisions.

Factors while to be considered during designing investment policy

The factor be considered while making responses regarding the designing of investment policy of the banks, have been presented in Table 4.31.

Table 4.31

Factors to be Considered for Designing Investment Policy

S.No.	Factors	No. of Respondents	%
1	Government Policy	2	8
2	Trend	2	8
3	Competition	2	8
4	All of them	19	76
Total		25	100

Table 4.31 shows that the majority of the respondents (76%) said all government policy, Trend and competition are the main factors to be considered while designing the investment policy. In favor of above three factors all said that only 8% to all is to be considered.

Following of any Standard Format while Developing Investment Policy

The summarized results that were asked to the respondents while developing the investment policy were given in Table 4.32.

Table 4.32

Following of any Standard Format While Developing Investment Policy

S. No.	Response	No. of Respondents	%
1	Yes	15	60%
2	No	10	40%
Total		25	100

The table(Table 4.32) shows that majority of the respondents about 60% of them have given the positive response whereas 40% of them have given negative response towards the standard format while developing the investment policy.

Development of any specific portfolios while developing investment policy

The summarized result of respondents towards the development of any specific portfolios while investment policy can be presented below.

Table 4.33

Development of any Specific Portfolios

S.No.	Response	No. of Respondents	%
1	Yes	2	10
2	No	23	90
Total		25	100

Table 4.33 shows while making the inquiry about the development of any specific portfolios of investment policy in the bank, most of the respondents have negative answer i.e. 90% and only 10% of them gave the positive responses.

Ultimate benefits provided by the Past Investment Policies

The summarized result provided by the past investment policies are presented below.

Table 4.34

Ultimate Benefits Provided By Investment Policy

S.No.	Response	No. of Respondents	%
1	High	5	20
2	Moderate	14	54
3	Low	6	24
Total		25	100

Table 4.34 shows that the majority of the respondents (54%) said average, followed by 24% and 20%, low and high response respectively about the benefits got by the past investment policies.

Frequency of review of Investment Policy of the Banks

The summarized result of frequency of review of investment policy of the banks has been given in the following table 4.35.

Table 4.35

Frequency of Review of Investment Policy

S.No.	Response	No. Of Respondents	%
1	Yearly	-	-
2	Half Yearly	10	40
3	Quarterly	15	60
Total		25	100

Table 4.35 shows where the respondents were asked about the frequency of review of investment policy of the banks and most of the answered which they have reviewed were quarterly(60%) and necessary changes according to the requirement are made. Banks shall arrange for review of investment portfolios on half yearly basis(40%). 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.

Implementation of Investment Policy

Table 4.36 shows the response of the respondents regarding implementation of investment policy.

Table 4.36

Implementation of investment policy

S.No.	Response	No. of Respondents	%
1	Yes	21	84
2	No	4	16
Total		25	100

Commercial banks have good control on investment policy of the banks. They maintain tight monitoring on the investment policy. Therefore, the above table (Table 4.36) shows that majority of the respondents have given positive answers regarding the implementation of the investment policy, i.e. 84% and only 16% of them have given negative answers.

Effect of government Policy in Investment Policy

The summarized Details of the effects of government policy in investment policy are given in the following table.

Table 4.37

Effect of government policy on investment policy

S. No.	Response	No. of Respondents	%
1	Yes	24	96
2	No	1	4
Total		25	100

Government policy is one of the major factors, which influence the investment policy of the banks. Government factor can be considered as one of the determining factors while formulating the investment policy of the banks. Therefore, the above table (Table 4.37) shows that majority of the respondents have given positive response i.e. 96%, regarding effect of government policy on investment policy and only 4% have given negative response.

Collection of funds required for investment policy

The details about the collection of funds for the investment policy have given in the following table.

Table 4.38

Collection of funds for investment policy

S.No.	Response	No. of Respondents	%
1	Yes	25	100
2	No	-	-
Total		25	100

The above table (Table 4.38) shows that all the respondents have given the positive answer i.e. 100%, no one has given even 1% also. So, the result was found in the favor of collection of adequate funds. The banks launch the different attractive schemes for the collection of deposits from the public so that they can lend in the productive sectors for the profit maximization of the banks.

Maintenance of cash balance in local currency in the vault as instructed by NRB

The responses regarding the maintaining the maintenance of cash balance in vault is given in the following table:

Table 4.39

Maintenance of Cash Balance in Vault

S.No.	Response	No. of Respondents	%
1	Yes	0	0
2	No	25	100
Total		25	100

The above table (Table 4.39) shows that all the respondents have given voting towards the negative response i.e. 100%. It is mandatory rule of the NRB to maintain the cash balance in the vault as prescribed by NRB. Different penalties are levied if the bank would not be able to maintain the minimum cash balance. So, banks were found to able to maintain the cash balance.

4.7 The Major Findings of the Study

The following is a comprehensive summary of the major findings of the study on the basis of the foregone analysis of financial data of NIBL and EBL.

Liquidity Ratios

A.1 From the analysis of current ratio, both NIBL and EBL are in fluctuating trend during the study period.. The mean ratio of EBL is higher than NIBL. From the analysis conclusion has been made that EBL has been more stable in managing its current ratio.

A.2 From the analysis of cash and bank balance to current assets ratio, NIBL has the highest mean ratio and lowest C.V. ratio, than EBL. So, it shows that NIBL is more stable and consistent and able to meet the daily cash requirement of their customers.

A.3 The analysis of cash and bank balance to total deposit shows that NIBL has the higher mean as well as lower C.V ratio. It shows that the liquidity position of NIBL is better than EBL. Though ratio of both the banks shows fluctuating trend during the study period but NIBL's result was more constant than that of EBL..

A.4 The analysis of loan & advance to current assets ratio of NIBL has shown increasing trend but in case of EBL it has shown fluctuating trend during the study period. The mean ratio of NIBL was more than EBL. It shows that EBL has maintained variability of ratio, which is lower than that of NIBL. It indicates that the liquidity position of NIBL is more consistent.

A.5 From the analysis of Investment on government securities to current assets ratio, EBL has higher mean ratio in comparison to NIBL. It shows that the ratios of EBL are more consistent and NIBL has made lesser investment in government securities as it has injected more funds on other productive sectors.

Assets Management Ratios

B.1 From the above analysis, EBL has higher mean ratio and lesser C.V than NIBL. NIBL has maintained higher position in loan & advances to total deposits ratio than

EBL. It means NIBL is strong in terms of mobilization of its total deposit as loan & advances when compared to EBL.

B.2 The mean ratio of loan and advances to total working fund of NIBL is highest than EBL also in case of C.V., NIBL has the highest C.V. than EBL. It indicates that the ratio of NIBL is more consistent.

B.3 The analysis reveals that the mean ratio of total investment to total deposits of NIBL is higher than that of EBL and variability of NIBL is highest which shows instability. NIBL's variability of ratio are more unstable in comparison to EBL. The above finding shows that EBL's utilization of total deposit, as investment is better than NIBL.

B.4 The analysis reveals that the investment on government securities to total working fund of NIBL has highest mean ratio than EBL but in case of C.V., EBL has the lowest ratio. Which shows that the ratios of EBL is more consistent than NIBL but NIBL being highest mean ratio, it is successful to mobilize the fund as investment on government securities.

B.5 From the analysis, it was observed that both NIBL and EBL have invested minimum percentage of total working fund in corporate shares and debentures. But EBL has invested slightly higher amount in shares and debentures than NIBL. This reveals that EBL has been more successful in mobilizing funds.

Profitability Ratios

C.1 From the analysis the mean ratio of return on total working fund ratio of EBL is greater than that of NIBL. And according to C.V. EBL has lowest C.V., which indicates that it is more consistent than NIBL, and EBL is successful in utilization of its working fund for profit generating activities.

C.2 The analysis concluded that mean ratio of return on loan and advances of both the banks are more or less same and so the C.V. Hence we can conclude that earning capacity by utilizing available resources of both the banks are almost same.

C.3 From the analysis, the mean ratio of total interest earned to total outside assets of EBL is slightly higher than that of NIBL which shows that it has been successful in earning higher amount of interest on its outside assets in comparison to NIBL. The ratio of EBL is more stable and consistent in comparison to NIBL.

C.4 The mean ratio of total interest earned to total working fund of EBL is higher than NIBL. But variability of NIBL is over than that of EBL, which indicates that interest earning of NIBL is better than that of EBL

C.5 From the analysis, EBL has the highest mean ratio for the interest payment to total working fund ratio, which shows that it has higher credit risk in comparison to NIBL. So, we can say that NIBL is in a better position from interest payment point of view than EBL.

Risk Ratios

D.1 From the analysis, the mean of capital risk ratio of EBL is higher than that of NIBL. It indicates that EBL is successful to attract the deposit and inter bank funds, which help to increase the volume of profit. The ratio of EBL is less consistent.

D.2 From the analysis, the mean ratio of credit risk ratio of NIBL is more than that of EBL and also NIBL has more variability in ratios. From the viewpoint of risk, NIBL has more credit risk than EBL.

Growth Ratios

E.1 Deposit is lifeblood of every bank for value maximization. From the analysis, NIBL's growth ratio is higher than that of EBL. Hence, it can be said that NIBL has been successful in collecting deposit over the six year period.

E.2 The growth ratio of NIBL's loan and advances is higher than EBL. It can be said that the performance of NIBL to grant loan and advances is better in compared to EBL.

E.3 The growth ratio of total investment of EBL is greater than that of NIBL. It reveals that bank take strong policy on investment, in another word bank is successful to take higher investment policy over the five year period in compare to NIBL.

E.4 Growth ratio to total net profit of EBL is higher than that of NIBL. It reveals that EBL has maintained better profit than NIBL.

Coefficient of Correlation Analysis

Ñ The coefficient of correlation between total deposit and loan and advances of NIBL is near to one, which is higher than EBL, it shows that there is a perfect correlation between mobilization of deposit as loan and advances and also bank has significantly positive value.

Ñ The coefficient of correlation between total deposit and total investment of NIBL is slightly higher than that of EBL. It reveals that NIBL is successful to mobilize its deposits in better way for profit generating activities.

Ñ The coefficient of correlation between total outside assets and net profit of NIBL is found highest being perfectly correlated. This indicates that NIBL is most capable to earn net profit mobilizing its outside asset. EBL also have the positive relationship between outside asset and net profit.

Trend Values

Ñ From the trend analysis, it is found that the deposits collection of EBL is better than the NIBL. If other things remain constant, it will be increasing positively for the next five years period.

Ñ The loan and advances of both banks are in increasing trend.If other things remain constant, it will definitely increase in the next five years period. According to trend analysis, EBL has best performance on loan and advances mobilization in comparison to NIBL.

Ñ The total investments of both banks are in increasing trend. If other thing remains same, it will be positively increasing up to next five years study period. The analysis reveals that total investment position of EBL is better than NIBL.

Ñ The net profit of both the banks shows increasing trend in coming five years. If other thing remains same, it will be positively increasing up to next five years period. The analysis reveals that net profit position of NIBL is better in the study period because the forecasted trend position of net period is more than EBL.

Testing of Hypotheses

Ñ By the testing of hypothesis on total investment to total deposit ratio between NIBL with EBL, it is found that there is no significance difference between mean ratios of total investment to total deposit of NIBL and EBL.

Ñ By the testing of hypothesis on total investment, loan and advances to total deposits ratio between NIBL and EBL, it is found that there is no significance difference between mean ratios of loan and advances to total deposits of NIBL and EBL.

Ñ Hypothesis testing of investment on government securities to current assets ratio between NIBL and EBL shows that there is again no significance difference between mean ratios of investment on government securities to current assets ratios of NIBL and EBL.

Ñ By the testing of hypothesis on loan and advances to current assets ratios between NIBL and EBL, it is found that there is no significance difference between mean ratios of loan and advances to current assets ratio of NIBL and EBL.

Ñ Hypothesis testing of return on loan and advances ratio between NIBL and EBL shows that there is no a significance difference between mean ratios of total investment to total deposit of NIBL and EBL.

Ñ Hypothesis testing of total interest earned to total outside assets ratios between NIBL and EBL shows that there is again no significance difference between mean ratios of total interest earned to total outside ratio of NIBL and EBL.

Questionnaire Analysis

On the analyzing the primary data collected from the respondents regarding the investment policy of the banks, the following were derived.

Ñ Credit department, Board of Directors and top-level management are responsible for formulating investment policy decision.

Ñ Government policy, trend, competition in the market etc. should be considered while designing the investment policy of the banks.

Ñ The banks while formulating the investment policy of the banks follow standard formats

Ñ Commercial banks review the investment policy quarterly and make necessary changes as according to their requirements for maximum benefits. Implementation of the investment policy is higher as they maintain close monitoring and tight control.

Ñ Government factor can be considered as the one of the determining factors while formulating the investment policy of the banks.

Ñ Banks are able to collect the deposits from the public for investment policy. If not, they launch different kinds and types of schemes to attract depositors for acquiring funds.

Ñ Banks have to maintain minimum cash balance in vault as prescribed by NRB.
Most of the banks are successful in maintaining cash balance.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of the study, conclusions derived from the analysis of data and their interpretation and recommendations offered for the improvement of the investment policies of the banks under study. Thus, the chapter is divided into three sections. The first section of this chapter focuses on summarizing the whole study; the second section draws conclusions from the analysis of data and interpretation of the results thereof; and the third section offers recommendations for improvement of the investment policy of the concerned bank.

5.1 Summary

Commercial banks play an important role for the economic development of the country as they provide finance for the development of industry, trade and business by investing the saving collected as deposits from public. They render their various services to the customers facilitating their economic and their social life. They are the most important ingredients for integrated and speedy development of a country. So, nowadays-financial institutions are viewed as catalyst in the process of the economic growth and effective mobilization of domestic resources.

Investment operation of commercial banks is a risky affair. It is the most important factor for the shareholders and bank management. For this, commercial banks have to pay due consideration while formulating their investment policy. A healthy development of any commercial bank depends upon its investment policy. The word investment conceptualized the investment of income, saving or other collected fund. It is a well known fact that an investment is only possible where there is adequate saving. If all the incomes and saving are consumed to the problem of hand and mouth and to other basic needs, then there is no existence of investment. So both saving and investment are interrelated. It is concerned with the management of an investor's wealth, which is the sum of current income and present values of all future incomes to be invested come form assets already owned borrowed money and saving or foregoes consumption by the investors. The main objective of their investment is to secure

financial benefit in future. Anyway the goal of investment is the maximization of owners' economic welfare.

Although several banks have been established in the 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 are the major policy statements for the Nepalese commercial banks. However, a long term and published policy about their operation is not found even in the joint venture banks.

Commercial bank in current year, present a new picture, a picture of innovation in practice of wider horizon and new enterprises. The most remarkable diversification of banking function is increasing participation in medium and long term financial industries and other sector. Therefore, they are not only financial institutions 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.

The primary objective of these joint venture banks is always to earn profit by investing or granting loan and 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 loans 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.

The main concentration of the study is to diagnosis the investment policy of NIBL and EBL to suggest measures to improve the investment policy of the bank. The study has been constrained by various common limitations.

Nepal Investment Bank Ltd., previously Nepal Indosuez Bank Ltd, was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez a subsidiary of one of the largest banking group in the world Everest Bank Limited started its operation in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network.

EBL aim to help Neplease Citizens working abroad ,the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by Neplease citizens in countries like U.A.E, Kuwait, Singapore, U.K etc. EBL has a joint venture with Punjab National Bank (holding 20% equity in the bank) which is the largest nationalized bank in India.

The study is based on the secondary data from FY 2004/05 to 2008/09. 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 degree thesis.

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 the investment function of commercial banks i.e. liquidity ratio, assets management ratio, activity ratio, loans and advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some relevant tools i.e. mean, standard deviation, coefficient of correlation, trend analysis, test of hypothesis have been used for the analysis and interpretation of data. This analysis gives clear picture of the performance of the bank with regard to its investment operation.

5.2 Conclusions

Investment is the major essence of every commercial bank. The formulation and implementation of sound investment policies are among the most important responsibilities of the bank management. Therefore, the main objectives of the study are to assess and evaluate the investment policy and strategy adopted by the concerned banks. From the above analysis, we found out the major stamina of investment policy adopted by concerned bank, and concluding results are as follows:

Liquidity position of NIBL was comparatively better than EBL. According to current ratio, EBL had better position than NIBL. In addition, NIBL had maintained better cash and bank balance ratio to meet the customers demand than EBL. Similarly, deposit collection of NIBL in better position, while EBL had lower deposit collection policy during the study period. Again, EBL was not successful to mobilize funds as loans and advances with respect to current assets in comparison to NIBL. When analyzing the investment on Government securities in respect to current assets, EBL had less investment on Government securities as it has injected more funds on other productive sectors, which shows the greater portion of current assets of NIBL consist of Government securities.

When studying asset management ratio, EBL occupied the highest position in comparison to NIBL. From the above analysis of loans and advances to total work fund ratio was comparatively higher than NIBL, i.e. EBL had taken better position. Regarding total investment to total deposit ratio, NIBL was in better position, which indicated that NIBL was successful to mobilize the funds on various investment. When analyzing the investment on government securities to total working fund, EBL had taken high investment policy in it than NIBL. And lastly, regarding investment on share and debenture to total working fund, again EBL was in better position than NIBL that meant EBL had maintain highest investment policy on it, when comparison with NIBL.

Profit is ultimate output of a commercial bank and it will have no future if it fails to make sufficient profit. When measuring various profitability ratio, i.e. return on total assets ratio, EBL was successful in utilization its overall working fund on profit

generating activity than NIBL, but in case of return from loan and advances ratios they both were almost same. Interest earned to total outside assets ratio resulted that EBL was somewhat successful to collect the interest from outside assets than NIBL. Total interest earned to total working fund of EBL was successful to utilize total assets to earn high interest. Lastly, regarding Interest paid to total working fund ratio, EBL had taken better position in payment of interest to fixed deposit, saving deposit, interest on borrowing with respect to total working fund. This analysis indicated that EBL was comparatively better in profitability ratio with respect to NIBL.

When a firm wants to bear risk, the profitability and effectiveness of the firm increase. From the study of capital risk ratio and credit risk ratio of two banks, comparatively EBL was successful to attract the deposit and inter bank fund, and utilize its loan and advances from total assets in safest way by taking high risk, which helped to increase the level of profit and maximizing the value of the firm.

The study also focused on finding out growth position of total deposits, total loan and advances, total investment and net profit of concerned banks, NIBL and EBL up to 5 years period and with help of trend analysis, the study looking over the next five years, growth position of above four variables. Here the growth position of total deposit of EBL was better than NIBL and forecast growth ratio of total deposits was also increasing trends. Comparatively, growth ratio of loans and advances of NIBL was better than EBL, when studying the trend analysis up to next five years growth position of NIBL had best performance on loans and advances mobilization in comparison to EBL. Growth position of total investment of EBL is better than NIBL and if other things remain constant, it would be positively increasing up to next five years study period. Growth ratio of net profit revealed that the EBL had maintained higher growth rate of total net profit in comparison to NIBL, and according to trend analysis also it was seen that the net profit position of EBL was better during the study period.

5.3 Recommendations

After going over the above summary and conclusion of the study, following recommendations and suggestion can be made to overcome the weakness,

inefficiencies and to make better policies regarding fund utilization and investment of concern banks i.e. EBL and NIBL.

- **Liquidity Position**

The liquidity position of a bank can be affected by external as well as internal factors which includes overall economic scenario, saving for investment situations, interest rates, supply and demand position of deposits and loans, central bank's instruction, the lending policies, capability of management, strategic planning, and funds flow situation. In this study it should try to lower the current liabilities to improve its liquidity position. Current ratio of all two banks is not satisfactory. It is below its standard rate 2:1. Therefore, the banks are suggested to improve current assets. As the ratios of cash and bank balance to total deposit of EBL is lower than that of NIBL, it is recommended to increase cash and bank balance to meet current obligations and loan demand.

- **Government Securities**

Government securities such as treasury bills, development bonds, and national saving bonds are considered as the safest medium of investment as they are risk-free and highly liquid in nature. The study has revealed that NIBL has invested fewer portions of current assets in government securities, treasury bills, development bonds, which is safest place of investment in compare to EBL. So, NIBL is recommended to follow liberal investment policy on government securities and treasury bills and so on, which maintain more stability on the liquidity position.

- **Liberal Lending Policy**

To get success in this competitive environment, deposit must be utilized as loans and advances. Loan and advances is the largest item of the bank in assets side. While granting loans, it should take into account that large number of borrowing customer may benefit from banker's fund. Negligence in administering these assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank's failure. It has found from the study that EBL had weaker position than NIBL. Therefore, EBL is strongly recommended to follow the liberal lending policy, invest

more and more percentage of total deposits in loans and advances, and similarly maintain stability on the investment policy.

- **Liberal Procedures**

Loan and advances are the main source of income and also utilization resources of commercial banks. Therefore, commercial banks must utilize their deposits as loan and advances to get success in competitive banking market. When the bank grants loan and advances, it must be collected after a certain period. Collection of loan has been the most challenging task for financial institutions. These days increasing on non-performing assets discloses the failure of commercial banks in recovery of loan. Therefore, it is recommended for EBL to follow liberal policy when sanctioning of loan and advances with sufficient guarantee and implement sound collection policy including procedure with rapid identification of bad loans, immediate contact with the borrower, continual follow-up, and take legal actions if required.

- **Enhance Investment in Government Securities**

Total investment makes up an important portion of total assets of commercial banks and government securities makes up the major portion of total investment since it is the least risky investment. NIBL has the lowest ratio of total investment to total deposit ratio. Therefore, NIBL is recommended to invest more in government securities.

- **Enhance Profits Through Cost Control**

NIBL and EBL being the banks of private sector having the share holding by the public, it should be always careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customer and goodwill of the bank. Since interest income makes up the major portions of net profit, the banks should be more careful while making investment in loan and advances and other investments. The banks should have sound credit policy for better performance regarding loan and advances. Both the banks have the fluctuating total incomes and hence not been able to gain the optimum profit. Therefore, they are recommended to decrease the expenses by controlling the operating expenses as well as by collecting the interest free deposits and they are also recommended to be careful while lending.

- **Sound Credit Policy**

Highest form of risk a bank faces is in the form of nonperforming assets (NPA). So, the bank should make through evaluation regarding collateral and credit worthiness of the customer. For this, the bank should have sound credit policy.

- **Optimizing Portfolio by Exploration of New, Competitive and High Yielding Investment Opportunities**

Portfolio management of bank assets basically means allocation of funds into different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. Therefore, portfolio condition should be examined from time to time and attention should be given to maintain equilibrium in the portfolio condition as far as possible. The bank should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize its investment portfolio.

- **Simple Credit Procedure and Prompt Credit Decision**

In the present scenario, when there is high liquidity in the market and most of the commercial banks are flooding towards the retail banking, these two banks should also come up with innovative and competitive rates to grab the market position. The most effective weapon for achieving this target would be to apply very simple procedure and prompt decision on the credit request.

- **Formulate New Strategies for Serving Customers For their High Satisfaction**

NIBL and EBL need to adopt innovative approach for marketing in the light of growing competition in the banking sector. The business of the bank should be customer oriented. They should strengthen and activate their marketing function, as it is an effective tool to attract and retain the customers. For this purpose, the bank should formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

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ANNEX - I

Annexure A.1

Current Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Current Assets	14259.52	13868.31	23292.08	31869.62	44095.72
Current Liabilities	5595.37	8816.97	10621.96	31627.07	44055.23
Ratio	2.58	1.57	2.19	1.01	1.00

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Current Assets	6936.45	11465.76	14226.80	25292	32425.5
Current Liabilities	2923.72	4914.37	7474.67	7595.56	17687.60
Ratio	2.37	2.33	1.90	3.33	1.83

Annexure A.2

Cash and Bank balance to Total Current Assets Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Cash and bank balance	1340.48	2336.52	2441.5	3754.94	7918.00
Current Assets	14259.52	13868.31	23292.08	31869.62	44095.72
Ratio	0.09	0.17	0.10	0.12	0.18

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Cash and bank balance	631.18	1398.16	1713.2	1903.91	6164.38
Current Assets	6963.45	11465.76	14226.80	25292	32425.5
Ratio	0.09	0.12	0.12	0.07	0.19

Annexure A.3

Cash and Bank Balance to Total Deposits Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Cash and bank balance	1340.48	2336.52	2441.5	3754.94	7918.00
Total Deposits	14254.57	18927.30	24488.86	34451.72	46698.10
Ratio	0.09	0.12	0.10	0.11	0.17

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Cash and bank balance	631.18	1398.16	1713.2	1903.91	6164.38
Total Deposits	8063.90	13802.44	18186.25	23976.3	33322.94
Ratio	0.08	0.10	0.09	0.08	0.18

Annexure A.4

Loan and Advances to Current Assets Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	10126.05	12776.20	17286.42	26996.65	36241.20
Current Assets	13785.05	16870.92	18657.40	21326.30	23174.85
Ratio	0.73	0.76	0.92	1.26	1.56

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	5884.12	9801.31	13664.08	18339.09	23884.67
Current Assets	6936.45	11465.76	14226.80	25292	32425.5
Ratio	0.85	0.85	0.96	0.72	0.73

Annexure A.5

Investment on Government Securities to Current Assets Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Investment on govt. securities	1948.5	2522.3	3256.4	3155.0	2531.3
Current assets	13785.05	16870.91	18657.40	21326.30	21326.30
Ratio	0.14	0.15	0.17	0.15	0.12

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Investment on govt. securities	2466.42	3322.44	4704.63	4821.60	3371.43
Current assets	6936.45	11465.76	14226.8	25292	32425.5
Ratio	0.36	0.29	0.33	0.19	0.10

Annexure B.6

Loans and Advances to Total Deposits Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	10126.05	12776.20	17286.42	26996.65	36241.20
Total deposits	14254.57	18927.30	24488.86	34451.72	46698.10
Ratio	0.71	0.68	0.71	0.78	0.78

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	5884.12	9801.31	13664.08	18339.09	23884.67
Total deposits	8063.90	13802.44	18186.25	23976.30	33322.94
Ratio	0.73	0.71	0.75	0.77	0.72

Annexure B.7

Loans and Advances to Total Working Fund Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	10126.05	12776.20	17286.42	26996.65	36241.20
Total working fund	16247.06	21330.14	27590.84	38873.31	53010.80
Ratio	0.62	0.60	0.62	0.70	0.68

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	5884.12	9801.31	13664.08	18339.09	23884.67
Total working fund	9608.58	15960	21432.57	27149.37	36916.84
Ratio	0.61	0.61	0.64	0.68	0.65

Annexure B.8

Total Investment to Total Deposits Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Total investment	3934.18	5602.87	6505.68	6874.02	7399.81
Total deposits	14254.57	18927.30	24488.86	34451.72	46698.10
Ratio	0.28	0.30	0.26	0.50	0.15

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Total investment	2535.66	4200	4984.31	5060	5948.48
Total deposits	8063.90	13802.44	18186.25	23976.30	33322.94
Ratio	0.31	0.30	0.27	0.21	0.18

Annexure B.9

Investment on Government Securities to Total Working Fund Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Investment on govt. securities	1948.5	2522.3	3256.4	3155.0	2531.3
Total working fund	16247.06	21330.14	27590.84	38873.31	53010.80
Ratio	0.12	0.12	0.12	0.08	0.05

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Investment on govt. securities	2466.42	3322.44	4704.63	4821.60	3371.43
Total working fund	9608.58	15960	21432.57	27149.37	36916.84
Ratio	0.26	0.21	0.22	0.18	0.09

Annexure B.10

Investment on Shares and Debentures to Total Working Fund

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Investment on shares & debentures	17.74	17.74	17.74	54.54	67.27
Total working fund	16247.06	21330.14	27590.84	38873.31	53010.80
Ratio	0.001	0.0008	0.0006	0.001	0.001

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Investment on shares & debentures	17.11	19.08	19.89	101.15	102.03
Total working fund	9608.58	15960	21432.57	27149.34	36916.84
Ratio	0.002	0.002	0.0009	0.004	0.003

Annexure C.11

Return on Total Working Fund Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net Profit	232.14	350.53	455.3	501.40	696.73
Total working fund	17629.3	16562.6	16745.49	17186.3	22329.97
Ratio	0.01	0.02	0.03	0.03	0.03

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net Profit	143.57	237.29	296.41	451.22	638.73
Total working fund	9608.58	15960	21432.57	27149.34	36916.84
Ratio	0.05	0.05	0.01	0.02	0.02

Annexure C.12

Return on Loan and Advances

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net Profit	232.14	350.53	455.3	501.40	696.73
Loan and advances	10126.05	12776.20	17286.42	26996.65	36241.20
Ratio	0.02	0.03	0.03	0.02	0.02

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net Profit	143.57	237.29	296.41	451.22	638.73
Loan and advances	5884.12	9801.31	13664.08	18339.09	23884.67
Ratio	0.03	0.02	0.02	0,02	0.03

Annexure C.13

Interest Earned to Total Outside Assets

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net interest earned	886.80	1172.74	1584.99	2194.97	3267.94
Total outside assets	14060.24	18379.08	23792.10	33870.68	43641.01
Ratio	0.06	0.06	0.07	0.06	0.07

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net interest earned	657.25	903.41	1144.41	1548.66	2186.81
Total outside assets	2723.10	4200.58	4984.31	5405.56	5948.48
Ratio	0.28	0.22	0.23	0.29	0.37

Annexure C.14

Total Interest Earned to Total Working Fund

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net interest earned	886.80	1172.74	1584.99	2194.97	3267.94
Total working fund	16247.06	21330.14	27590.84	38873.31	53010.80
Ratio	0.05	0.05	0.05	0.07	0.06

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net interest earned	657.25	903.41	1144.41	1548.66	2186.81
Total working fund	9608.58	15960	21432.57	27149.34	36916.84
Ratio	0.07	0.06	0.05	0.06	0.06

Annexure C.15

Total Interest Paid to Total Working Fund

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Total interest paid	354.54	490.94	685.53	992.15	1686.97
Total working fund	16247.06	21330.14	27590.84	38873.31	53010.80
Ratio	0.02	0.02	0.02	0.02	0.03

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Total interest paid	316.36	401.40	517.17	631.61	1012.87
Total working fund	9608.58	15960	21432.57	27149.34	36916.84
Ratio	0.03	0.03	0.02	0.02	0.27

Annexure D.16

Capital Risk Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Share capital	587.38	590.86	801.35	1203.91	2407.06
Risk weighted assets	13632.90	17491.78	23435.63	34485.54	36707.64
Ratio	0.04	0.03	0.03	0.03	0.06

EBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Share capital	455	518	536.25	831.40	838.82
Risk weighted assets	6217.42	10476.98	14099.27	19472.33	22003.84
Ratio	0.07	0.05	0.04	0.04	0.04

Annexure D.17
Credit Risk Ratio

NIBL

Fiscal Years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	10126.05	12776.20	17286.42	26996.65	36241.20
Total assets	16247.06	21330.14	27590.84	38873.31	53010.80
Ratio	0.62	0.59	0.62	0.69	0.68

Fiscal Year	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	5884.12	9801.31	13664.08	18339.09	23884.67
Total assets	9608.58	15960	21432.57	27149.34	36916.84
Ratio	0.61	0.61	0.64	0.68	0.65

Annexure E.18

Growth Ratios

Sample calculation of Growth Rate

Growth Ratio of Total Deposit

(Rs. In Million)

Bank / FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate
NIBL	14254.57	18927.30	24488.86	34451.72	46698.10	34.5%

Growth can be calculated as follows:

Here,

D_n = total deposit in nth year

D_o = Total deposit in initial year

g = growth year

We have,

$$D_n = D_o (1+g)^n$$

$$D_{2008/2009} = D_{2004/2005} (1+g)^{5-1}$$

$$46698.10 = 14254.57 (1+g)^4$$

$$(1+g)^4 = 3.28$$

$$1+g = 3.28^{1/4 \text{ or } 0.25}$$

$$1+g = 1.345$$

$$g = 34.5\%$$

Growth rate of total deposit, total investment, total loans and advances and total net profit of other banks are calculated and fed in the corresponding tables according to the above formula.

Annexure F.19

Coefficient of correlation between Total Deposit and Loan & Advances

FY	Deposit (X)	Loan & advances (Y)	x = (X- \bar{X})	Y = (Y- \bar{Y})	xy	X ²	Y ²
2004/05	14254.57	10126.05	- 13506.54	- 10559.25	142618932.5	182426622.8	111497760.6
2005/06	18927.30	12776.20	-8836.8	-7909.1	69891134.88	78089034.24	62553862.81
2006/07	24488.86	17286.42	-3275.25	-3398.88	11132181.72	10727262.56	11552385.25
2007/08	34451.72	26996.65	6690.61	6311.35	42226781.42	44764262.17	398331388.82
2008/09	46698.10	36241.20	18934.0	15555.9	294535410.6	358496356	241986024.8
	X= 138820.55	Y= 103426.52			xy= 560404441.1	x ² = 674503537	y ² = 467421590

Mean x = 27764.11 Mean y= 20685.30

Coefficient of correlation (r) = 0.9980

P.Er. = $0.9980 * 1 - 0.996004 / 2.236$

= 0.5534

6P.Er=6*0.5534=3.3204

Annexure F.20

Coefficient of Correlation Analysis of NIBL

Coefficient of correlation between Total Deposit and Total Investment

FY	Deposit	Investment	x =	Y =	xy	X ²	Y ²
----	---------	------------	-----	-----	----	----------------	----------------

	(X)	(Y)	(X- \bar{X})	(Y- \bar{Y})			
2004/2005	14254.57	3934.18	-13509.43	-2129.13	28763332.7	182504698.9	4533194.5
2005/2006	18927.30	5602.87	-8836.7	-460.44	4068770.14	78087266.89	212004.10
2006/2007	24488.86	6505.68	-3275.14	442.37	-1448823.68	10726542.02	195691.2
2007/2008	34451.72	6874.02	6887.72	810.71	5583619.19	47440686.8	657250.7
2008/2009	46698.10	7399.81	18934.1	1336.5	25305424.65	358500142.8	1786232.25
	X =138820.55	Y =30316.56			xy =62272323	x ² =677289337.	y ² =6792715.0

Mean x= 27764

Mean y= 6063.31

Coefficient of correlation (r) = .9180

$$P.Er. = .9185 * 1 - 0.8428 / 2.2360$$

$$= 0.0645$$

$$6P.Er = 0.0645 * 6 = 0.387$$

Annexure F.21

Coefficient of Correlation between Total Outside Assets and Net Profit

FY	Total outside assets (X)	Net Profit(Y)	x = (X- \bar{X})	Y = (Y- \bar{Y})	\sqrt{xy}	X ²	Y ²
2004/2005	14060.24	232.14	-12688	-223.6	2837036.8	160985344	53889.0
2005/2006	18379.08	350.53	-8369.5	-96.69	809246.96	70048865	9348.59
2006/2007	23792.0	455.3	-2956.6	8.08	-23889.33	8741483.5	65.28
2007/2008	33870.68	501.40	7122.6	54.18	385902.47	328902.3	2935.47
2008/2009	43641.01	696.73	16892	140.1	2366569.2	28535315	249.51
	X = 133743.01	Y = 2236.1			xy = 6374866.1	x ² =57584645 2.6	y ² = 66487.8

Mean x = 26748.60 mean y = 447.22

Coefficient of correlation (r) = 1.07

P.Er. = $1.07 * 1 - 1.16 / 2.23$

= 0.513

6P.Er.=0.153*6=0.918

Annexure G.22

Trend Analysis

Sample calculation of Trend Analysis

Trend Analysis of Total Deposits

(Rs. In Million)

Year (t)	Total Deposit (y)	x=t-2007	x ²	Xy	y c=a+bx
2004/2005	14254.57	-2	4	-28509.14	51885.41
2005/2006	18927.30	-1	1	-18927.30	59928.51
2006/2007	24488.86	0	0	0	67969.61
2007/2008	34451.72	1	1	34451.72	76010.71
2008/2009	46698.10	2	4	93396.2	84051.81
	$\Sigma y=138820.55$		$\Sigma x^2=10$	$\Sigma xy=80411.48$	

N = 5

$$a = \frac{\Sigma y}{N} = 138820.55/5 = 27764.11$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = 80411/10 = 8041.1$$

Trend value of total deposits of NIBL Bank (2009/2010 – 2013/2014)

Year (t)	X	Y c=a+bx
2009/2010	3	51885.41
2010/2011	4	59928.51
2011/2012	5	67969.61
2012/2013	6	76010.71
2013/2014	7	84051.81

The eqn the straight line trend is $y c=a+bx$

$$y c = 27764.11 + 8041.1x$$

Trend Analysis of total deposit, total investment, total loan & advances and total net profit of other banks are calculated and fed in the corresponding tables according to the above formula.

Annexure H.23
Test of Hypothesis

Total Investment to Total Deposit

S.N.	FY	NIBL			EBL		
		X_1	$X_1 - X_1$	$(X_1 - X_1)^2$	X_2	$X_2 - X_2$	$(X_2 - X_2)^2$
1	2004/2005	0.28	-0.01	0.0001	0.31	0.06	0.004
2	2005/2006	0.30	0.01	0.0001	0.30	0.05	0.003
3	2006/2007	0.26	-0.03	0.00090	0.27	0.02	0.0004
4	2007/2008	0.50	.21	0.0441	0.21	-0.04	0.002
5	2008/2009	0.15	-0.14	0.020	0.18	-0.07	0.0050
		1.49		0.0648	1.27		0.0143

Annexure H.24

Loan and Advances to Total Deposit

S.N.	FY	NIBL			EBL		
		X_1	$X_1 - X_1$	$(X_1 - X_1)^2$	X_2	$X_2 - X_2$	$(X_2 - X_2)^2$
1	2004/2005	0.71	-0.02	.0004	0.73	-0.01	0.0001
2	2005/2006	0.68	-0.05	.0025	0.71	-0.03	0.0009
3	2006/2007	0.71	-0.02	.0004	0.75	0.01	0.0001
4	2007/2008	0.78	0.05	.0025	0.77	0.03	0.0009
5	2008/2009	0.78	0.05	.0025	0.72	-0.02	0.0004
		3.66		0.0008	3.68		0.0005

Annexure H. 25

Investment on Government Securities to Current Assets Ratio

S.N.	FY	NIBL			EBL		
		X ₁	X ₁ -X ₁	(X ₁ -X ₁) ²	X ₂	X ₂ -X ₂	(X ₂ -X ₂) ²
1	2004/2005	0.14	-0.14	0.02	0.36	0.11	0.0121
2	2005/2006	0.15	-0.13	0.02	0.29	0.04	0.0016
3	2006/2007	0.17	-0.11	0.01	0.33	0.08	0.0064
4	2007/2008	0.15	-0.13	0.12	0.19	-0.06	0.0036
5	2008/2009	0.17	-0.11	0.01	0.10	-0.15	0.0225
		1.39		0.187	1.27		0.0462

Annexure H.26

Loan and Advances to Current Ratio

S.N.	FY	NIBL			EBL		
		X ₁	X ₁ -X ₁	(X ₁ -X ₁) ²	X ₂	X ₂ -X ₂	(X ₂ -X ₂) ²
1	2004/2005	0.73	-0.324	0.11	0.85	0.03	0.0009
2	2005/2006	0.76	-0.30	0.0900	0.85	0.03	0.0009
3	2006/2007	0.96	-0.09	0.0008	0.96	0.14	0.012
4	2007/2008	1.26	0.21	0.0441	0.72	-0.10	0.010
5	2008/2009	1.56	0.51	0.2601	0.73	-0.09	0.008
		5.27		0.505	4.11		0.380

Annexure H.27

Total Interest Earned to Total Outside Assets Ratio

S.N.	FY	NIBL			EBL		
		X_1	$X_1 - X_1$	$(X_1 - X_1)^2$	X_2	$X_2 - X_2$	$(X_2 - X_2)^2$
1	2004/2005	0.06	-0.0004	0.0000002	0.28	0	0
2	2005/2006	0.06	-0.0004	0.0000002	0.22	-0.06	0.007
3	2006/2007	0.07	0.006	0.00004	0.23	-0.05	0.005
4	2007/2008	0.06	0.0004	0.0000002	0.29	0.02	0.0004
5	2008/2009	0.07	0.006	0.00004	0.37	0.10	0.01
		0.32		0.00008	1.39		0.0224

Annexure H.28

Return On Loans and Advances Ratio

S.N.	FY	NIBL			EBL		
		X_1	$X_1 - X_1$	$(X_1 - X_1)^2$	X_2	$X_2 - X_2$	$(X_2 - X_2)^2$
1	2004/2005	0.02	-0.004	0.00002	0.03	0.008	0.00006
2	2005/2006	0.03	0.006	0.00004	0.02	-0.002	0.000004
3	2006/2007	0.03	0.006	0.00004	0.02	-0.002	0.000004
4	2007/2008	0.02	-0.004	0.00002	0.02	-0.002	0.000004
5	2008/2009	0.02	-0.004	0.00002	0.02	-0.002	0.000004
		0.12	0.0002		0.11		0.000008