

**“Comparative Study of Investment Policy of Nepal Credit &
Commerce Bank (NCC) and Nabil Bank”**

A Thesis

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Office of the Dean

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**Comparative Study of Investment Policy of Nepal Credit & Commerce Bank (NCC) and Nabil Bank**” submitted to Office of the Dean, Faculty of Management, Tribhuwan 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 **Achyut Raj Bhattarai** and **Shashi Kanta Mainali** of Shanker Dev Campus.

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Table of Contents

Recommendation

Viva Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviation

No.	Page
Chapter: I Introduction	1-
10	
1.1 Background of the study	1
1.1.1. An introduction of Nepal Credit & Commerce (NCC) Bank	4
1.1.2. An introduction of Nabil Bank	5
1.2 Statement of the problems	7
1.3 Objective of the study	8
1.4 Focus of the study	8
1.5 Significant of the study	9
1.6 Limitations of the study	9
1.7 Organization of the study	10
Chapter: II Review of Literature	11-
41	
2.1 Conceptual Framework	11
2.1.1 Investment	11
2.1.2 Investment Policy	14
2.1.3 Features of Sound Lending Investment Policies or Principles of Investment	15
2.1.3.1. Safety and Security	16
2.1.3.2. Liquidity	16
2.1.3.3. Suitability / Purpose of Loan	16

2.1.3.4. Profitability	17
2.1.3.5 Diversification	17
2.1.3.6 Investment Horizon	17
2.1.3.7 Tangibility	17
2.1.3.8 Legality	17
2.1.4 NRB Directives	18
2.1.4.1. Directive no. 1	19
2.1.4.2. Directive no. 2	20
2.1.4.3. Directive no. 3	22
2.1.4.4. Directive no. 8	25
2.1.4.5. Directive no. 13	26
2.1.4.6. Directive no. 15	26
2.1.4.7. Directive no. 17	26
2.2 Review of Journals and Articles	27
2.3 Review of Thesis	30
Research Gap	41
Chapter: III Research Methodology	42-
47	
3.1 Research Design	42
3.2 Population and Sample	43
3.3 Data Collection Techniques	43
3.4 Data Analysis Tools	43
3.4.1 Financial Tools	44
3.4.2 Statistical Tools	44
3.4.2.1 Mean	44
3.4.2.2 Standard Deviation (S.D.)	45
3.4.2.3 Coefficient of Variation	45
3.4.2.4 Measures of Correlation	45
3.4.2.5 Trend Analysis	47

Chapter: IV Data Presentation and Analysis	48-
77	
4.1 Financial Analysis	48
4.1.1. Ratio Analysis	48
4.1.1.1. Liquidity Ratios	48
4.1.1.1.1. Current Ratio	48
4.1.1.1.2. Cash and Bank Balance to Total Deposit Ratio	50
4.1.1.1.3. Cash and Bank balance to Current Assets Ratio	51
4.1.1.1.4. Inv. on Gov. Securities to Current Assets Ratio	52
4.1.1.2. Assets Management Ratios (Activity Ratios)	54
4.1.1.2.1. Loan and Advance to Total Deposit Ratio	54
4.1.1.2.2. Total Investment to Total Deposit Ratio	55
4.1.1.2.3. Loan and Advance to Total Working Fund Ratio	56
4.1.1.2.4. Inv. on Gov. Securities to Total Working Fund Ratio	57
4.1.1.2.5. Inv. on Shares and Debentures to Total Working Fund Ratio	58
4.1.1.3. Profitability Ratios	61
4.1.1.3.1. Return on Total Working Fund Ratio	61
4.1.1.3.2. Earning Per Share (EPS)	63
4.1.1.3.3. Return on Loan and Advances	64
4.1.1.3.4. Total Interest Earned to Total Working Fund Ratio	65
4.1.1.3.5. Total Interest Paid to Total Working Fund Ratio	66
4.1.1.3.6. Total Employees Expenses to Total Expenses Ratio	67
4.2 Statistical Analysis	68
4.2.1. Coefficient of Correlation Analysis	68
4.2.1.1. Coefficient of Correlation between Deposit and Loan & Advances	68
4.2.1.2. Coefficient of Correlation between Loan & Advances to Net Profit	69
4.2.1.3. Coefficient of Correlation between Deposits and Inv. on Securities	71
4.3 Trend Analysis	72
4.3.1. Trend Analysis of Total Deposits	72
4.3.2. Trend Analysis of Investment	74
4.3.3. Trend Analysis of Net Profit	75
Chapter: IV Summary, Conclusions and Recommendations	78-
86	

5.1	Summary	78
5.2	Conclusions	81
5.2.1.	Liquidity Ratio	81
5.2.2.	Assets Management Ratio (Activity Ratio)	82
5.2.3.	Profitability Ratio	82
5.2.4.	Coefficient of Correlation Analysis	83
5.2.5.	Trend Analysis	84
5.3	Recommendations	85

Bibliography

Annex

List of Table

Table No.	Title	Page No.
1.1	Shareholding Pattern of NCC Bank Limited	5
1.2	Shareholding Pattern of Nabil Bank Limited	6
4.1	Current Ratio	49
4.2	Cash & Bank Balances to Total Deposit Ratio	50
4.3	Cash & Bank Balances to Current Assets Ratio	51
4.4	Investment on Government Securities to Current Asset Ratio	53
4.5	Loan and Advances to Total Deposit Ratio	54
4.6	Total Investment to Total Deposit Ratio	55
4.7	Loan and Advance to Total Working Fund Raito	56
4.8	Interest on Government Securities to Total Working Fund Ratio	57
4.9	Investment on Shares and Debentures to Total Working Fund Ratio	58
4.10	Total Deposit, Loan & Advances of Investment of NCC Bank	58
4.11	Total Deposit, Loan & Advances of Investment of Nabil Bank	59
4.12	Return on Assets (ROA)	61
4.13	Comparison of Net Profit between NCC Bank & Nabil Bank	61
4.14	Comparison of EPS between NCC Bank & Nabil Bank	63
4.15	Return on Loan and Advances	64
4.16	Total Interest Earned to Total Working Fund Ratio	65
4.17	Total Interest Paid to Total Working Fund Ratio	66
4.18	Total Employees Expenses to Total Expenses Ratio	67
4.19	Coefficient of Correlation between Deposit and Loan & Advances	68
4.20	Coefficient of Correlation between Loan & Advances to Net Profit	69
4.21	Coefficient of Correlation between Deposit & Investment on Securities	71
4.22	Trend Analysis of Total Deposit of NCC Bank and Nebil Bank	72
4.23	Trend Analysis of Investment of NCC Bank and Nabil Bank	74
4.24	Trend Analysis of Net Profit of NCC Bank and Nabil Bank	75

List of Figures

Figure No.	Title	Page No.
4.1	Total Deposit, Loan & Advances of Investment of NCC Bank	59
4.2	Total Deposit, Loan & Advances of Investment of Nabil Bank	60
4.3	Comparison of Net Profit between NCC Bank & Nabil Bank	62
4.4	Comparison of EPS between NCC Bank & Nabil Bank	63
4.5	Trend Analysis of Total Deposit of NCC Bank and Nabil Bank	73
4.6	Trend Analysis of Investment of NCC Bank and Nabil Bank	74
4.7	Trend Analysis of Net Profit of NCC Bank and Nabil Bank	76

LIST OF ABBREVIATION

A.T.M.	- Automatic Teller Machine
B S	- Bikram Sambat
CD or C/D Ratio	- Credit to Deposit Ratio
C. V.	- Coefficient of Variation
CRR	- Cash Reserve Ratio
EBL	- Everest Bank Limited
EPS	- Earning Per Share
FDR	- Fixed Deposit Receipt
Fig.	- Figure
Forex	- Foreign Exchange
FY	- Fiscal Year
GDP	- Gross Domestic Product
Govt.	- Government
HBL	- Himalayan Bank Limited
INGO	- International Non Government Organization
JV	- Joint Venture
JVBs	- Joint Venture Banks
L/C	- Letter of Credit
MIS	- Management Information System
NBA	- Non Banking Assets
NBBL	- Nepal Bangladesh Bank Limited
NBL	- Nepal Bank Limited
NCC Bank	- Nepal Credit and Commerce Bank Limited
NEPSE	- Nepal Stock Exchange
NGO	- Non Government Organization
NIBL	- Nepal Indosuez Bank Limited/Nepal Investment Bank Limited
NPA	- Non-Performing Assets
NPL	- Non-Performing Loan
NRB	- Nepal Rastra Bank
NRs	- Nepalese Rupees

P. Er.	- Probale Error
ROA	- Return on Assets
ROE	- Return on Equity
SCD	- Shanker Dev Campus
S.D.	- Standard Deviation
SBI	- State Bank of India
SCBNL	- Standard Chartered Bank (Nepal) Limited.
SOL	- Single Obligor limit
T.U.	- Tribhuvan University
WTO	- World Trade Organization
WWW	- World Wide Web

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

The last chapter of this study is summary; conclusion and recommendations which have discussed and explored the facts and matters required for various parts of the study. Through the analytical chapter by using some important financial as well as statistical tools, makes a comparative analysis of various aspects of the investment of concern commercial banks. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

Nepal is a poor and developing country in the world. So, its development is impossible without the development of different sectors like agriculture, Industry, Trade, Financial institution and Bank etc. for the development in these sectors a regular supply of financial resources is necessary which is available through the financial institutions. In developing countries, there is always shortage of the capital for the development activities. It is not possible to handle and develop all the sectors by the government alone at a time. Private sectors also can not undertake large business because per capita income of the people is very low while their propensity to consume is very high. Due to low income their saving is very low and capital formation is very low. Capital formation is one of the important factors in the economic development. The capital formation leads to increase in the size of the national output, income and employment solving the problem of inflation makes the economy free from the burden of foreign debt. Domestic capital formation helps in making a country self-sustainable.

The economic development of a country depends upon the development of commerce and industry and there is no doubt that banking promotes the development of

commerce because banking itself is the part of commerce. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development.

The evolution of the organized financial system in Nepal has more recent history than in other countries of the world. In Nepalese context, the history of banking is not more than six decades. After the announcement of liberal and free market economic based policy, Nepalese banks and financial sectors have greater network and access to national and international markets. Commercial banks play a vital role which deals with other people's money and stimulate saving by mobilizing idle resources to those sectors i.e. industry, trade, business etc. having investment opportunities. Commercial bank can be of various forms such as deposit Banks, saving Banks, industrial Banks, mixed Banks etc. Modern bank provides various services to their customers in view of facilitating their economic and social life. In the absence of commercial Banks, it will be impossible to meet the financial needs of the country. Therefore a competitive and reliable banking system is essential for every country to develop.

In the study, the word 'investment' covers a wide range of activities like investment of income, savings or other collected fund. If there is no savings, there is no existence of investment therefore, savings and investment are interrelated. Investment operation of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. Investment policy is a one facet of the overall spectrum of policies that guide banks' investment operations and it ensures efficient allocation of funds to achieve the sustainable economic development of the nation. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volumes and quality of deposits, loan and investment. Therefore, the investment policy should be carefully analyzed.

Some sources of funds for the investment of the bank are capital, general reserves, accumulated profit, deposits and external & internal borrowings. Similarly, some important banking terms, which are frequently used in this study, are loan and advances, investment on government securities, shares and debentures, deposits and

other use of funds. The major source of income of a bank is interest income from loans and investment and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loans and advances. Hence loan is known as risky asset and investment operation of commercial banks is very risky one.

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

The main objectives of the study are to compare the investment policy of Nabil bank with the Nepal Credit and Commerce Bank and to suggest measures to improve the investment policy of the bank. The study has been constrained by various common limitations. The study is based on secondary data obtained from bank's annual reports and financial statements, official records, official circulars, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this personal contact with the bank personnel have also been made.

The analysis has been divided into two categories i.e. financial and statistical tools. Both tools have been made for comparative analysis and their interpretation. Under financial analysis, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, profitability ratio, activity ratio and loan & advances portfolio ratios have been analyzed and interpreted comparatively. Under statistical tools, Mean, S.D. and C.V. coefficient of correlation analysis, trend analysis have been used.

5.2 Conclusions

Based on the analysis and interpretations made on chapter 4, the major findings and conclusions have been drawn which are summarized as follows;

5.2.1 Liquidity Ratio

The current ratio of both the banks is greater than 1, which should be considered satisfactory. The mean ratio of NCC Bank is slightly higher than that of Nabil Bank. It means that NCC Bank has found maintained the higher liquidity and lower risk in compared to Nabil Bank and it further found that the ratios of that the ratios of NCC has found more variable than that of Nabil Bank. It indicates the NCC has unstable liquidity policy and Nabil has consistent and stable policy. In overall; it is conclude that the liquidity position of Nabil Bank is better than NCC Bank.

The means ratio of cash and bank balance to total deposit of NCC Bank is higher and ratios of study periods are more volatile of Nabil Bank. It states that the Nabil Bank seems that comparatively weak in the maintaining the liquidity positions. In contrast, a high ratio of non-earning cash and bank balance is an indication of bank's unavailability to invest its fund in income generation areas. NCC Bank needs to invest its funds in more productive & income generating sectors. Ratio of NCC has found more consistent and stable than that of Nabil Bank. It concludes that NCC is better than that of Nabil Bank.

The means ratio of cash and bank balance to current assets of NCC Bank is higher and ratios of study periods are found more volatile than that of Nabil Bank. This shows greater capacity of NCC to meet its customer's cash requirement but that does not mean NABIL cannot meet its daily customer cash requirement. It concludes that NCC Bank needs to invest its funds in more productive sectors.

The mean ratio of investment on government securities to current asset of NCC Bank is higher than Nabil Bank. NCC has the variation is higher than that of Nabil Bank, it means Nabil Bank has more consistent and stable of investment position than that of NCC Bank. It concludes that due to lack of other secured and profitable investment sector, NCC Bank has invested & used its current assets and total working fund in government securities whereas Nabil Bank has invested more of its fund in other productive sectors.

5.2.2 Assets Management (Activity) Ratio

The mean ratio of loan and advances to total deposits of Nabil Bank is higher than that of NCC Bank. The variability of the ratio of NCC Bank is found higher than that of Nabil Bank. It means that NCC Banks seems comparatively weak to mobilize its collected fund through deposits to loan and advances. The mean ratio of loan and advances to working fund of NCC Bank has higher than that of Nabil Banks which, indicates Nabil Bank is weaker than that of NCC Bank. But the variation of Nabil is low which indicates Nabil Bank is more consistent and stable than that of NCC Bank. It concludes that Nabil Bank has been more successful in mobilization of its total deposits and working fund as loan and advances and achieving higher profits in comparison to NCC Bank. But in contrast, a high ratio is not better from the point of view of liquidity, since loan and advances are less liquid than cash and bank balance. Likewise the mean ratio of total investment to total deposit ratio of NCC Bank has lower and variation is higher than that of Nabil Bank. It concludes that Nabil has invested more funds that of NCC Bank. further the ratio of NCC is found more variable than that the ratios of Nabil Bank.

The mean ratio of investment on government securities to total working fund of NCC is higher than that of Nabil Bank. It concludes that it is successful in utilizing its fund in less risky securities like government securities than that of NCC Bank. Further it seems that Nabil bank has consistency and stable policy of investment in government securities than NCC Bank.

It has been found that both NCC Bank and Nabil Bank have invested a very small portion of their funds in shares and debentures. While comprising the Nabil Bank is found lower mean investment on shares and debentures to total working fund ratio than that of NCC Bank. Though the mean of investment ratio of Nabil is lower than that of NCC Bank but the ratio of variation found more consistency and stable than that of NCC Bank.

5.2.3 Profitability Ratio

The mean ratio of Return on Asset of Nabil is found higher than that of NCC Bank. On the other hand, the variation ratio is also found highly more than that of NCC Bank. Comprising both the mean & coefficient of variation is considered in the analysis, it is concludes that the NCC bank is found more unstable and inconsistent in

compare to Nabil Bank. It's due to that the trend of profit earning of NCC bank seems very much fluctuated throughout the whole study period.

EPS of NCC and Nabil Bank has fluctuating trend throughout the whole study period. The mean value of the Earning per share (EPS) of Nabil is found highly more than that of NCC Bank. It concludes that Earning per Share of Nabil Bank is better than that of NCC. It further seems that Nabil is maintaining consistent policy and NCC bank is found more inconsistent throughout the study periods.

The mean ratio of return on loan and advances of Nabil Bank is better than that of NCC bank throughout the whole study periods. While comparison the coefficient of variation the Nabil Bank seems more stable and consistent than that of NCC Bank in utilizing its loan and advances.

The mean ratio of total interest earned to total working fund ratio of NCC Bank is found higher and less variable in comparison than that of Nabil Bank. It concludes that the total earned to total working fund ratios of NCC Bank is consistent and stable in compare to Nabil Bank.

The mean ratio of total interest paid to total working fund of Nabil Bank is found lower than NCC Bank. It means Nabil has paid lower interest than NCC Bank. On the other hand the ratio of total interest paid to total working fund of Nabil Bank is consistent than that of NCC Bank.

The mean ratio of total employee's expenses to total expenses of Nabil Bank is found higher in comparison to NCC Bank. It concludes that Nabil Bank is paying more benefits and bonuses than that of NCC Bank.

In this way from the point of view of profitability in summary we can concludes that Nabil seems to be more successful than that of Nabil Bank, profit earning capacity by utilizing available resources. NABIL has been more successful in terms of interest earning power. It has been more successful in mobilizing its funds in interest bearing assets to earn higher interest income. Nabil is in a better position to meet its interest expenses as it has collected its fund from cheaper sources than NABIL.

5.2.4 Coefficient of Correlation Analysis

Coefficient of correlation between deposit and loan and advances of NCC and Nabil are positive. In this way, it has been found that there is not significant relationship between deposit and loan and advances of NCC Bank & significant relationship of Nabil Bank. It concludes that Nabil Bank is successful to mobilizing their deposit as

loan and advances. Nabil has higher value of 'r' which indicates the better position to mobilize the deposit as loan and advances in comparison NCC.

Coefficients of correlation between loan and advances and net profit have the negative relationship of NCC Bank and positive relationship of Nabil Bank. There is no significant relationship in the case of NCC Bank and significant relationship in the case of Nabil. While comparing between only these two Nabil is found satisfactorily mobilizing its loan and advances to earn profit than that of NCC Bank.

Coefficient of correlation between total deposit and total investment of NCC and Nabil are positive relationship and there is no significant relationship in the case of NCC and significant relationship in the case of Nabil. While comparing between only these two Nabil is found satisfactorily mobilizing funds in proper way than that of NCC Bank.

5.2.5 Trend Analysis

Trend values of deposit, total investment and net profit and projection for next five years of NCC Bank and Nabil Bank exhibit that:

- Trend values of total deposit of both banks are found to be in increasing trend. It concludes that the increasing ratios on deposit of Nabil Bank will be higher in comparison to NCC Bank. Nabil has higher value of investment throughout the whole study periods.
- The trend values of total investment of both banks are in increasing trend. Comparing the investment trend between NCC Bank and Nabil Bank, it is concludes that the Nabil Bank has higher value of investment throughout the whole study periods.
- The trend values of net profit of both banks are in increasing trend. Even NCC Bank has found Net loss in the beginning of two years after that, during the period Bank invest its assets productive sector and take good investment policy then it has success to earn high profit. Trend analysis of net profit of NCC is good in comparison to Nabil Bank but Nabil has consistent and stable increasing the net profit. It is found that trend analysis of the net profit of NCC is better than that of Nabil Bank Limited.

5.2.5 Recommendations

This recommendation is the final output of the whole study. Generally, it helps to convey correct and good information of the improvement of concerned banks in future. On the basis of analysis and findings the following recommendation and suggestions have been mentioned to overcome the weakness, inefficiency and improvement of present fund mobilization and investment policy of NCC Bank and Nabil Bank.

1. Before mobilizing funds, both banks are recommended to collect a large variety of deposit to lower the credit/deposit ratio in some extents. To achieve success in this competitive banking environment, every bank must invest & utilize their funds i.e. loan and advances effectively. The loan and advances is the main item of the bank in assets side. If it is medicated, it could be the main reason of liquidity crisis and bankrupt. From the analysis, it has been found that loan and advances to total deposit ratio & investment to total deposit ratio, both the ratios of NCC is lower than Nabil. So, NCC Bank is recommended to follow liberal landing policy, invest more total deposit in loan and advances and maintain more stability on investment policy.
2. From the analysis, it has been found that Nabil is not investing its amounts on government securities in comparison to NCC. Investment on those securities issued by government (i.e. treasury bills, development bonds, saving certificates, etc) are free of risk and highly liquid such as securities yields the low interest rate of particular maturity lowest risk in future and it is more better in regard to safety that other means investment. So both banks especially Nabil bank is recommended to give more emphasis to invest on government securities.
3. A commercial bank should utilize its fund in different sectors like to purchase share and debenture of other financial and non financial companies. From analysis, it has been found that Nabil's investment on share and debenture to total working fund ratio is lower than that of NCC. So Nabil is strongly recommended to invest its more funds on share and debentures of different companies.
4. Interest income from loan and advances & investment of both banks is found huge amount as come to the outside income. The outside income from commission, discount and fees are very profitable and important nowadays in

banking business which idle high return to the bank. Both the banks are not in a better position regarding the proportion of outside income therefore, it is recommended to give priority to increase such types of income to generate more income. Specially NCC Bank is recommended to give priority to increase the fee-based outside to generate more income.

5. Portfolio management is very much important for every investor. The term investment has included many parts of risk. So the effective portfolio management plays important role to divide total investment in different sectors so that risk is also divided into different sectors. It has been found that both banks have been increasing total investment every year. So both banks are strongly recommended to invest in different sectors and to follow a saying ***"Don't keep all the eggs in the same basket"***.
6. In these competitive banking sectors, a well marketing system plays tremendous role in development of banks. Every commercial bank should be customer oriented. Marketing is the one of the best and effective tool to attract the customers. So it has to be sound and effective. Different marketing methods can be applied like advertisement through newspapers, magazine, audio-visual, websites, documentary, etc. Not only these but to draw the attentions of customers through new technology like E- banking , internet banking service, SMS banking, ATM, Debit Card, Visa and Master cards, etc. NCC Bank and Nabil Bank should be provided such kinds of modern and advance service.
7. Economic growth of a country depends upon the high growth of the commercial banks. If the product and services of commercial banks expands all over the nation, the idle money from different areas can be collected and utilized for income generation purpose. So commercial banks should expand their branches not only in urban area but also rural area of the nation. But here commercial banks are centralized in the capital. Nabil has succeeded to expand more branch office in comparison to NCC Bank. So both banks are recommended to expand their branches and provide effective banking product and services.