CHAPTER I

Introduction

1.1 Background of the Study

Nepal, home to Mount Everest, is dominated by the world's most imposing mountains. Although the country is relatively small (147,181 square kilometers), 80 percent of its territory is occupied by the dramatic peaks of the Himalayas and Mountain and Hill Regions. Nepal was closed to foreign visitors until 1951, a situation which contributed greatly to its mystique in the west. This small, hospitable country has since become an exceptionally popular destination for travelers, whether they are in search of climbing challenges or spiritual enlightenment.

Nepal can be divided into three geographical regions, each stretching from east to west across the country. The southernmost strip of land, the Terai, is bordered to the north by Himalayan foothills and to the south by the Ganges River. The area was originally covered with tropical vegetation, but has been almost completely converted to agricultural production. The Terai is now the breadbasket of Nepal and is covered with farms.

Propelled by the a strong growth in both the agriculture and non-agriculture sectors, the long-ailing economy has bounced back to record 5.56 percent growth in the current fiscal year, highest economic expansion in last the seven years. With the growth, the total size of Nepali economy in producers' price has scaled up to Rs 828.8 billion (US$12.80 billion) while the per capita income has also increased by around 11 percent to Rs 30,361 per year (470 US$). However, with the creeping inflation, which is around 9 percent, the real purchasing capacity of Nepali consumers is estimated to grow marginally in the year. According to a preliminary estimate of national accounts prepared by the Central Bureau of Statistics (CBS), agriculture sector, which contributes 32 percent to national economy, grew by 5.65 percent while the growth of non-agriculture sector was around 5.52 percent. Former Finance minister Dr Ram Sharan Mahat said that the growth which has been encouraging, was made possible due to prudent and tactful management of the economy even at the most difficult period. The big push for this year's growth came from the long-yeaning agriculture sector, which witnessed a record 5.65 percent growth in 14 years, thanks mainly to almost 17 percent growth in production of paddy, the heavyweight of the agricultural sector. Likewise, the wholesale and retail sector that holds the second largest contribution to national economy after agriculture expanded by 6.43 percent whereas its expansion last year was negative. Increasing purchasing power of consumers mainly due to a double-digit growth in remittance inflow fueled the growth. Similarly, despite a strong growth in communication sector, the lengthy transport disturbances took a toll on the sector, resulting in a slowest growth of 6.6 percent in transport and communication sector, the third largest contributor to national output. The most impressive growth came from the financial intermediation sector, which mainly represents banking and insurance businesses.

Banking in Nepal is an important as banking in anywhere else in the world. Banking sector is the major institutional system in Nepal which carries out the financial flow within the economy. The importance of banking in Nepal can also be understood with the emergence of e-banking in the recent years. Banking results in the mobilization of money in the economy and also helps the people to invest and store their money and also to give the money to the debtors to precede their business and give financial benefits to the economy.

Most of the investment they collect immobilized money in the form of deposits from every corner and part of the country whether it is big or small. This will provide capital for the development of the industry, trade and business and other resources deficit sectors. The central bank monitors the spread rates i.e. deposit rate and other bank rate, establishment of branches and many other aspect of financial institution. Central bank almost governs all function of the financial institution. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic development of the country. The main function of the commercial bank is to mobilize the deposits of the public in the different sector to get the productive use to earn profit. Commercial bank is providing certain interest rate to depositors and certain percent interest is charged on the bank loan facilities, which we call as the spread rate.

Generally, investment means sum of the money is to mobilize in different sectors that obtained a good income. Investment means to mobilize the capital in profitable sectors or to move the scattered savings for future financial gain. Investment involves real assets and financial assets. Real assets means are tangible material things such as buildings, automobiles and textbooks. Financial assets are pieces of paper representing indirect claim on assets hold by someone else. These pieces of paper represent debt or equity commitments in the form of stock.

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

In other way, there is much competition in banking market but less opportunity of the investment. In this condition, if bank and financial institution can search of new opportunities than they can move in the competitive market and earn profit. Investment is very risky job, so bank mostly follows sound investment and fund mobilizing policy. The sound policies help commercial bank maximized quality and quantity of investment and here by achieve the own objective of profit maximization and social welfare. The banking sector needs to play a vital role to boost the economy by adoption the growth oriented investment policy and building up the financial structure for economic development.

1.2 Origin of Banking

There are different views about the origin of bank. It is difficult to say that where the word 'Bank' came from. According to one view, the word 'Bank' is derived from the Latin Word Baucus' which means a bench. In the early days these activities were done by sitting in a bench and thus, that activities were known as banking activities. Similarly others view that the word 'Bank' is derived from the German Word 'Bach' which means a joint fund. Some believe that it was originated French Word 'Banque' or Italian word 'Banca' all of means a bench, where a banker would sit and keep a record of his money and financial transactions. Later when they were unable to meet the obligations, their benches were broken to pieces. Thus, the words Bankruptcy came from those circumstances.

According to some author the word bank is originally derived from the 'Back' which means joint stock fund. Irrespective of its origin, bank is perhaps the most important institution is dealing with the monetary activities. In the early days, the banking activities were limited up to the acceptance of deposits from the public for the purpose of lending. But with the world wide development of business activities, the banking sector has also become wider up to the performance of agency services to its clients by providing the facilities like bank draft, letter of credit, credit cards etc.

Before the concept of modern banking was developed in Italy in 2000 B.C., banking was already developed by the Babylonians. In ancient Greece and Rome the practice of granting credit was widely prevalent. Hence, whatever be the origin of the word, it has been used from the middle ages in connection with the business of money lending.

1.2.1 Development of Banking in Nepal

It is very difficult to find the correct history of development of bank in Nepal. The historical records show that Guna Kama Dev, the king of Kathmandu borrowed money to rebuild his kingdom in 1728AD or 8th century. In 11th century, during Malla regime there was evidence of professional money lenders and bankers. During the regime of Jyasthiti Malla, caste system was introduced based on profession. Tankadari were such caste, which used to provide loans and used to perform exchange trades. It is further being lived that money lending business particularly for financing the foreign trade with Tibet became quite popular during the regin of Mallas. 'Tejarath Adda' was established in 1877 A.D. with fully subscribed by the government of Kathmandu valley 'Tejarath Adda' may be regarded as the father of modern banking institution in Nepal, which play a vital role in the banking system. It helped the public by providing credit facilities at a very low rate of 5%. It provided a credit especially on collateral of gold and silver. It ran successfully for four decades. Hence, the establishment of 'Tejarath Adda' could be regarded as the foundation stone of banking in Nepal. During the Prime Minister ship of Judda Shamsher, the Tejsrath Adda was replaced by a commercial bank with the establishment of Nepal Bank Ltd. in 1937 A.D. under 'Nepal Bank Act 1937 A.D.It was a new era in the history of modern banking in Nepal.

Similarly, Nepal Rastra bank was established in 14th Baishak 2013 under 'Nepal Rastra bank Act 2012' as a central bank of the country. The main purpose of this bank was to develop banking system in the country in order to promote trade, industry and agriculture as well as to circulate Nepalese currency all over the country. Rastriya Banijya Bank, another commercial bank was established in 2022 B.S with an initial capital of one corer. It is the largest commercial bank and it plays a major role in the economy. It is fully owned by the government. In 2016 B.S. Nepal Industrial Development Bank (NIDC) was established under 'Nepal Industrial Development Corporation Act 2016 ' with an objective to provide loan to industrial personnel invest in share etc. Being agriculture based economy, the government established co-operative banks. it was established in 2024 B.S under 'Agriculture Development bank Act 2024 ' with an objective to develop agriculture sector of Nepal. Later due to funds and activities it was converted into Agriculture Development Bank (ADB) with an initial capital of five corers. After sometime, the government to operate the open policy with a view to develop the economy of the country, which allowed joint venture banks in Nepal. The first joint venture bank was established as Nepal Arab Bank Limited in 2041 B.S. under the Commercial Bank act 2031 with a paid up capital of Rs 30 Million. It was started with the allocation of 50% shares of Emirates Bank Limited, Dubai 20% share of Nepalese financial institution and 30% share of general public. Nowadays this bank is known as Nabil Bank, which was 'The Bank of the year2004'.It means it comes in first position. The second joint venture commercial bank is Nepal Indosuez Bank, which was established in 1985A.D with 50% share of Indosuez Bank Ltd. of France. Now it is known as Nepal Investment Bank Ltd. The third joint venture commercial bank is Nepal Grind lays Bank Ltd which was established in 1987 A.D. Now it’s known as Standard Chartered Bank Nepal Ltd. It was started with the agreement between Nepal Bank Limited and ANZ Grindlays with Rs. 30 million paid up capital. In the starting 15% of share had hold by general public, 35%of share held by Nepal Bank Ltd. and 50% of share hold by Grindlays bank London.

The trend of financial sector expansion continued in the current fiscal year as well. As recent financial sector is generally becoming more intensified and consolidated. The number of (A class) commercial banks has reached 27, (B class) development bank 61, (C class) financial companies 78 and (D class) micro finance institutions 13 by mid April 2009. Likewise, the number of authorized cooperatives for operating limited banking activities and non governmental organization has reached 16 and 45 respectively. In addition to banks and financial institution, there are 25 insurance companies, employees provident fund, citizen investment trust and postal saving banks making a total of 266 such institution serving by mid April 2009 (Economic Survey fiscal year 2008/09).

1.2.2 Brief Profile of Sample Companies

Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd. (NIBL), 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 the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

NABIL Bank Ltd

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system.

1.2.3 Features of Sound Investment Policy.

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 only pre-requisite for profitability, but also crucially important for the promotion of commercial savings of backward country like Nepal. Many authors as under have given some necessities for sound lending and investment policies, which most of the bank must consider:

- Safety and Security

The bank should never invest its funds in those securities, which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn million in a minute also. The bank should accept that type of securities, which are commercial, durable and marketable and have high market prices. In this case, “Mast” should be applied for the investment. Where,

M=Marketability.

A=Ascertainity.

S=Stability.

T=Transferability

- Profitability

A commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

- Liquidity

People deposit money at the bank in different account with confidence that the bank will repay their money when they need. To maintain such confidence of depositors, the bank must keep this point in mind while investing its excess funds in different securities or at the same time of lending. So that it can meet current o r short-term obligations when they become due for payment.

- Purpose of Loan

Why is customer in need of loan? This is very important question for any banker. If borrower misuses the loan granted by the bank, they can never repay and the bank will possess heavy bad debts. Detailed information about the scheme of the project or activities would be examined before lending.

- Diversification

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

- Tangibility

Though it may be considered that tangible property doesn‟t yield an income apart from satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. A commercial bank should prefer tangible security to intangible one.

- Legality

Illegal securities will bring out many problems for the investor. A development bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Law and other mobilizing its funds.

Other factors affecting the investment policies

Beside above mentioned basic principles, some basic factors really affect the investment policies and composition of the components. However, their degree of affecting power may vary. These other factors that have significant affecting power are given as follows:

- Regulatory Provision

Regulatory Provision has the maximum impact upon the investment policies and the composition of portfolio. Usually, in every state there will be the legal restrictions for the investors to invest their funds in various components. Such restrictions might be in the form of the limitation of the investible amount on particular securities or the allowed sectors of the investment.

- Management Perception

Another factor affecting the investment policy and component will be the managements attitude as well as the self imposed limitation from their side. If management wishes to increase the yield, investment policy will be to divert the fund to the high yielding portfolios, rather than the more safe but low yielding components or vice-versa. Beside this, the management may impose self –limitation of investment components according to the condition of the business and it also capable of changing the investment portfolio.

- Present composition of the investment portfolio

Investment policy and the composition are also affected by the size, maturity stage, and interest or return rate on the capital etc. if it already holds the component having mid- term maturity, then the consideration of upcoming investments will be on the long or short term maturing components. Thus the composition of the investment in hand also affects the investment policy.

- Availability and accessibility of the investment components

When best-suited investment components are not available or accessible, then also the investment policy can be affected. When best-suited investment sector will not be available, then a strong search for the investment area should be made. We can take the example of present condition of our Nepal in which the investment horizon has gone to minimum the situation is because of the political condition in the country.

1.3 Focus and Significance of the Study

The main focus of the study is to highlight the investment policies of commercial banks expecting that the study can be bridge the gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks. Having completed the basic analysis required for the study, the researcher must point out the mistakes and errors and also correct them by giving suitable suggestions for further improvement. Since researcher has the banking experience of about four years which also includes working in the “Assets Liability

Management Committee (ALCO)" of commercial banks, the recommendations prescribed herewith will have more practical touch. Therefore, this summarized and recommended tasks of the researcher of the study would be meaningful to the top management of the bank to initiate the action and achieve the desired result.

In the context of Nepal there is less availability of research work, Journal and Articles in investment policy of commercial banks as well as other financial institution. As it is a well known fact that the success and prosperity of the bank relies heavily upon the successful investment of collected resource to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. There are various problems in effective investment of commercial banks of Nepal, which affect their performance to a greater extent. Performance of commercial banks does not seem so satisfactory in terms of utilizing its resource efficiently in productive sectors. Hence the main significance of this study of investment portfolio analysis of Nepalese commercial banks is to help how to minimize risk of investment and maximize return through portfolio analysis. Similarly, the study of commercial banks investment trend, risk return pattern, portfolio management, credit management and effect on investment decision on earning will strive to disclose the internal weakness of the banks and furnish the ideas for improvement. Therefore, the researcher has undertaken this study to analyze the existing investment portfolio of Nepal Investment Bank and point out the various weaknesses of defects inherent in it and provide package of suggestions for its improvement.

1.4 Statement of the Problem

Mushrooming of private sector banks is the present situation of Nepalese financial sector. The fast growth of such organization has contributed the prorate increment in collecting deposits and their investment. They collect adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Only few commercial banks are getting regular profits. Most of them are unable to satisfy their shareholders and customers in earning profit and ensuring their safe deposit. Some banks are incurring losses in early establishment years. It is not that they do not have potential clients or adequate deposits but they cannot find profitable sectors or opportunities to invest the deposit collection. They have always feared with high degree of risk and uncertainty. In the dawn of new millennium, towards the end of 20010 A.D., there are 27 commercial banks. All these banks have created a cut throat competition in the financial sector. Fluctuating and low interest rates on deposits, poor deposit mobilization etc. has affected on the return of fund, total assets, total deposits and shareholders‟ wealth position. Since liberalization policy of the government, various

Banks and financial institutions have been established with a view to reinforce the economic growth of the country. They have played an indispensable role by accepting deposits and granting loans. Investment of the collected funds is the most important factor for both shareholders and the bank as they are the source of earning. Credit extended by these banks is directly related to the national interest. Therefore, the banks should have a sound investment policy.

There are various problems in resources mobilization by financial institution in Nepal. The most important problem is poor investment climate prevailing in Nepal due to heavy regulatory procedure, uncertain government policy, NRB stringent directives, unsecured social environment etc. Lack of sound investment policy is another reason for a commercial bank not to properly utilizing its deposits that is making loan and advances or lending for a profitable project. This condition may the commercial bank to the position of liquidation. Commercial banks are more interested in providing loans on short-term basis against movable collaterals. They are reluctant to invest in huge and long term projects due to safety and security of their loans. Thus, they are following conservative loan policy based on strong security. Similarly, these banks do not have a well-organized investment policy. They rely much on the instructions and guidelines of Nepal Rastrya Bank. Even if they have formulated some guidelines, they fail to implement it due to poor supervision and lack of professionalism. Project appraisal method followed by commercial banks is not scientific and appropriate.

The banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of investable funds to reduce risks. Hence, the principle “do not put all the eggs in one basket” really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that has now come to brink of extinction.

Thus, the study mainly focuses on analyzing the different aspects of the bank and finding the answers to questions such as –

- Is the bank able to utilize the available funds effectively?
- How aggressive is the bank lending?
- What is the proportion of risk free and risky investment on total investment made by the bank?
- What is the proportion of Non- performing assets on total loans and advances of the bank?
- What is the relationship of total deposit on total investment and total investment on total net profit of the bank?
- What steps should be taken to improve the investment policy of the bank?
- Is the bank maintaining sufficient liquidity, profitability and risk position?
- Does the investment decision affect the total earning of the commercial bank?

1.5 Objectives of the study.

The main objectives of this study are to evaluate the investment policy of Nepal Investment Bank Ltd. (NIBL) and Nabil Bank Ltd. and to recommend corrective measures, if any, in order to improve its performance. Besides, these may be other objectives too.

- To determine the growth of bank in terms of deposits, loans and advances, investment and profitability of the bank.
- To evaluate the liquidity, assets management, profitability and risk position of NIBL and NABIL.
- To analyze the investment policy of NABIL & NIBL.
- To recommend policies that may help in proper investment.

1.6 Limitations of the study

This study is done for the fulfillment of the degree in management. So it is not a comprehensive study and it focuses to analyze sudden aspect of the study of investment policy of NIBL and NABIL Bank.

- Study is for the period of five year.
- Although efforts were made focus on the activities and investment policy of the Nepal Investment Bank Ltd and Nabil Bank Ltd. It may not cover all important and pertinent investment procedure of the corporation.
- Data used in the study are secondary nature.
- The study was carried out on the financial statement and records of official data. Therefore the decision methods of the bank are not analyzed.
- Out of the numerous affecting factors, this study concentrates only on those factors, which are related with investment policy, and available in the form required for analyzing the different issues.
- This study is mainly based on annual reports and other publication of NIBL and Nabil Bank, publication of NEPSE, and publication of other authorities regarding the investment and other aspect of the bank.
- Due to wide range of data deficiencies only simple technique have been used for the analysis of the data.

1.7 Organization of the Study

This study has been divided into five chapters which are as follows:

Chapter I: Introduction: Introduction deals and includes the background of the study, brief profile of the sample companies, statement of the problem, objectives of the study, significance of the study, limitations of the study and organizations of the study.

Chapter II: Review of the literature: Second chapter deals with the review of available literatures in the field of the study being conducted. This includes review of the theories of the concerned topic, review of supportive text, review of books, review of bulletins and annual reports published by bank, review of related articles and review of previous thesis.

Chapter III: Research methodology: Third chapter explains the research methodology employed to conduct the study and tools and techniques used in analysis of the data as well. This chapter includes, research design, sources of data, population and samples, method of data analysis, various financial and statistical tools.

Chapter IV: Data Presentation and Analysis: Fourth chapter is devoted to the presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analyze different financial ratios related to the investment and fund mobilization of NIBL. Major findings of the study are also included in this chapter.

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

Besides these, bibliography and appendices will also present at the end of the thesis. Similarly, acknowledgement, table of contents, list of tables, list of figures, abbreviations are included in the front part of the thesis report.

CHAPTER II

Review of Literature

Review of literature means the study of the material available on research topics; It is findings the pertinent fact with the available literature in ones fields of research. In other word, it is an analytical expression on the concerned topic. Review of literature refers to the analyzing, assessing reevaluating and reexamining the previously written works. It not only provides solid information on the topic but also guides the future action.

The main purpose of literature review is to find out what studies have been conducted in one's chosen field of the study and what remains to be done. It gives the frame work to the researchers on their own field. The other major purpose of review of the literature is to develop some expertise knowledge in one area to see what new contribution can be made, to receive some idea for the development of research design. The research is a continuous process, it never ends. The procedure and the findings may change but research continuous. This chapter has been divided into following two parts.

2.1 Conceptual Framework

There is an important role of banks in the economic growth and development of a country. To achieve an ideal economic growth and development of the country, banks should have strong and well-managed organization of banking system. When banking is appropriately organized, it aids and facilitates get growth of trade and industry and hence of national economy. Banks are such type of institutions, which deal in money and substitute of money. They deal with credit and credit instruments. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and decisions harm the whole economy and the bank as well. Thus to collect fund effectively and its well utilization is the very challenging task for the bank. The decision for an investment of fund may be the question of life and death of the bank.

In modern economy, banks are considered not as dealer of money but as the leaders of development. Banks are not only the warehouse of the country’s wealth but are also the reservoirs of the resources necessary for the economic growth of the country. Investment is the employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption in the hope that same benefits will accrue in future. Investment involves long-term commitment and waiting for a reward. The sacrifice takes place in the present and is certain while the rewards come later and uncertain.

"The business of banking is collection of funds from the community and extension of credit to people for useful purposes. Banks have played a pivotal role in making money from lenders to borrowers. Banking is a profit seeking business, not a community to carry profit seeker, expected to pay dividend and otherwise, add to wealth of shareholders"(Grywinshki,: 1993;87).

"Banking institutions are inevitable for the resource mobilization and all-round developing of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people." (O.Edimister: 1980; 95).

"A commercial bank is a business organization that receives and holds deposits of funds from others, makes loans and extends credits and transfers funds by written order of deposits."

"American Institute of Banking has defined commercial banks as a corporation which accepts demand deposits subject to repeated or short term loans to business enterprises, regardless of the scope of its other services"(American Institute of Banking: 1972;.76).

Commercial banks are the vital aspects in accelerating the pace of the economic development of a country. "They are organized on a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking type, as we see in most of the countries, with a large network of branches, or of a unit banking type, as seen in the USA, where a banks‟ operations are confined to a single office or to a few branches within a strictly limited area" (O.Edimister: 1980; 98).

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

As mentioned in former chapter (introduction) it is cleared that optimal investment decision plays vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e. investment on different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit.

For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested. These informations include as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered for the viewpoint of the security.

The income and profit of the bank depend upon the lending procedure applied by the bank. As well as lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies it is always taken in mind that "greater the credit created by the bank, higher will be the profitability."

Sound lending and investment policies helps commercial banks maximize both the quality and quantity of investments and thereby achieve their objective of profit maximization and social welfare. Commercial banks should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending.

J.H.Clemens (1963) has said, "Commercial banks should consider the national interest followed by borrower's interest and the interest of the bank itself before investing to borrowers." To clarify this, bank's lending must be for such purposes of the borrowers that are keeping with the national policy and bank's overall investment policy. A bank's overall investment

- Should be short term oriented

- Should be well spread

- Should be repayable on demand

- Must be profitable

- Should have adequate security

The Modern Phase of Banking Development

The process of the Development of Banking system in Nepal was not satisfied up to 2040(BS). Nepal was observing the event that was taking places in the world also. Nepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into the practice. The country can't changes it status by using only its own capital in the country without importing the new technology from foreign country Accordingly, law and policy have been enacted by the state to encourage the foreign investment on Banking sector . As a result of it the Development of the Banking system started in Nepal. The competition began to grow. The Banks began to offer their valuable service to the people through new technology. This was the great significant event. Thus, some Banks were opened on the joint investment basis. Brief accounts of such Banks are as follows.

- Rastriya Banijya Bank
- Nepal Bank Ltd
- Agricultural Development Bank
- Nabil Bank Limited
- Nepal Investment Bank Limited
- Standard Chartered Bank Nepal Limited
- Himalayan Bank Limited
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank Limited
- Everest Bank Limited
- Nepal Credit & Commerce Bank Limited
- Lumbini Bank Limited
- Kumari Bank Limited
- Machapuchhre Bank Limited
- Laxmi Bank Limited

- Siddhartha Bank Limited
- Bank of Kathmandu
- Nepal Industrial and Commercial Bank Ltd.
- Global Bank Limited
- Citizens Bank International Limited
- Prime Commercial Bank Limited
- Sunrise Bank Limited
- Bank of Asia Limited
- NMB Bank Ltd.
- Development Credit Bank Ltd.
- Janta Bank Ltd.
- Kist Bank Ltd.

Hence there are so many commercial Banks in operation in Nepal till date operating with their main objectives of carrying out activities under the Banking and Financial Institution related Act 2060 (BS), the Nepal Rastra Bank Act 2058(BS). The Company Act 2053 (BS) and Contract Act 2056.

Functions of Commercial Bank

Banking industry offers a wide range of services encompassing the needs of public of different lifestyles. Hence, different types of Banks emerged in the Banking industry concentrating on a special sector. This is the age of specialization. Based on functions, Banks can be classified as under. The functions of commercial Banks are directly related with the people and institution. The commercial Banks are important Banks. Its functions are very attractive for people. Although there Banks are truly inspired with the objectives of earning profit, there commercial Banks are also established, to accelerated common people's economic welfare and facility, to make available loan to the agriculture, industry and commerce and to provide the Banking services to the public and the state in Nepal, the commercial Banks perform the following functions:

Among many functions of the commercial Bank, acceptance of deposit is one of them. The Banks accepts deposits under three types of account. They are Fixed Deposit, Saving Deposit and Current Deposit Accounts. People can deposit their earned money in one of the above-mentioned three accounts. However, the interest is paid only on saving and fixed deposit accounts. No interest is paid to the Current Deposit Accounts. The customers can withdraw their money from their account according to their need. The commercial Banks perform the important function of accepting all sorts of deposit. It earns profits by investing that money in another place.

Another function of the commercial Bank is to provide loan. A commercial Bank provides loan to the deserving persons, companies and institutions. A Banks is capable to gain benefits in its Banking Developments by receiving the interest as per law and internal policies. It provides loans in different terms and conditions provides loan by accepting collateral securities of debtors. A Bank can flow the loan against a third person guarantee or with the pledge of the third persons property. A Bank provides loan on the basic of agreement or deed of loans.

The commercial Bank used to provide agency function in following ways:

- A Bank makes payment after taking commission for the cheques, draft, and bill of exchange presented by the customers.
- A Bank, on the request of its customers, transfers the money from one place to another place by Demand Drafts, Fax Transfers or Telegraphic Transfers.
- A Bank, on the request of its customers, buys and sells a company's shares and governmental security bonds.
- A Bank collects the interest on governmental bond and the profit on share from the company for its customers.
- A Banks also pays rent of the house, permission of the insurance and income tax etc on behalf of its customers.

A commercial Banks discharge the function of general utility also. These functions are as follows:

- If the central Bank has given the permission to carryout the transaction of foreign currencies, the commercial Bank exchanges the foreign currency earned by his customers.

- A Banks issue travellers cheques in the customers name and communicate the credit information or notices for his customers.
- A Banks provides lockers to its customers for keeping valuable metals, ornaments, and documents safely. The customer keeps one of the keys of lockers with him and the Bank is keeping the other. If the customers valuable goods are kept under the Banks custody such safe boxes are called safe deposits valve.
- A Banks gives economic and professional advice to its customers.
- A Banks collects important commercial information and data for his customers.

Another function of commercial Bank is overseas trading services for its customer's Recognition of overseas trade has led modern commercial Banks to act specialization in the finance of the foreign trade and some Banks in some countries have taken interest in export house and factoring organizations. Assisted by Banks affiliated to them in overseas territories, they are able to provide a compressive network of services for foreign Banking business, and many transactions can be carried out from start to finish by a home Bank or its subsidiary. In the places where Banks do not directly represent, by such affiliated undertakes, they have working arrangement with correspondents, so that the Banks are in a position to under take foreign Banking business in any part of the world. The Banks provide more than just a means for the settlement of debt between trades both at home and abroad.

The commercial Bank provides some information and other services to its customers, which is very useful. Some Banks produce regular bulletin on trade and economic conditions at home and abroad. In this way, it is possible to establish new avenues of business purpose, confidential opinions on the financial standing of companies, firms, industries at home and overseas. Hence these types of function of the commercial Banks are really laudable.

2.1.1 Rules of mobilizing funds as per NRB Directives.

In order to mobilize the collected fund of different commercial banks towards different sectors and part of the country, Nepal Rastra Bank has formulated and issued directives in the sense of fund mobilization. Every commercial bank should follow the norms of the directive while mobilizing the funds. In this heading the effort has been made to present some glimpses in terms of provision for maintaining minimum liquidity, provision for investment towards deprived sector and provision for credit towards priority sector.

Provision for maintaining minimum liquidity

Commercial banks should maintain minimum level of liquidity as given below at any cost.

- Commercial banks should deposit 8% of total of current and saving deposits and 6% total fixed deposit at Nepal Rastra Bank as minimum liquidity. Expect these banks should keep 3% of total deposit in the own vault of the bank.

- In case of failure to meet the level of minimum liquidity, banks are liable to pay the penalty as per the sub-clause (2) of clause 32 of Nepal Rastra Bank Act 2012.

2.1.2 Some Important Terms

In this section of the study, efforts have been made to clarify the meaning of some important terms frequently used in this study. They are given as:

a. Loan & advances

Loan, advances and overdrafts are the main source of income for a bank. Bank deposits can be crossed beyond a desired level but the level of loans, advances and overdrafts will never cross it. The facilities of granting loan, advances, and overdrafts are the main services in which customers of the bank can enjoy. Funds borrowed from banks are much cheaper than those borrowed from unorganized moneylenders. The demand for loan has excessively increased due to cheaper interest rate. Further, an increase in economic and business activities always increase the demand or funds. Due to limited resources and increasing for loans, there is some fear that commercial banks and other financial institution too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans form these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields.

These are the undesirable effects to too low interest rate. In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank as house loan, vehicle loan, personal loan and other. In mobilization of commercial bank‟s fund, loan, advances and overdrafts have occupied a large portion.

b. Investment on government securities, shares and debenture.

Though a commercial bank can earn same interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income. But it is treated as a second source of banking business. A commercial bank may extend credit by treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities bond and shares for several reasons, some of them are given as: It may want to space its maturates so that the inflow of cash coincide

with expected withdrawals by depositors or large loan demands of its customers. It may wish to have high-grade marketable securities to liquidate if it's primary of reserves become inadequate. It may also be forced to invest because the demands for loans has decreased or is not sufficient to absorb its excess reserves. However, investment portfolio of commercial bank is established and maintained primarily with a view to nature of banks‟ liabilities i.e. since depositors may demand funds in great volume without previous notice to banks, the investment must be of a type that can be marked quickly with little or no shrinkage in value.

c. Investment on other company's shares and debentures

Due to excess fund but least opportunity to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank's directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies.

Nowadays most of the commercial banks have purchased regional development bank's, NIDC's and other development banks shares.

d. Other use of funds.

A commercial bank must maintain the minimum bank balance with NRB i.e. 6% for fixed deposit and 8% for each of current and saving deposit account in local currency. Similarly 3% cash balance of local cash balance of all local currency accounts must be maintained in the vault of the bank. Again a par of the funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

e. Off- balance sheet activities

Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some good examples of these items are letter of credit (L.C), letter of guarantee, bills for collections etc. Nowadays such activities are stressfully highlighted by some economists and finance specialists to expand the modern transaction of a bank.

f. Deposits

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

- Current Deposits
- Saving Deposits
- Fixed Deposits

2.2 Review of Related Studies

Banks are those institutions whose primary chore is to deal in money and substitute for money. They deal with cash, credit and credit instruments. Effective circulation and transaction of credit is the essence for those institutions. Unstable, unsteady and unevenly flow of credit with ad-hoc decision may harm the economy as well as the bank. As a result, banks should properly utilize its funds in various investment avenues with a view to sustain and earn profit. 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 investments requires goals that are clearcut and realistic.

Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes in the present and is certain. The reward comer later, if at all and the magnitude is generally uncertain. In some cases the element of time predominates (for example, government bonds). In other cases risk is the dominant attribute (for example, call option of common stocks). In yet others, both time and risk are important (for example, shares of common stock) An investment may be defined as the current commitment of funds for a period of time to derive future flow of funds that will compensate the investing unit for the time the funds are committed for the expected rate of inflation and also for the funds. Investment is the employment of funds with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves "waiting" for a reward. It involves the commitment of resources, which have been saved or put away from current consumption in the hope that some benefits will accrue in future. There are basically three concepts of investment:

a. Economic investment – that is, an economist's definitions of investment

b. Investment in a more general or extended sense which is used by "the man of the street"

c. The sense in which we are going to be very much interested, namely financial investment.

In this way, going through the above definitions and ideas given by different authors it is cleared that an investment of a known rupee today, produces some additional amount in the future, in the form of profit. But sometimes that investor has to face loss too, due to unfavorable circumstances and lacking of sound knowledge of investment opportunities.

This part of the study deals with the examination and reviewing of some related research papers, articles and journals published in different magazines, newspapers, There are not sufficient articles related to investment management published in Nepalese perspective. However, some personalities have given short glimpse of investment management. Some of them are as follows:

Bhattarai (2003) has presented an article about the "Non-Performing Assets (NPA): Management". According to him, a loan is a very easy term for a borrower when he has already taken and for a lender not availed. It is equally difficult for a borrower to avail and for lender to recover. From a banker's view, it is just like a stone to roll down from the top of the hill while sanctioning, but too difficult to roll back the same stone to the top of the hill while recovering. A loan not recovered within the given timeframe either in the form of interest servicing or principal repayment is called nonperforming loan. There are other parameters as well to quantify a NPL. Security not to the extent of loan amount with specified safety margin, value of security not realizable, possession not as per the requirement of bank, conflict of charges are some of the reasons which causes difficulties while recovering the loan.

According to him, NPL of a bank is like a cancer in a human body, which will collapse the entire bank if not taken care in time. This is an important discipline in banking to prevent the entire NPL or avoid situation for a loan to turn into NPL. Loan for banks is very essential to generate revenue for operational expenses a well as to provide return to the shareholders. When a loan advanced from good money turns into a bad loan, the chances of when a loan advanced form good money turns into a bad loan, the chances of shareholders return as well as the survival of the bank is at stake. Ailing banks cannot portray a better image in public. When a public looses the confidence on a bank and does not deposit, the bank will be in the verge of extinction. Therefore, deposits are the essence for a bank. A loan disbursed as good loan does not turn into bad overnight. It has certain course to turn into bad. An efficient bank management can recover the loan before turning it into bad and can save itself from the unwanted catastrophe. A general survey reveals following reasons why a good loan turns into a bad one:

Situational Problems.

- Poor analysis of project and its capital requirement leading to a situation of over/under capitalized.
- Problem in managing the unit.
- Faulty evaluation of loan and security.
- Mismatch in demand and supply leading over inventory or under inventory.
- Actual modus operandi is very different from the projection and unit unable to cope with the situation.
- Sudden change in internal and external environment and project not being able to run according to its plan.
- Collection of receivables unnecessarily delayed resulting delay in re-order and chances of business penetration by other competitors.

Intentional Problems

- Intention to flee without settling the loan.

- Intention to cheat the bank.
- Intention to auction the property.
- To relieve from other debts.
- Malicious acts of both the bank staffs and the borrower.
- To show other creditors of his bankruptcy, which is unmanageable.
- To waive interest/penal interest or avail discount on loan if paid in later stage when bank offers such facilities.

In conclusion, a borrowing may reflect one or all the above signals that may cause harm to the bank. There are few ways to protect bank from intentional defaulter but for those default caused by situations we can reschedule or restructure their facilities and help them to meet their debt obligation as per the cash flow they having. Even an authentic loan that has been sanctioned with a good intention may turn into bad due to lack of proper management and carelessness. The bank will have to face heavy consequences in such a case. When a good loan, with all effort to protect it, turns into bad and the borrower"s ability is not sufficient to repay it, he then tries to hide it from the bank and wants to be relieved temporarily. Such situations give some signals to the bank and these signals are called danger signals.

A bank must be one-step further than its customers must. It must collect all the relevant information that are required by the borrower for the establishment of a business and be rigid to give loan than to give his own money without any security.

When a borrowing unit is not able to serve the debt from the source explored, the documentations are merely a decree to enforce legal action against him. Nevertheless, what gets realized when everything is lost. A jail and punishment does not satisfy the interest of bank. Therefore, he is of the view that the bank should always keep in mind the formula “Know your customers” (KYC) before giving loans.

The security given by a borrower may be ample for the exposure. However, the borrower from other source of business may not be able to generate substantial earning to service the debt. Bank has the right to auction the property and liquidate the loan but in doing so realization form the auction of the property is always less than the value of the assets. This will serve neither the purpose of bank nor the borrower instead cause loss to both.

Pokharel (2006), in the article entitled "Financial Sector Reform and Challenges", Agricultural credit publication stresses that highest liquidity makes the financial institutions un-bankable by creating unnecessary burden of bearing the cost of capital. Dr. Pokharel expresses that most of the financial institutions are lying on uneconomic situation due to ineffectiveness of portfolio management on the one hand and deficiencies of efficient modern management on the other. As for the betterment of the financial possibility in portfolio projects, like hearth, residential buildings, communications, lea gardening etc.

Pokharel further suggests that commercial banks need to make strong strategy urgently with shifting the money from fixed deposit to saving reducing the interest between deposits and interest spread in both sectors. He highlights that fixed deposit has been increasing in the ratio of 0.44 to 0.95 form 1990 to 1999.

2.2.1 Review of Master Degree Thesis

In the light of this dissertation, several thesis works (as are supposed to be relevant) have been conducted by previous students have also been considered. Main theme of some of these dissertations are given as:

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 the objectives of

(a) To highlight the NRB Directives regarding investment policy (loan, advances and investment)

(b) To analyze the liquidity of NIBL

(c) To find out the relationship between total deposit and loan and advances, total deposit and total investment.

(d) To make the trend value analysis of deposit utilization and its projection for next five years.

(e) To find out whether NRB guidelines are actually being implemented.

The study was conducted on the basis on secondary data.

The main findings of the study are:

(a) Bank is in good position to meet the daily cash requirement as bank has maintain the average cash and bank balance in respect to total deposit.

(b) The performance of NIBL regarding deposit collection, granting loan and advances and investment in quite satisfactory but does not seem to follow a definite policy.

(c) NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital.

(d) Interest earned a total operating income of NIBL is high. However, bank failed to maintain net profit on the study.

(e) From the analysis of coefficient of correlation, there is positive and significant relation between total deposits and loan and advances and current assets and current liabilities is negative and so significant relationship between outside assets and net profit.

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

Poudyal (2005) in his research, “Investment in priority sector with special reference to Nepal Bank Ltd.” has put forward following objectives:

- To analyze the repayment position of the priority sectors.
- To find trends of priority sectors loan.
- To analyze how far Nepal Bank Ltd. Has been able to grant credit to priority sectors.
- To examine the impact of loan on priority sectors.
- To analyze the impact of probable cause of misuse of the loan by the borrowers.

Similarly, the major findings of the study were as follows:

a) The procedure of loan sanctioning is rather slow and clumsy.

b) Bank was not able to fulfill the purposed target of corresponding loan to the priority sector.

c) Banking procedures are so complicated that a layman is not able to understand it completely.

d) Loan repayment was more satisfactory from agriculture sector than the cottage industries and service sector.

e) Short-term credit was important for rural people.

f) Loan repayment was mainly due to the miss utilization of loan, other important causes are linked with social expenses like expenses in marriage ceremony, medical treatment, cremation etc.

g) Loan in priority sector has significantly generated the employment opportunity.

h) Loan in priority sector has increased the rural banking system in the rural areas bank branch expansion.

i) The investment amount and percentage of priority sector investment on total deposits have up-going trend.

j) A sort of pressure groups like local people, politicians, administrators etc affect in loan granting process.

Manandhar (2006) has conducted a thesis research on, “A comparative study in investment policies of finance companies in the context of Nepal.”

He has pointed out the following objectives:

a) To evaluate the trends of deposit utilization and its projection for the next five years in case of these companies.

b) To evaluate the liquidity, assets management efficiency and profitability position in relation to fund mobilization of above listed companies.

c) To evaluate the growth ratio of loans and advance and total investment with respective growth rate of total deposits and net profits of the companies.

d) To find out relationship between deposits and total investment, deposit and loans and advance and net profit and outside assets of the listed companies.

e) To discuss the fund mobilization and investment policy of these companies in respect to its fee based off-balance sheet transactions and fund based on-balance sheet transactions.

f) To suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of these companies for the improvement of financial performance in future.

The findings of the research were as follows:

a) The liquidity position of National Finance and NEFINSCO are comparatively better than of other companies. Nevertheless, that of Goodwill finance and Union finance seems to be quite weaker.

b) Most of the finance companies are successful in on-balance sheet utilization as well as off-balance sheet operation. Among them, NEFINSCO and Goodwill comes ahead of all.

c) Profitability position of most of the companies is comparatively not better.

d) Most of the finance companies are able to maintain the growth ratios among them. Nepal share markets seem to be more successful to increase their source of funds and mobilization as well as net profit.

e) There is significant relationship between deposits and loans advances of all finance companies. Similarly, there is no significant relationship between deposits and total investment of all companies except NEFINSCO and Goodwill Finance Co. Ltd. There is also no significant relationship between outside assets and net profit of all companies except Union Finance Co. and National Finance Co. Ltd. The trend value of total investment to total deposit ratio and loans and advances to total deposits ratio in increasing trend.

Khanal (2007) in his thesis entitled, “Investment in priority sector by commercial banks (a study of commercial banks of Kathmandu valley)” has put forward following objectives.”

a) To analyze the trend of investment in priority sector.

b) To find out extent of profitability affected in this sector.

c) To measure the efficiency of the program in the rural and urban sectors.

d) To evaluate the banking procedures and services in disbursing loans.

e) To explore the reasons for low investment.

The main findings of the research were as follows:

a) The investment in priority sector has an increasing trend.

b) Banks are giving due consideration to increase investment in the priority sector.

c) Due to low interest rate, overhead cost increased in administration and showed low profitability.

d) The regression analysis had shown a negative relationship between profit and investment.

e) The chi-square test has shown that the investment program in rural and semiurban areas is more effective than in urban areas.

f) Banking procedure regarding loan disbursement in priority sector is much more complicated.

g) There is wide gap between demand and supply of loan.

h) Due to security and lack of proper legal documents most loan requesters have been rejected and even cancelled some of the projects in different sectors.

Tiwari (2007), conducted a study on, "Investment policy of Commercial Banks in Nepal: A Comparative Study of Everest Bank Limited , Nabil bank Limited and Bank of Kathmandu Limited has presented research findings of the study as follows:

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

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

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

- In analysis of profitability, total interest earned to total outside assets of EBL is lowest between the three banks. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e. Nabil and BOK. From the view point of risk ratio, EBL has higher capital risk but average of credit risk in comparision to Nabil and BOK.

Upreti (2008), in a study entitled, " A study of the joint venture bank's profitability" has presented following major findings:

- Interest income of NIBL is the highest.

- Nabil's commission and discount earning and foreign exchange income is higher than both NGBL and NIBL.

- Nabil's other operating income is appeared higher than other banks.

- NGBL has the highest EPS and cash dividend per share in average.

Shakya (2009), conducted a study on "Financial analysis of joint venture banks in Nepal with reference of NABIL & NGBL." The major findings of the study are as follows:

- The cash and bank balance to total deposit ratio of NABIL Bank Limited is in fluctuating trend whereas the same ratio of NGBL is in decreasing trend.

- NGBL's liquidity position is comparatively better than that of NABIL Bank Limited.

Loans and advances to total deposits ratio is in fluctuating trend in case of Nabil bank and the same for NGBL is firstly in increasing trend then following the declining trend.

2.3 Research Gap

The world is marked by rapid changes and new developments, as such researchers conducted a few years back, may not be adequate to explain current phenomenon. There have been several researcher have many useful findings and their own limitations in this topic.

Though many affiliate researchers have been done in this area but there have been some researchers on this subject which is very helpful in different areas. A research by Rajya Laxmi Khadgi (2006-July) suffer a short coming of having inadequate geographical analysis is also in the same topic but the bank is different the topic is "Investment Policy of NABIL Bank ". Moreover, there have been some developments in this Bank (Rastriya Banijya Bank) from last two years. The main focus of the researcher will be analysis the performance, growth and downfalls of the bank. This will help to analyze whether the bank is in increasing trend or in decreasing trend. By analyzing these aspects focuses can be set on the weakness turned. So that in future this weakness can be turned into the strength of the investment policy of the bank.

CHAPTER III

Research Methodology

Research is the systematic process of collecting and analyzing information to increase our understanding of the phenomenon under study. It is the function of the researcher to contribute to the understanding of the phenomenon and to communicate that understanding to others.

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problems or search the answers to questions is called research. Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them (Kothari, 1990:13).

Research Methodology is a way to solve systematically about the research problems, which includes many tool, if it is necessary in each and every steps of this study. The main objectives of the study are to analyze, examine, highlight and interpret the investment situation of the banks. Research methodology refers to the various sequential steps to be followed and adopted by a researcher in studying a problem with certain objectives in view.

3.1 Research Design

Research is a systematize effort to gain new knowledge. Research design is the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, recording, interpretation, reporting and analysis of data.

Descriptive and analytical research designs have been used to achieve the objective of this study. Descriptive techniques have been applied to evaluate investment performance of NABIL and compare it with NIBL as well as some statistical and financial tools have been adopted to examine facts. The study is design as to give a clear picture of the bank's investment circumstances with the help of available data and with some useful suggestions & recommendation.

3.2 Population and Sample

Number of Commercial Banks in Nepal

- Rastriya Banijya Bank
- Nepal Bank Ltd
- Agricultural Development Bank
- Nabil Bank Limited
- Nepal Investment Bank Limited
- Standard Chartered Bank Nepal Limited
- Himalayan Bank Limited
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank Limited
- Everest Bank Limited
- Nepal Credit & Commerce Bank Limited
- Lumbini Bank Limited
- Kumari Bank Limited
- Nepal Industrial and Commercial Bank Ltd.
- Machapuchhre Bank Limited
- Bank of Kathmandu Ltd.
- Laxmi Bank Limited
- Siddhartha Bank Limited
- Global Bank Limited
- Citizens Bank International Limited
- Prime Commercial Bank Limited

- Sunrise Bank Limited
- Bank of Asia Limited
- NMB Bank Ltd.
- Development Credit Bank Ltd.
- Kist Bank Ltd.
- Janta Bank Ltd.
- Megha Bank Ltd.

From these samples two banks i.e. NABIL and NIBL has been selected and its data related to investment policy are comparatively studied.

3.3 Nature and Source of data

The study is based on the secondary data relating to the study of investment analysis of NABIL & NIBL banks as they are available at NABIL & NIBL. Determining the sources of data is an important step in the collection of data. Basically this study is conduct on the basis of secondary and analyzed data. For analysis, the data are collected from Bank's Financial Statement & Annual Reports of these two banks and another related data are collected from many institutions and regulating authorities like NRB, Security Exchange board, Nepal Stock Exchange Ltd., Economic Survey, Ministry of Finance, Budget Speech of different fiscal years, T.U. Central Library, SDC library, various articles published in the newspaper, websites, magazines, journals, reports etc.

3.4 Method of Data Presentation and Analysis

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

3.5 Financial Tools

Financial tools, like ratio analysis have been used to examine the financial strength & weakness of banks in this study. From the help of ratio analysis the quantitative judgment can be done. It basically helps to analyze the strength and weakness of the firm. In this study different ratios which are related to the investment operation of the bank are calculated which are given below.

3.5.1 Liquidity Ratios

Liquidity means the ability of a firm to satisfy its short-term obligations as they come due. It measured by the speed with which bank assets can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratio:

a) Current ratio:

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

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

b) Cash and Bank Balance to Current Asset ratio:

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

$$\text{Cash and Bank Balance to current Assets Ratio} = \frac{\text{Cash of Bank Balance}}{\text{Current Assets}}$$

c) Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balance are the current assets. It includes cash on hand and foreign cash on hand; cheques and other cash items, balance with domestic banks and balance held in foreign banks. Total deposit includes current, saving and fixed deposit, money at call & short notice & other deposits. This ratio is calculated by dividing cash and bank balance by total deposit. This can be presented as,

$$\text{Cash \& Bank Balance} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

d) Investment on Government Securities to Current Asset Ratio:

Investment on government securities includes treasury bills and development bond. This ratio is calculated by dividing investment on govt. securities by current assets. This can be presented as,

$$\text{Inv. on Govt. Securities to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

Here investment on government securities includes treasury bills and development bond etc.

e) Loan and Advances to Current Assets Ratio:

Loan & advances are current assets, which generates income for the bank and show the percentage of loan and advances in the total assets. Loan & advances include loans, advances, cash credit, loan & foreign bill, purchase & discounted. This ratio can be computed by dividing loans and advances by current assets. This can be states as,

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

3.5.2 Asset Management Ratio

Asset management ratios are employed to evaluate the efficiency with which the firm manage & utilizes its assets. It is also called turnover ratios because it indicates the speed with which assets are being converted or turnover. The following ratios are used in this asset management ratio:

a) Loan & Advances to Total Deposit Ratio

This ratio shows how successfully the banks are utilizing its total deposits on loan & advances for generating profit. Higher ratio implies the better utilization of total deposits. Mathematically it is presented as,

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Deposit}}$$

b) Total Investment to Total Deposit

This ratio implies the utilization of firms deposit on investment in government securities and share, debentures of other companies and bank. Mathematically it is presented as,

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

The numerator consists of investment on government securities, investment on debenture and bond, shares in subsidiary companies, shares in other companies and other investment.

c) Loan & Advances to Total Working Fund Ratio

Loan & advance is the major component in total working fund (total assets) which indicates the ability of bank to analyze its deposits in the form of loan & advances to earn high return. This can be obtained by dividing loan & advances by total working fund. Mathematically it is presented as,

$$\text{Loan \& Advances to Total Working Fund Ratio} = \frac{\text{Total Loan \& Advance}}{\text{Total Working Fund}}$$

Here, the denominator includes all assets of on balance items. In other words this includes current assets, loans for development banks and other miscellaneous assets but excludes off balance sheet items like letter of credit, letter of guarantee etc.

d) Investment on Government Securities to Total Working Fund Ratio

This ratio shows the banks investment on government securities in comparison to the total working fund. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

$$\text{Inv. on Govt Securities to Total Working Fund Ratio} = \frac{\text{Investment in Govt. Securities}}{\text{Total Working Fund}}$$

e) Investment on Shares and Debentures to Total Working Fund Ratio

This ratio shows the banks investment in shares and debenture of the subsidiary and other companies. This ratio can be derived by dividing investment on shares and debentures by total working fund. This is presented as,

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

Here the numerator indicates investment on debentures, bonds and shares of other companies.

3.5.3 Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency of operations of a firm in term of profit. It is true indication of financial performance of any institutions. Higher the profit ratio, the higher will be the efficiency bank and vice versa. Profitability position can be evaluated through following different ways:

a) Return on Loan and Advance Ratio

This ratio indicates how efficiency the bank has employed its resources in the form of loan & advances. This ratio is computed by dividing net profit (loss) by loan and advances. This can be expressed as,

$$\text{Return on Loan and Advance Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loans \& Advances}}$$

b) Return on Equity Ratio (ROE)

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the banks have used the funds of owners. Total investment earned to total outside assets ratio. This can be stated as,

$$\text{Return on Equity Ratio (ROE)} = \frac{\text{Net Profit After Tax}}{\text{Total Equity Capital}}$$

c) Total Interest Earned to Total Outside Asset Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets.

This can be presented as,

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

3.5.4 Risk Ratios

Risk taking is the prime business of banks investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operations which ultimately influences the banks investment policy. The following ratios are evaluated under this topic:

a) Liquidity Risk Ratio

This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the deposit demand for cash. This ratio is calculated by dividing total cash and bank balance by total deposits.

It can be stated as,

$$\text{Liquidity Risk Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total Deposits}}$$

b) Credit Risk Ratio

It measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan & advances. Here, dividing total loan and advances by total assets derives this ratio. This can be stated as,

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Assets}}$$

3.5.5 Growth Ratios

Growth ratios are directly related to the fund mobilization & investment management of commercial bank. It represents how well the commercial bank is maintaining its economic & financial position. To examine and analyze the expansion and growth of the bank following growth ratios are calculated in this study.

a) Growth ratio of total deposits.

b) Growth ratio of loan and advance.

c) Growth ratio of total investment.

d) Growth ratio of net profit.

3.6 Statistical Tools

To achieve the objective of this study, some important statistical tools are used such as mean, Standard deviation, co-efficient of variation co-efficient of correlation, trend analysis and test of hypothesis (t– Statistic) which are as follows:

a) Standard Deviation

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

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma(x-\bar{x})^2}{N}}$$

b) Co-efficient of variation

The co-efficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio if the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. It can be shown as,

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{x}} \times 100$$

c) Co-efficient of Correlation

This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variable, the effect on none variable may effects another correlated variable. This study tries to find out relationship between the following variables.

a) Co-efficient of correlation between deposit and loan and advances.

b) Co- efficient of correlation between total deposit and total investment.

This tools analyze the relationship between these variables and help the bank to make appropriate policy regarding deposit collection, fund utilization and maximization profit.

d) Trend Analysis

These analysis analyze the trend of deposit, loan and advances, investment and net profit of NABIL and NIBL and make the forecast for the next 5 years.

i. Trend analysis of total deposit

ii. Trend analysis of loan and advance

iii. Trend analysis of total investment

iv. Trend analysis of net profit

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

e) Test of Hypothesis

The objective of the test is to get the significant different regarding the parameters the population on the basis of sample drawn from the population. This test has been conducted on the various relations related with the banking business.

i. Test of hypothesis on loan & advances to total deposit ratio of NABIL and NIBL.

ii. Test of hypothesis on total investment to total deposit ratio of NABIL and NIBL

CHAPTER IV

Data Presentation and Analysis

4.1 Presentation and Analysis of Data

In this chapter the researcher has analyzed and evaluated those major financial performances, which are mainly related to the investment management and fund mobilization of NABIL and NIBL comparison thereof has been made of the two banks.

4.2 Financial Analysis

In this topic employing some financial tools such as liquidity ratio, asset management ratio, profitability ratio and other ratios are used to achieve the objective of the study. Only those ratios are calculated and analyzed which are very important to evaluate fund mobilization of a commercial bank. They are as follows:

4.2.1 Liquidity ratio

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

a) 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 position of the bank. The standard of current ratio is 2:1 for banking and 1:1 for seasonal business so on.

We have,

$$CurrentRatio = \frac{CurrentAssets}{CurrentLabilities}$$

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

Current liabilities consists of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities. Current Ratios of NABIL and NIBL from fiscal year 2004/05 to 2008/09 are given below in Table-1.

Table-1

Current Ratio (times)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	0.91	0.93	0.96	1.01	0.80	0.92	0.07	7.58
NIBL	0.89	0.89	0.92	0.92	0.94	0.91	0.02	2.14

Source : Appendix A (1)

Above table indicates that both banks may not be able to pay their current obligations. The comparative table has revealed that both of the banks have more current liabilities than current assets except in Fy. 2007/08 NABIL bank has more current assets than current liabilities. On average, NABIL has maintained higher current ratio than NIBL ie. 0.92% > 0.91%, but the liquidity positions of both banks are not so satisfying. The co-efficient of variation between current ratio is 7.58% in terms of NABIL and 2.14% in terms of NIBL. The above ratios are not consistent because the optimal standard ratio should be 2:1, but 1:1 is also considered for the banks. This ratio represents the relationship between cash & other current assets to its current obligation.

b) Cash and Bank Balance to Current Assets Ratio

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

Where,

Cash and Bank Balance is composed of cash on hand including foreign cheques, other cash items and balance with domestic banks and abroad. Current assets consists of

Cash and Bank Balance, money at call or short-term notice, loan and advances, investment in government securities and other interest receivable and other miscellaneous current assets.

Table-2

Cash and Bank Balance to Current Assets Ratio (%)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	8.25	6.82	3.74	3..05	6.89	5.75	2.00	34.80
NIBL	12.32	11.00	9.60	13.04	10.35	11.26	1.26	11.20

Source : Appendix A (2)

The above table shows that the comparative cash and bank balance to current assets ratio, which is in fluctuating trend for both NABIL & NIBL. NIBL's higher ratio is 13.04% in FY. 2007/08 and lower is 9.60% in FY.2006/07. Similarly, Nabil's higher ratio is 8.25% in 2004/05 and lower is 3.05% in 2007/08. The mean ratio of NABIL is lower than that of NIBL i.e. 5.75% < 11.26%.On the basis of co-efficient of variation it can be concluded that NIBL's ratios are consistent than that of NABIL i.e 11.20% < 34.80%. The above analysis helps to conclude that the cash and bank balance position of NIBL with respect to current assets ratio is better than Nabil. It implies the better liquidity position of NIBL.

c) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic bank and balance held aboard. This ratio is calculated by dividing cash & bank balance by total deposit. The following table shows the cash and bank balance to total deposits ratio of NABIL and NIBL. Through this table cash and bank balance to total deposit ratio are analyzed & standard deviation, mean & C.V is calculated by using the formula.

Table-3

Cash and bank balance to total deposit ratio (%)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	8.51	6.87	3.83	3..26	5.99	5.69	1.94	34.10
NIBL	11.69	10.65	9.40	12.34	9.97	10.81	1.08	9.10

Source : Appendix –3

It is observed that total cash and bank balance to total deposit of both NABIL and NIBL are in a fluctuating trend. NABIL higher ratio is 8.51% in 2004/05 and the lower ratio is 3.26% in F/Y 2007/08. The mean ratio of NIBL is higher than of NABIL. The higher mean ratio of cash and bank balance to total deposits of NIBL reveals that its liquidity position regard to its total deposits is more satisfactory than NABIL The standard deviation of NABIL is higher than NIBL. On the basis of coefficient of variation it can be concluded that NABIL's ratios are less consistency than that of NIBL because it's higher C.V i.e. 34.10 > 9.10%

d) Investment on Govt. Securities to Current Asset Ratio

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

This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities. The ratio is calculated by dividing investment on government securities by total current assets. The ratios are presented in the following table.

Table- 4

Investment on govt. securities to current asset ratio

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	25.88	25.78	16.13	11.15	23.66	20.52	5.89	28.7
NIBL	5.32	17.96	13.95	14.09	13.81	13.03	4.18	32.09

Source : Appendix-B

The above table reveals that the mean ratio of investment on govt. securities to current assets of NABIL is higher than the mean ratio of NIBL i.e. 20.52 >13.03 NABIL has followed the fluctuating trend but NIBL'S performance is poor from this point of view From the analysis we can say that NABIL & NIBL investing position of current assets as government securities indicates that it wants to invest more in other productive sector.

e) Loan and Advance to Current Assets Ratio

Loan and advances are the current assets of commercial bank, which includes loan and advances, cash, credit, overdraft, loan and foreign bill purchase and discount. A commercial bank should not keep its all collected fund as cash and bank balances but they should be invested a loan and advance to the customer because they must earn high profit by mobilization funds for long life banking. They should pay interest on these deposit funds even they don't generate loan and advances and may lose some earning. But high loan and advances may be harmful because they need sufficient liquidity.

The ratio is calculated by dividing loan and advances to current assets. The ratios are presented in the following tables.

Table- 5

Loan and advances to current assets ratio (%)

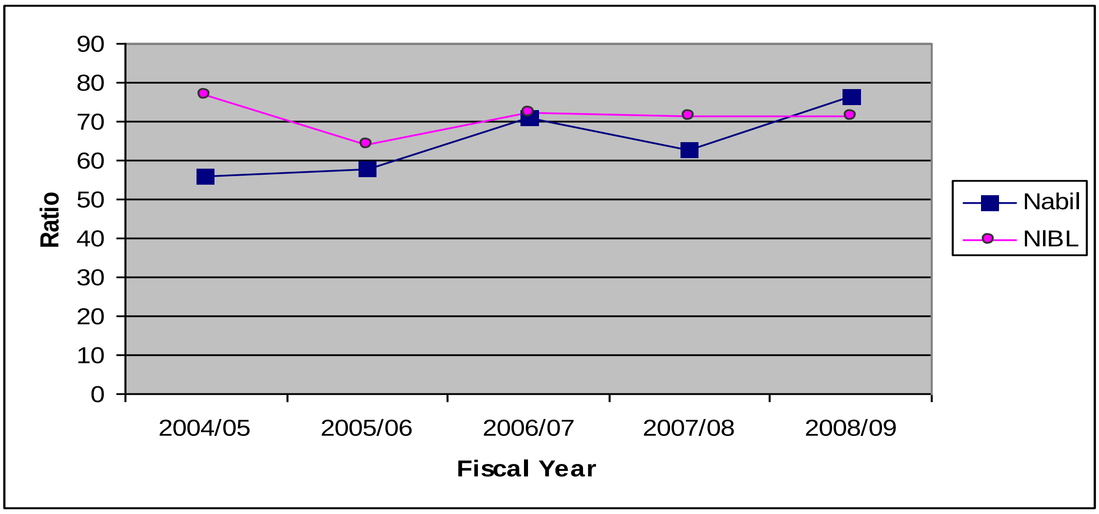
	Fiscal Year							
Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
Nabil	*55.93*	*57.50*	*70.72*	*62.61*	*76.49*	*64.65*	*7.85*	*12.15*
NIBL	*76.78*	*63.98*	*72.50*	*71.35*	*73.30*	*71.58*	*4.21*	*5.89*

Source : Appendix C

The above table shows that both banks loan and advances to current assets ratio are in a fluctuating trend. The highest ratio of NABIL is 76.49% (F/Y 2008/09) and NIBL is 76.78% (F/Y 2004/05) respectively.

In case of the mean ratio, NIBL has maintained high ratio in comparison to NABIL. The higher mean ratio of loan and advances to current assets of NIBL reveals that its liquidity position with regard to its current asset is more satisfactory than of NABIL. Loan and advance to current assets ratio of NABIL and NIBL are graphically shown below in figure 1:

Figure 1: Loan and advance to current assets ratio of NABIL and NIBL



4.2.2 Analysis of the Asset Management Position of the banks

A commercial bank should be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. This ratio measures how efficiently the bank manages the resources at its commands. The following ratios are measured the assets management ratio of the NABIL and NIBL in comparison.

a) Loan and advances to total deposit ratio

This ratio actually measures the bank's ability to utilize the depositors fund to earn profit by providing loan and advances. This ratio is compute by dividing loan and advances by total deposit. A high ratio of loan and advances indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view.

The following table reflects loan and advances to total deposit ratio of NABIL and NIBL

Table No. 6

Loan and advances to total deposit ratio (%)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	57.68	58.01	72.57	66.79	66.60	64.33	5.72	8.89
NIBL	72.86	61.87	71.04	67.50	70.59	68.77	3.86	5.60

Source : Appendix-D

The above table shows that NABIL and NIBL loan and advances to total deposit ratio have fluctuating trend during the study period. The highest ratio of NABIL and NIBL are 72.57% (F/Y 2006/07) and 72.86% (F/Y 2004/05) respectively. An average, the ratio of NIBL is higher than that of NABIL (i.e. 68.77 > 64.33). It shows that NIBL seems to be strong to mobilize its total deposit as loan and advances in comparison to NABIL. On the basis of co- efficient of variation, we can say that NIBL loan and advances is more consistent that of NABIL because of its lower C.V. i.e. 5.60<8.89.

It is concluded that NIBL is successful mobilize its total deposit as loan and advance and also NABIL is found slightly weak in comparison to the NIBL.

b) Total investment to total deposit ratio

A commercial bank may mobilize it deposit by investing its fund in different securities issued by government and other financial and non-financial companies.

Now the effort has been made to measure the extent to which the banks are successful in mobilize the deposits on investment. In the process of portfolio management of banks assets various factors such as availability of fund, liquidity requirement, central banks norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa.

The following table shows the ratio of total investment to total deposits of NABIL and NIBL.

Table No. 7

Total investment to total deposit ratio (%)

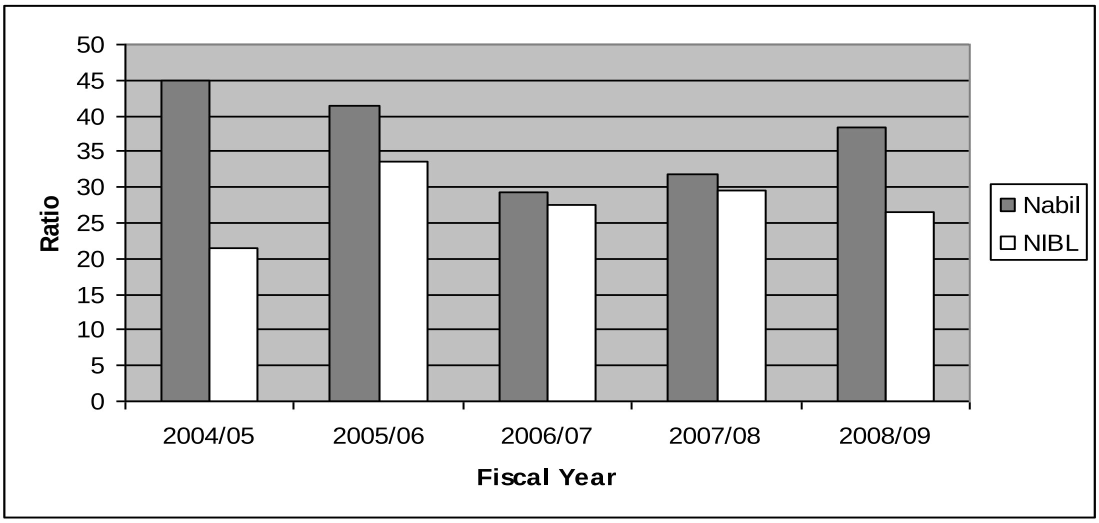
	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	44.85	41.33	29.27	31.93	38.32	37.14	5.79	15.59
NIBL	21.52	33.51	27.60	29.60	26.57	27.76	3.92	14.12

Source : Appendix E

Above table reveals that both bank's total investment to total deposit ratios are in fluctuating trend. NABIL's has highest ratio in F/Y 2004/05 i.e. 44.85% and lowest ratio in F/Y 2006/07 i.e. 29.27%. NIBL's has highest ratio in F/Y 2004/05 i.e. 33.51% and 21.52% lowest ratio in F/Y 2004/05.

On the basis of mean ratios, it can be said NIBL's capacity to mobilize its deposits on total investment is not so good as its mean ratio is lower than of NABIL. On the other hand, observing the C.V of ratios, we can say that NIBL's loan and advances ratio is more consistent than NABIL, because of its lower C.V. i.e. 14.12%. Total deposit, loan and advances and total investment of NABIL and NIBL are presented in the bar diagram as follows.

Figure 2: Total investment to total deposit ratio (%)



c) Loan and Advances to total working fund ratio

A commercial bank's working fund should play a very significant role in profit generation through fund mobilization. The ratio reflects the extent to which the banks are successful in mobilizing their total assets of loan and advances for the purpose of income generation. A high ratio indicates a better fund mobilization as loan and advances and vice-versa.

The ratio is calculated by dividing loan advances by total working fund. The following ratio shows the ratio of loan and advances to total working fund.

Table No.8

Loan and advances to total working fund ratio (%)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	46.83	48.91	61.60	57.87	57.04	54.45	5.63	10.33
NIBL	64.03	53.79	62.22	59.90	62.65	60.52	3.62	5.98

Source : Appendix F

Above table no 8 shows that NABIL's ratio has a fluctuating trend. It has the highest ratio in the F/Y 2006/07 i.e. 61.60% and the lowest ratio is 46.83%in F/Y 2004/05. In case of NIBL also it has a fluctuating trend; it maintained the highest ratio in F/Y 2004/05 i.e.64.03% and the lowest in F/Y 2005/06 i.e.53.79% From the above analysis, it is concluded that NIBL has that NIBL is not in weak higher mean ratio than NABIL. It is clear condition to mobilize its working fund as loan and advance than NABIL. The coefficient of variation of NIBL is high consistent than that of NABIL i.e. C.V. of NIBL is 5.98% and C.V. of NABIL is 10.33%

d) Investment on Government Securities to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. All the deposits of the bank should not be utilized in loan and liquidity point of view, Therefore, commercial banks seem to be interested to invite their deposit by purchasing government securities. A high ratio shows that better mobilization of funds as investment on government securities and vice-versa. This ratio is calculated by dividing investment on government securities by total working fund and this ratio of NABIL and NIBL is presented in the following table.

Table No. 9

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

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	21.67	21.93	14.05	10.31	17.64	17.11	4.47	26.12
NIBL	4.44	15.10	11.97	11.82	11.80	11.03	3.52	31.95

Source : Appendix G

The above comparative table shows that the ratio of both banks is fluctuating trend in the study period. The mean ratio of NABIL is more than NIBL i.e. 17.11 >11.03 The comparison mean ratio of NABIL and NIBL reveals that NABIL is strong to mobilize their working funds as investment in government securities. The coefficient of variation of NIBL's is higher than that of NABIL i.e.31.95 >26.12. It indicates that NIBL's ratios are less consistent than that of NABIL. Likewise NIBL's variability between ratios during the study period is greater than that of NABIL.

From the above analysis, it can be concluded that NABIL has invested its more portion of working fund on government securities than NIBL.

e) Investment on Shares and Debentures to Total Working Fund Ratio (%)

Investment on shares and debentures to working fund ratio reflects the extent to which banks are successful to mobilize their working fund in purchasing shares and debentures of other companies to generate income and utilize extra fund. The high ratio indicates the more portion of working fund investment on share and debenture and vice-versa.

Table No.10

Investment on shares and debentures to total working fund ratio Percentage

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	0.13	0.13	1.50	0.14	0.25	0.43	0.53	124.86
NIBL	0.15	0.10	0.11	0.09	0.14	0.118	0.023	19.36

Source : Appendix-H

From the above comparative table, it is found that the NABIL and NIBL have invested nominal percentage to total working fund into shares and debentures of other companies. NABIL ratios are in rising trend but NIBL ratios are in a fluctuating trend showing the lack of efficient and uniform investment policy. The comparison of mean ratios of NABIL and NIBL, it reveals that NABIL has invested higher amount in shares and debenture than that of NIBL. Moreover, C.V. of NABIL is highest than of the NIBL i.e. 12.486>19.36. Higher C.V. of NABIL ratio states that its ratios are less consistent than of NIBL

4.2.3 Analysis of the profitability position of the banks

The main objectives of commercial banks are to earn profit providing different types of banking services to its customers. To meet various objectives, like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expand banking transactions in different places, finance government in need of development funds etc a commercial bank must have to earn sufficient profit.

Of course, profitability ratios are the best indicators of overall efficiency. These ratios are calculated to measure the operating efficiency and overall performance of the financial institution. Here, mainly those ratios represented and analyzed which are related with profit as well as fund mobilization. Through the fall ratios, effort has been made to measure the profit earning capacity of NABIL in comparison to NIBL.

The following ratios are calculated under this profitability ratio topic:

a) Return on Loan and Advances Ratio

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan and advances. A high ratio indicates greater success to mobilize fund as loan and advances and vice versa. This ratio calculated by dividing net profit by total amount of loan and advances. The following table shows the return on loan and advances ratio of NABIL and NIBL of study period.

Table No.11

Return on Loan and Advances Ratio Percentage

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	5.37	5.56	4.90	4.92	4.34	5.02	0.43	8.66
NIBL	2.02	2.14	2.29	1.85	2.04	2.07	0.15	7.00

Source : Appendix-I

From the above comparative table, it shows that the ratios of both NABIL and NIBL are in fluctuating trend. During the study period, the highest ratio of NABIL is in F/Y 2005/06 i.e.5.56% and the lowest ratio is 4.34% in F/Y 2008/09. In case of NIBL, the highest ratio is 2.29% in F/Y 2006/07 and the lowest ratio is 1.85% in F/Y 2007/08. On the other hand, when the mean ratios are observed, NABIL has higher ratio than NIBL (i.e. 5.02% >2.07%).Likewise, high C.V. of NABIL i.e. 8.65% indicates high variability of ratios than that of NIBL. Moreover, NABIL's significantly high C.V. shows its less homogeneous ratios during the study period.

In conclusion it can be said that NIBL to be failure to earn high return on its loan and advances in comparison to the NABIL. So, NIBL has to invest their fund in productive sector to increase return ratio.

b) Return on Equity Ratio (ROE)

Equity capital of any bank is its owned capital. The prime objectives of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. ROE is the measuring the role of profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize it equity capital. A high ratio indicates higher success to mobilize its owned capital (equity) and vice versa. This ratio is calculated by dividing net profit by total equity capital including paid up capital, P/L a/c, various reserves, general loan loss provision etc. This ratio has been shown in the following table.

Table No. 12

Return on equity (%)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	31.67	30.73	31.29	33.88	32.76	32.06	1.12	3.5
NIBL	18.3	20.94	19.68	24.77	26.68	22.07	3.15	4.30

Source : Appendix J

From the above table shows, that the return on equity ratios of both banks are fluctuating trend for the year of study period. NABIL has maintained highest ratio i.e. 33.88% in F/Y 2007/08 and the lowest ratio i.e. 30.73% in F/Y 2005/06. Similarly, NIBL has highest ratio i.e. 26.68% in F/Y 2008/09 and lowest ratio i.e. 18.3% in F/Y 2004/05. On the basis of mean ratio, it can be said that NABIL hasn't been weaker to earn high profit to it's SH's in comparison to NIBL which can be viewed by the higher mean ratio i.e. 32.06>22.07. The coefficient of variation of NIBL is higher than NABIL i.e. 14.30%>3.50% which indicates that NIBL has low degree of stability than that of NABIL. Thus, it can be concluded that NIBL has not been able to earn high profit through the efficient utilization of its owned capital. Moreover, its low C.V. shows its quite homogenous ratios during the study period, which shows efficiency investment policy for the mobilization of capital resources.

c) Total Interest Earned to Total outside Asset Ratio

The outside assets have played a significant role in commercial banks as a main asset which includes loan and advances, investment on government securities, investment on share and debentures and all other types in investment. A high ratio indicates high earning on total outside assets and vice versa.

This ratio is calculated by dividing total interest earned by total outside assets. The ratio of NABIL and NIBL over the study period has been tabulated below.

Table No. 13

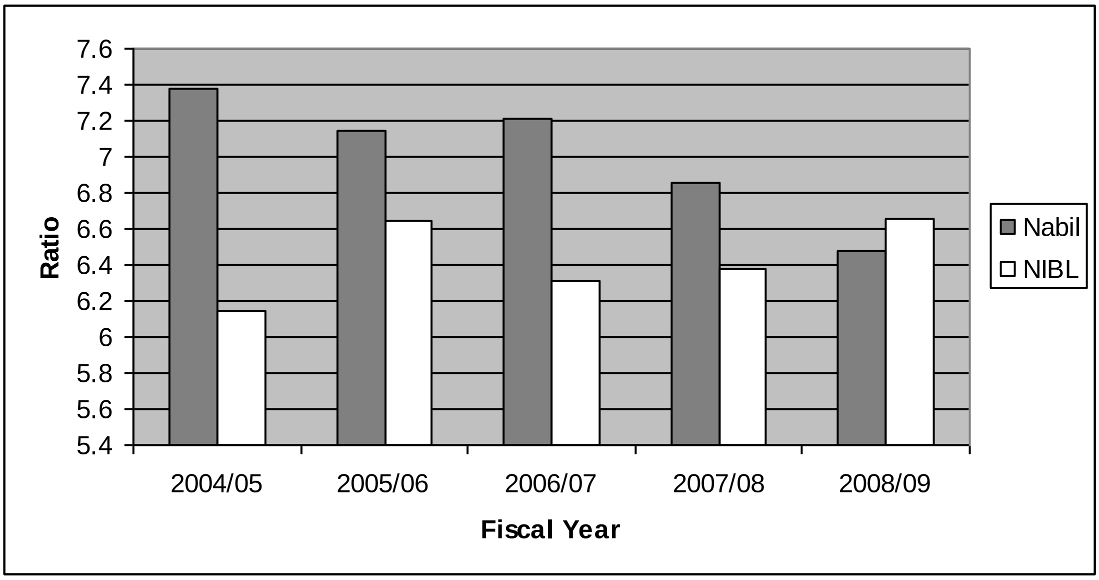
Total Interest Earned to Total outside Asset Ratio (%)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	7.38	7.14	7.21	6.86	6.48	7.01	0.29	4.22
NIBL	6.15	6.65	6.31	6.38	6.66	6.43	0.19	3.08

Source : Appendix K

From the above comparative table both banks ratio's are in fluctuating trend during the period under study. On the other hand, when mean ratios are observed, NIBL seems to have earned lower amount of interest on their outside assets in comparison to NABIL i.e.6.43<7.01%. Moreover, C.V. of NIBL is significantly lower than that of NABIL i.e. 3.08<4.22%. Total interest earned to total outside asset ratios of NABIL and NIBL are graphically presented as follows:

Figure 3: Total interest earned to total outside asset ratio (2004/05 to 2008/2009)



4.2.4 Risk Ratios

The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on investment. The risk taken is satisfied by the increase in profit. A bank has to take high risk if the expects high return on its investment. So, the banks operating for high profit have to accept the risk and manage it efficiently. Through following ratios efforts has been make to measure the level of risk essential in the NABIL and NIBL comparatively.

a) Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The ratio of cash and bank balance to total deposit is the indicator of bank liquidity needed. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposits as the liquidity needed. A higher liquidity indicates less risk and less profitable bank and vice versa.

This ratio is calculated by dividing total cash and bank balance by total deposits. The following table shows the liquidity ratio of NABIL and NIBL in comparison.

Table No. 14

Liquidity risk ratio (%)

	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	8.51	6.87	3.83	3.26	5.99	5.7	2.06	36.07
NIBL	11.69	10.65	9.40	12.34	9.97	10.8	1.08	10.00

Source : Appendix L

From the above table shows that the liquidity risk ratios of both banks have fluctuating trend. In case of NABIL, its highest ratio is 8.51%in F/Y 2004/05 and the lowest ratio is 3.26% in F/Y 2007/08. Whereas, the NIBL has maintained the highest ratio is 12.34% in F/Y 2007/08 and the lowest ratio is 9.40% in F/Y 2006/07. The mean ratio of NIBL is higher than that of NABIL i.e. 10.8%>5.7%. But, the C.V of NABIL is higher than that of NIBL i.e. 36.07%>10.00%. It indicates that NIBL's liquidity risk ratios are less variable than that of NABIL.

From the above analysis, it can be said that has NIBL maintains higher liquidity which means it operates with lower risk, which decrease profitability. Whereas NABIL has maintained low liquidity policy proved by higher coefficient of variation.

b) Credit Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk ratio shows the proportion of non-performing assets (NPAs) in the total loan and advances of a bank. But due to unavailability of the relevant data, here we presented the credit risk as the ratio of total loan and advances to total assets. The following table shows the credit risk ratio of NABIL and NIBL in comparison.

Table No.15

Credit risk ratio (%)

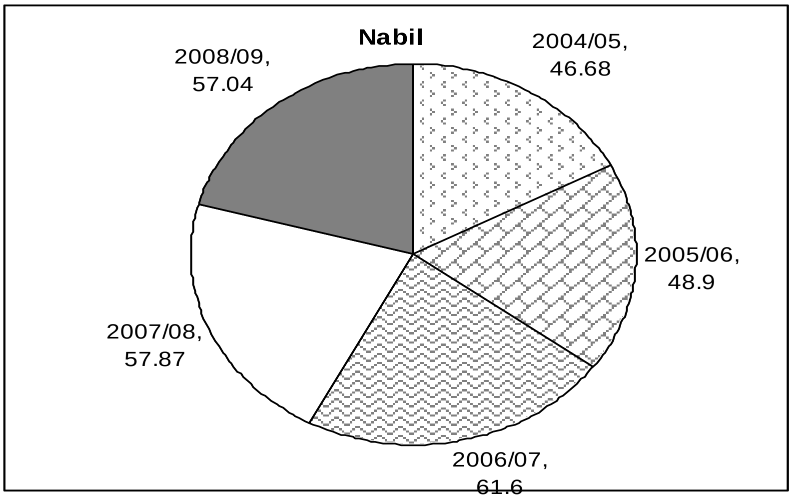
	Fiscal Year							
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**S.D.**	**C.V.**
Nabil	46.68	48.90	61.60	57.87	57.04	54.42	5.76	10.42
NIBL	64.03	53.79	62.23	59.89	62.65	60.52	3.45	5.77

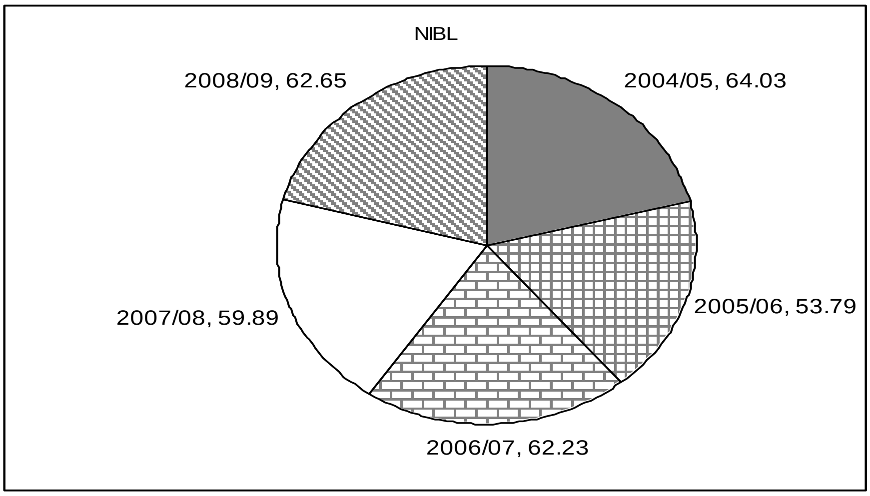
Source : Appendix-M

The above table shows that both banks have fluctuating trend. In case of NABIL, its ratio reached to 61.6% in 2006/07 and lowest ratio i.e. 46.68% in F/Y 2004/05 whereas the ratio of NIBL subject to highest i.e. 64.03% in F/Y 2004/05 and the lowest i.e.53.79% in F/Y 2005/06.

On the basis of mean ratio, it can be said that credit of NABIL is lower than NIBL i.e. 54.42<60.52%. On the other hand, it has higher C.V. than NIBL i.e. 10.42>5.77% which shows that NABIL's credit risk ratios are more variable than that of NIBL. From the above analysis, it can be concluded that the degree of credit risk is higher and its risk ratios are more variable. Credit Risk Ratio is graphically presented below.

Figure 4: Credit Risk ratio (2004/05 to 2008/2009)





4.2.5 Growth Ratios

Growth ratios are analyzed and interpret which are directly related to the fund mobilization and investment of a commercial bank. It represents how well the commercial banks are maintaining their economic and financial position. Under this topics four types of growth ratio are studied which as follows:

a. Growth ratio of total deposit

b. Growth ratio of loan and advances

c. Growth ratio of total investment

a) Growth ratio of Total Deposit

This ratio can be calculated by dividing the last period figure by the first period figure then by referring to the compound interest tables. The high ratio generally indicates better performance of a banks and vice-versa.

Table No.16

Growth ratios of total deposits (%) (Rs. in millions)

	Fiscal Year					**Growth Rate**
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	
Nabil	13447.65	14119.03	14586.61	19347.40	23342.285	14.78
NIBL	7922.75	11524.75	14254.57	18927.30	24488.85	32.59

Source : Appendix N(1), N(2)

The above table shows that the growth ratio of total deposits of NIBL is higher than the NABIL. The growth ratio of NIBL's total deposit is 32.59% whereas the same of the NABIL is 14.78%. It indicates that NIBL can successful in increasing deposit funds in comparison to NABIL.

Table No.17

Growth Ratios of Loan and Advances (%)

(Rs. in millions)

	Fiscal Year					**Growth Rate**
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	
Nabil	7755.90	8189.99	10586.17	12922.54	15545.78	18.98
NIBL	7772.14	7130.13	10126.05	12776.21	17286.43	22.12

Source : Appendix N(1), N(2)

The above comparative table reveals that the growth ratio of loan and advances in case of NIBL are significantly higher than NABIL. It indicates that NIBL is more successful in utilizing its collection fund as loan and advances in comparison to NABIL. From the above analysis it can be said that the performance of NIBL to grant loan and advance in compare to NABIL is better year-by-year.

Table No.18

Growth Ratios of Total Investment (%)

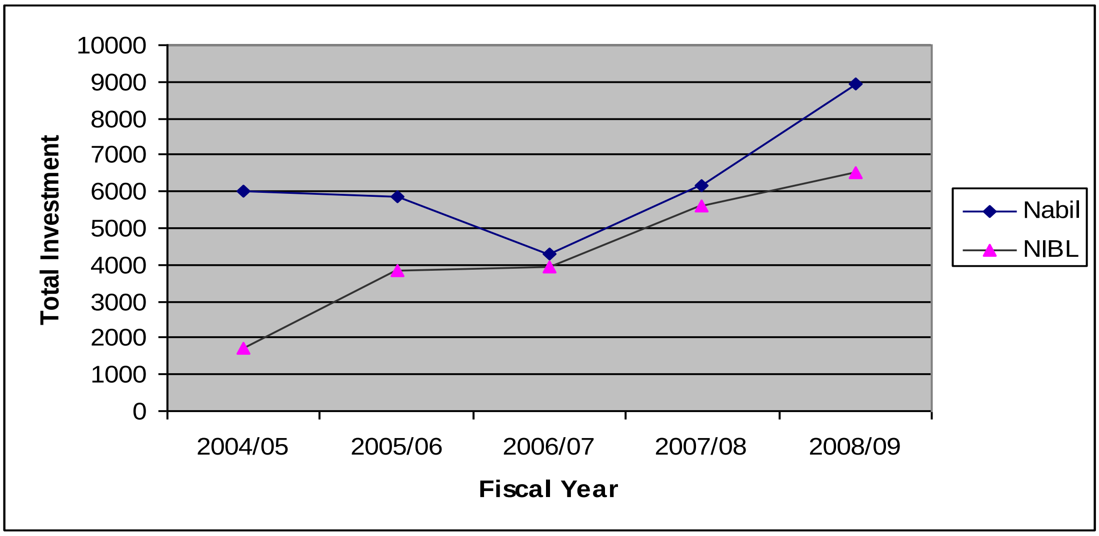
(Rs. in million)

	Fiscal Year					**Growth Rate**
Banks	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	
Nabil	6031.17	5836.07	4269.66	6178.533	8945.31	10.36
NIBL	1705.24	3862.48	3934.19	5602.87	6505.66	39.75

Source : Appendix O(1), O(2)

The above table reveals that the growth ratio of investment of NIBL is higher than the NABIL. The growth ratio of NIBL's investment is 39.75% whereas the same of the NABIL is 10.36%. It indicates that NIBL performance is better on investment of different sectors in comparison to NABIL. Growth Ratio of Total Investment is graphically presented below.

Figure 5: Growth Ratios of Total Investment (2004/05 to 2008/2009)



4.3 Statistical Analysis

In this topic, some statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, investment and net profit as well as hypothesis test (t-statistical) are used to achieve the objectives of the study. They are presented below:

4.3.1 Co-efficient of correlation analysis

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

a) Co-efficient of correlation between deposit and loan and advances

Deposits have played very important role in performance of a commercial bank and similarly loan and advances are very important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (x) and loan and advances are dependent variable (y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan and advances in proper way or not.

The following table shows the value of r, r^2, P. Er. and 6 P.Er. between total deposit and loan and advances of NABIL and NIBL during the study period. For detail see appendix-N (I) and N(II).

Table No.19

Co-relation between Deposit and Loan and Advances

Banks	**Evaluation Criterions**			
	r	**r2**	**P.Er.**	**6 P.Er.**
Nabil	0. 154	0.02371	0.29449	1.7669
NIBL	0.5377	0.2891	0.2144	1.2864

Source : Appendix N (1) and N (2)

From the above table, it has been seen that correlation between deposit and loan and advances is 0.154 in case of NABIL. It means positive relation between two variables. True value of coefficient of determination (r^2) is 0.02371 and it means 2.37% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). Similarly, considering the value of 'r' i.e. 0.154 and comparing it with 6.P.E.r. i.e. 1.7669. Since that the value of r is less than 6. P.Er, which shows that the value of 'r' is insignificant. In other word, there is no significant relationship between deposit and loan and advances in the case of NABIL.

Likewise, in the case of the NIBL, the co-efficient of correlation between deposit (independent variables) and loan and advances (dependent variable) is 0.5377 which indicates positive co-relation between two variables. Similarly, the value of coefficient of determination (r^2) is to be found 0.2891, which shows that 28.91% in the dependent variable has been explained by the independent variable. Moreover, considering the 6.P.Er. i.e. 1.2864, which mean the relationship between deposit and loan and advances is insignificant.

In conclusion from the above analysis of NABIL and NIBL, there is a positive relationship between deposits and loan and advances. The relationship is insignificant and the value r2 shows low degree of explanation. This indicates that both banks are unsuccessful to mobilize their deposits in proper way as loan and advances.

b) Co-efficient of correlation between deposit and total investment

Co-efficient of correlation between deposit and total investment measures the degree of relationship between these two variables. The purpose of calculating this analysis is to find out whether deposit is significantly used as investment or not. Here, deposit is independent variable (x) and total investment is dependent variable (y). For detail see appendix-O (I) and (II).

Table No. 20

Correlation between Deposit and Total Investment

Banks	**Evaluation Criterions**			
	r	**r^2**	**P.Er.**	**6 P.Er.**
Nabil	0.8231	0.6774	0.0978	0.5836
NIBL	0.967	0.9350	0.0195	0.1174

Source : Appendix O(1) and O(2)

From the table in case of NABIL it is found that coefficient of correlation between deposit (independent) and total investment (dependent) value of 'r' is 0.8231, which shows the positive relationship between these two variables. Moreover, when we consider the value of determination'r2' it is 0.6774 which indicates that 67.74% of the variation in the dependent variable is explained by the independent variable. When analyze the value of 'r' and comparing with 6.P.Er we can find that r is much greater than value 6P.Er. that reveals there is significant relationship between deposit and total investment. Similarly, the coefficient of correlation between deposit and total investment in case of NIBL is found to be 0.967, which shows the positive relation between these two variables. If we again consider the value of coefficient of determination (r2) it is 0.9350 which means that 93.50% in the dependent variable is explained by the independent variable. When analyze the value of 'r' and comparing with 6.P.Er we can find that r is much greater than value 6 P.Er. that reveals there is significant relationship between deposit investments.

In conclusion, NABIL and NIBL have the positive correlation between deposit and total investment. The relationship is significant and the value of r2 shows high percent in the dependent variables, which has been explained by the independent variable. While considering P.Er., the both banks are higher than six times probable error. They have significant relation between these two variables.

4.3.2 Trend Analysis and Projection for next five years

This topic is to analyze the trend of deposit collection, its utilization and net profit of NABIL and NIBL. To utilize deposits, a commercial bank may grant loan and advances and invest some of the funds in government securities and shares and debentures of other companies. The topic analyzes the trend of deposit, loan and advances, total investment and net profit are forecasting for next five years. The projections are based on the following assumption.

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

a) Trend Analysis of total deposit

The trend values of deposit of NABIL and NIBL for five year from 2002 to 2009 are given below and forecast for next two years from 2010 and 2011 is done. (For detail see appendix- P (I) and P (II). Regarding this topic, an effort has been made to calculate the trend values of deposit of NABIL and NIBL:

Table No. 21

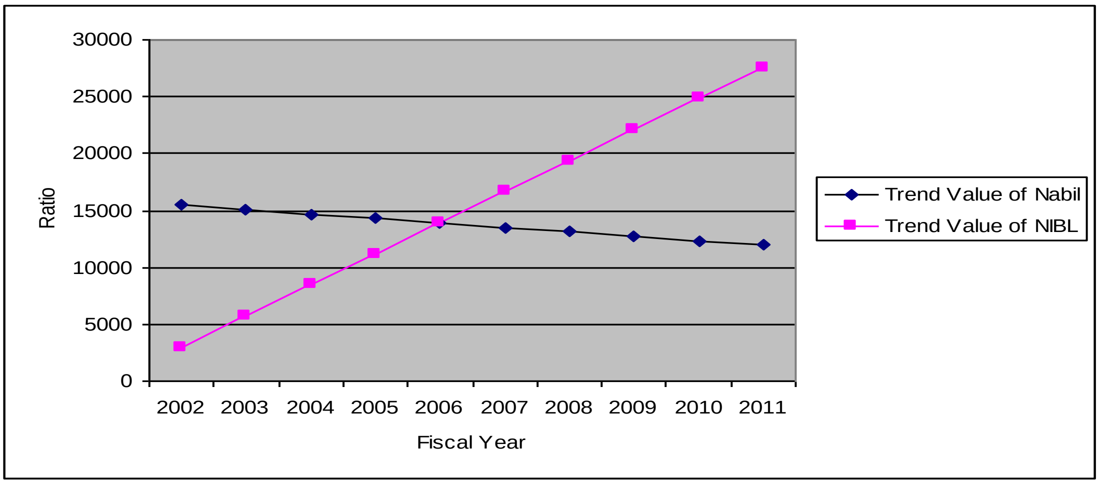
Trend value of total deposit of NABIL and NIBL

(Rs. in million)

Year	Trend Value of Nabil	Trend Value of NIBL
2002	15478.19	2957.27
2003	15088.97	5691.93
2004	14699.75	8426.59
2005	14310.53	11161.26
2006	13921.31	13895.92
2007	13532.08	16630.59
2008	13142.86	19365.25
2009	12753.64	22099.91
2010	12364.42	24834.58
2011	11975.20	27569.24

The above table that total deposit of NABIL is in decreasing trend and NIBL is in an increasing trend. The total deposit of NABIL in 2002 is 15478.19 and the NIBL in 2011 is predicted 27569.242.

Figure 6: Trend value of total deposit of NABIL and NIBL (2002-2011)



a) Trend Analysis of Loan and Advance

Here the trend value of loan and advances of NABIL and NIBL have been calculated for eight years from 2002-2009 and forecast for next two years till 2011 has also been done.

The following table shows the trend value of loan and advances for 10 years from 2002 to 2011 of NABIL and NIBL.

Table No. 22

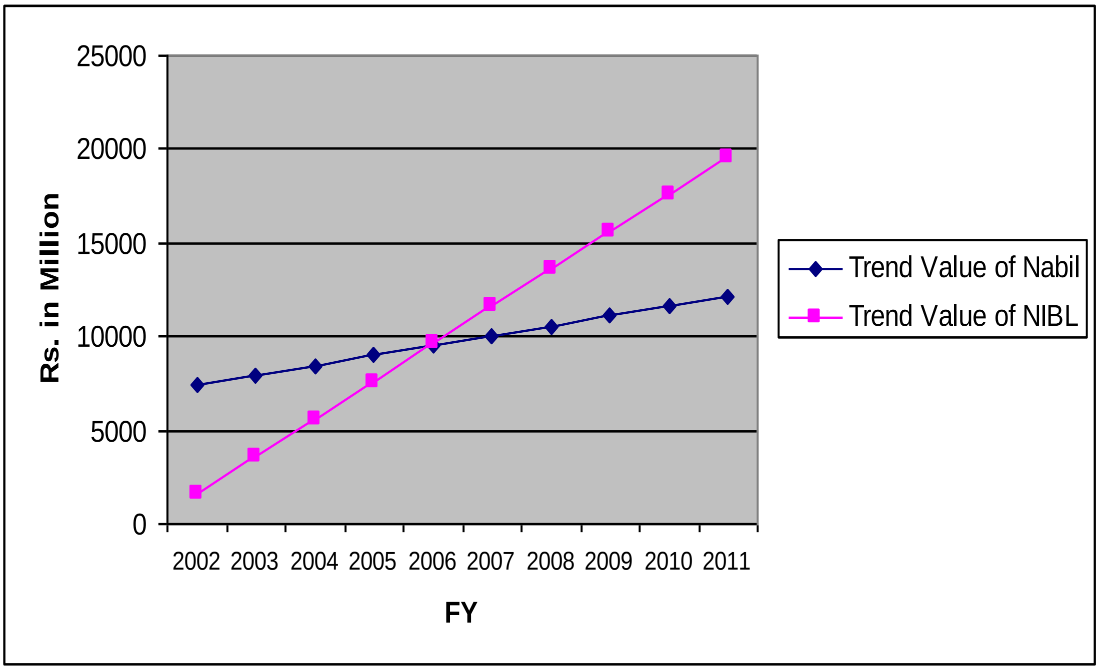
Trend value of loan and advances of NABIL and NIBL(Rs.million)

Year	Trend Value of Nabil	Trend Value of NIBL
2002	7403.79	1612.41
2003	7931.33	3608.38
2004	8458.89	5604.36
2005	8986.44	7600.33
2006	9513.99	9596.30
2007	10041.55	11592.28
2008	10569.11	13588.25
2009	11096.66	15584.23
2010	11624.22	17580.20
2011	12151.77	19576.17

The above comparative table reveals that the trend value of loan and advances of both banks are in increasing trend. The loan and advances of NABIL in 2011 will be Rs 12151.77 million which are highest under the study period. Similarly the same of NIBL will be Rs 19576.17 million.

From the above analysis, it is clear that NABIL will be successful to loan and advances amount in comparison to NIBL. The above calculated trend values of loan and advances of NABIL and NIBL are fitted in the trend lines given below:

Figure 7: Trend values of loan and advances of NABIL and NIBL



b) Trend Analysis of Total Investment

Under this topic, the trend value of total investment for eight years from 2002-2009 have has been calculated and forecast for next two years from 2010 and 2011. The following table shows the trend value of total investment for ten years from 2002 to 2011 of NABIL and NIBL

Table No. 23

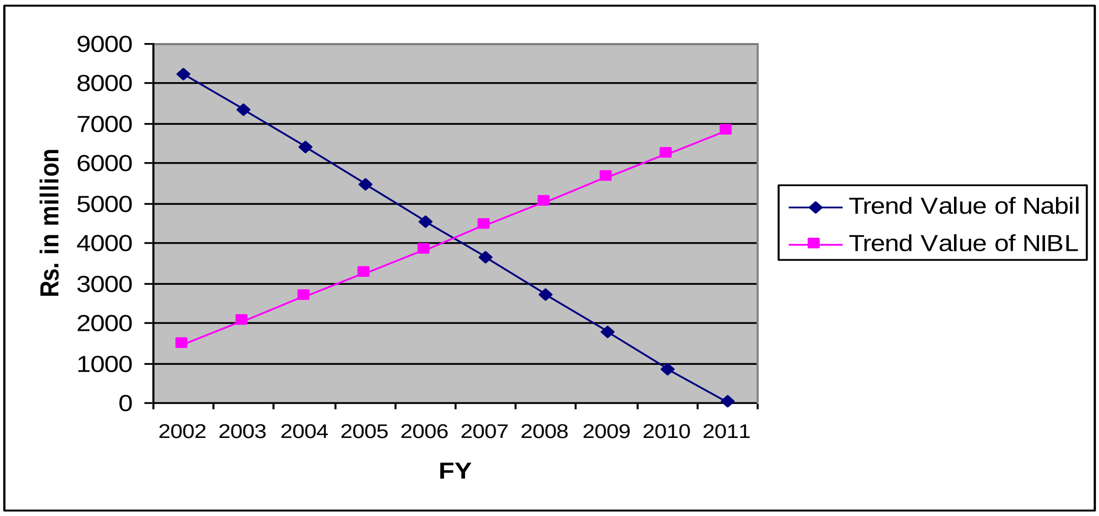
Trend value of total investment of NABIL and NIBL

(Rs. in million)

Year	Trend Value of Nabil	Trend Value of NIBL
2002	8254.69	1465.24
2003	7331.42	2062.05
2004	6408.14	2658.87
2005	5484.87	3255.68
2006	4561.60	3852.5
2007	3638.32	4449.32
2008	2715.05	5046.13
2009	1791.77	5641.95
2010	868.5	6239.76
2011	54.77	6836.58

From the shown comparative table, it is found that the trend value of total investment of NABIL is in decreasing trend and the trend value of NIBL is in increasing trend. The total investment of NABIL in 2011 will be Rs 54.77 million which is the lowest under the study period. The total investment of NIBL in 2011 will be Rs 6836.58 million which is the highest under the study period. The above calculated trend values of total investment of both banks are fitted in the trend lines given below:

Figure 8: Trend values of total investment of NABIL and NIBL



c) Trend Analysis of Net profit

Under this topic the trend value of net profit for five years from 2002-2006 have has been calculated and forecast for next five years from 2007 to 2011. The following table shows the trend value of net profit of NABIL and NIBL.

Table No- 24

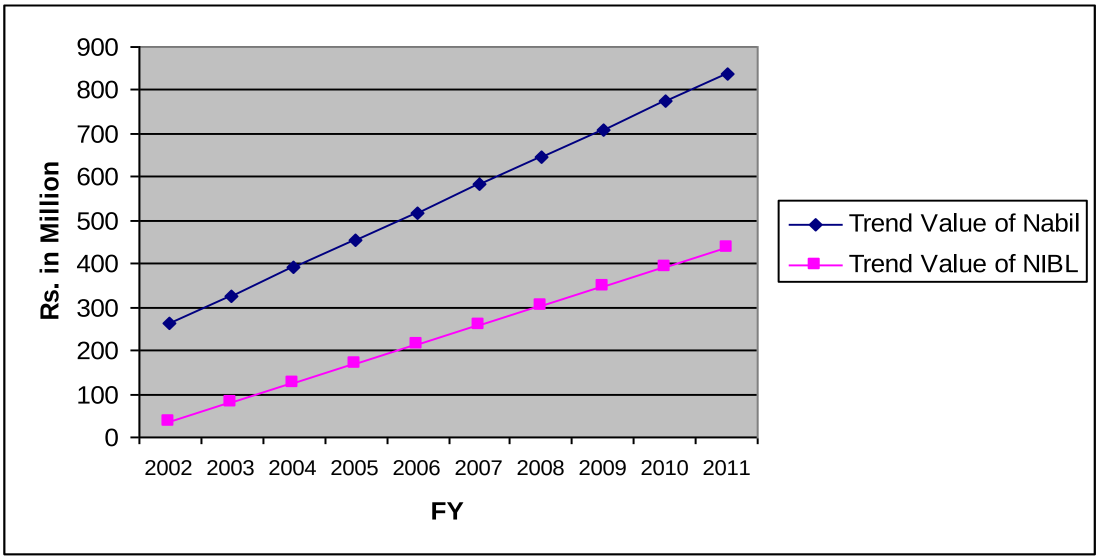
Trend values of net profit of NABIL and NIBL

(Rs in million)

Year	Trend Value of Nabil	Trend Value of NIBL
2002	262.998	33.60
2003	326.82	78.31
2004	390.64	123.02
2005	454.46	167.73
2006	518.28	212.44
2007	582.10	257.15
2008	645.92	301.86
2009	709.74	346.57
2010	773.57	391.28
2011	837.39	435.99

The above comparative table shows that the trend values of net profit of both banks are in increasing trend. The net profit of NABIL in 2011 will be Rs 837.39 million. Similarly, the net profit of NIBL in 2011 will be Rs 435.99 million. From the trend analysis we can say that NABIL's net profit trend is comparatively better than that of the NIBL. The above calculated trend values of net profit of both banks are fitted in the trend lines given:

Figure 9: Trend values of net profit of NABIL and NIBL



4.4 *Major Findings of the Study*

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

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestions for further improvement. This would be meaningful to the top management of the banks to initiate action and achieve the desire result. The objective of the researcher is only to point errors and mistakes but also to correct them and give directions for further growth and improvement. The major findings of the study that are derived on the basis of financial and statistical data analysis of NABIL and NIBL, which are presented below:

4.4.1 Findings from the Liquidity Ratios Analysis

- The mean ratio of current ratio of NIBL and NABIL is almost equal which shows the consistency in comparison.
- The mean ratio of cash and bank balance to current assets of NIBL is higher than that of NABIL which shows NIBL’s ratio are less consistent than that of NABIL.
- The mean ratio of cash and bank balance to total deposit ratio of NIBL is higher than that of NABIL. NIBL's ratios are less consistency in comparison to NABIL.
- The mean ratio of investment on government securities to current assets of NABIL is higher than NIBL which shows that NABIL has good investment in Government securities than NIBL.
- The mean ratio of loan and advances to current assets ratio of NIBL is higher than that of NABIL which shows that the NIBL's ratios are more variable than that of NABIL.

4.4.2 Finding from the Asset Management Ratio

The asset management ratios of NABIL and NIBL reveal that:

- The mean ratio of loan and advances to total deposit of NIBL is higher than that of NABIL. Likewise, NIBL's ratios are more variable than NABIL.
- The mean ratio of total investment to total deposit of NIBL is lower than that of NABIL and the ratios of NIBL are more variable than NABIL.
- The mean ratio of loan and advances to total working fund of NIBL is higher than that of NABIL and NIBL's ratios are more variable than that of NABIL in comparison.
- The mean ratio of investment on government securities to total working fund of NABIL is higher than of NIBL. NABIL's ratios are less variable in comparison to NIBL

- The mean ratio of investment on share and debenture to total working fund of NABIL is higher than that of NIBL. NIBL has very nominal investment on shares & debentures of other companies. Therefore NABIL's ratios are less uniform in comparison to NIBL.

4.4.3 Finding from the Profitability Ratios

The profitability ratio of NABIL and NIBL reveals that:

- The mean ratio of return on loan and advances of NIBL is lower than that of NABIL. On the other hand, NIBL's variability between ratios is lower than that of NABIL.
- The mean ratio of return on equity (ROE) of NABIL has been found higher than that of NIBL and NABIL's ratios are less consistent than that of NIBL.
- The mean ratio of total interest earned to total outside asset of NIBL is slightly lower than that of NABIL. However, NABIL's ratios are more uniformity than that of NIBL.

4.4.4 Finding from the Risk Ratios

- The risk ratios of NABIL and NIBL reveal that the average liquidity risk ratio of NIBL is higher than that of NABIL and NIBL's ratios are less variability in comparison to NABIL.
- The mean ratio of credit risk ratio of NIBL is higher than that of NABIL and NIBL's ratios are more homogenous than that of NABIL.

4.4.5 Finding from the Growth Ratios

The growth ratios of NABIL and NIBL reveal that:

- Growth ratio of total deposit of NABIL is lower than NIBL.
- Growth ratio of loan and advances of NABIL is lower than NIBL.
- Growth ratio of total investment of NABIL is lower than NIBL.
- Growth ratio of total profit of NABIL is lower than NIBL.

4.4.6 Finding from the Co-efficient of correlation analysis

Co-efficient of correlation analysis between different variables of NABIL and NIBL shows that:

- Co-efficient of correlation between deposit and loan and advances of both banks has positive value and near to 1. The value of 'r' of NABIL is slightly lower than that of NIBL. In case of both banks it has been found that there is significant relationship between deposit and loan and advances. The increase and decrease of total deposit of the bank strong affects the volume of loan and advances.

- Co-efficient of correlation between deposit and total investment of both banks has positive relationship. The value of 'r' of NIBL is slightly higher than that of NABIL. In case of both banks it has been found that there is no significant relationship between deposits and total investment during the study period.

4.4.7 Finding from the Trend Analysis

Trend analysis of deposit, loan and advances, total investment and net profit and projection for next five years of NABIL and NIBL shows that:

- The trend values of total deposit of NABIL are found to be in decreasing trend and NIBL is found to be in increasing trend.

- The trend values of loan and advances of both banks have been seen to be in increasing trend. The trend value of NABIL in 2011 will be Rs 12,151.775 million and trend value of NIBL in 2011 will be Rs 19,576.175 million

- The trend value of total investment of NABIL is in decreasing trend but the trend value of NIBL is in increasing trend which will be Rs 6836.58 million.

- The trend values of net profit of both banks are found to be in increasing trend.

- The trend value of NABIL in 2011 will be Rs. 837.387 million and the trend value of NIBL in 2011 will be Rs. 435.994 million.

CHAPTER V

Summary, Conclusion and Recommendation

5.1 Summary

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

Investment is a very well known and prestigious word in financial term. It is always true that all people want to invest their money in the best firm of good return may be both favorable and unfavorable. It is conceptually the investment of the collected fund or wealth like income. It is the most important factor from the point of view of shareholders and bank management. For this, commercial bank have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume of quality deposits, loans and investment. The major source of income of a bank is interest income from loan and investment and fee based income.

Many of commercial banks have been established in our country within a short period of time. Commercial banks must follow the rule and regulations as well as different directions issued by central bank and ministry of finance while mobilization the funds or the commercial banks should invest its funds only those securities which are legal. The main objective of this study is to examine & evaluate the investment policy of NABIL & NIBL banks and suggest improving the investment policy of the bank.

The study is based on the secondary data from F/Y 2004/2005 to 2008/2009. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank personnel have also been made.

In this study, the word investment is conceptualized as the investment of income, savings or other collected funds. Investment policy is a one fact of the overall spectrum of policies that guide bank's investment operations and it ensures efficient allocation of fund to achieve the sustainable economic development of the nation.

The objective of the commercial bank is to earn more profit by investing or granting loan and advance into profitable and marketable sector. But commercial banks should be careful while performing the credit creation function. The banks should never invest its funds in those securities, which are too much fluctuating. 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 investing policy is not significant for the promotion of commercial saving of a backward country like Nepal.

Major findings from secondary data include the liquidity position of NIBL is comparatively better than NABIL; NIBL manages the resources more efficiently than NABIL; the profit of NABIL is higher than NIBL; the amount of risk associated with the various banking operations of NIBL is higher than NABIL; the power of expansion and growth of the banks business NABIL is higher than NIBL; coefficient of correlation between deposit and loan & advances of NABIL has been found slightly lower than NIBL; co-efficient of correlation between deposit and total investment of NIBL has been found slightly lower than NABIL. Trend analysis of loan and advances & net profit of both banks are found increasing trend but the trend value of total deposit & total investment of NABIL is in decreeing trend. In case of NIBL, is in increasing trend. Both banks are recommended to collect more amounts a deposit through large variety of deposit scheme and facilities, cumulative deposit scheme, prize bonds scheme, gift cheque, recurring deposit scheme (life insurance), and monthly interest scheme. Similarly, customization of credit card, provide facility of transfer money to their home who live in foreign country. The minimum amount needed to open on account should be minimizes so that it will attract other small depositors. NABIL is recommended to increase cash and bank balance to meet current obligations and loan demand. Both banks are recommended to invest more funds in government securities instead of keeping them idle and implement a sound collection policy including procedures. NABIL is recommended to follow liberal lending policy and invest more percentage amount of total deposit in loan and advances. Both banks need to form a committee to identity to improve its profitability. Both banks should remember interest rate while forming investment policy to get maximum profit.

5.2 Conclusion

Joint venture banks are also among the major commercial banks that contributing to the economic development of the country. The conclusion derived from the comparative study of the investment policy of Nepal Investment Bank Ltd. and Nabil Bank Ltd. reveals that:

- As shown the liquidity position of both banks has satisfactory. The liquidity position of NIBL is comparatively better than NABIL. NIBL has the highest cash and bank balance to total deposit ratio and loan and advances to current assets ratio than NABIL. But NABIL investing position of current assets as govt. securities is higher than NIBL. At last we can conclude that NIBL has maintained moderate investment policy in liquidity position.
- The analysis also depicts that the total investment to total deposit, investment on govt. securities to working fund and investment on shares and debentures to total working funds ratio are highest in NABIL but NABIL's capacity to mobilize its loan and advances to total working fund and loan and advances to total deposit is not so good than NIBL. Finally it can be concluded that asset management position of NABIL is less effective in comparison to NIBL.
- From this analysis it can be concluded that the profitability position of NABIL is better than NIBL. It has highest return on loan and advances ratio, total interest earned to total deposit asset ratio and return on equity than NIBL. NIBL has not maintained better position in comparison to NABIL.
- From the risk ratios point of views, it can be concluded that NIBL has higher degree of liquidity risk and credit risk in comparison to NABIL.
- From the analysis of growth ratio, NABIL has lower growth rate on total deposits, loan & advances, total investment and net profit than NIBL. So, NIBL has successfully collected and utilized fund amount of its customer than NABIL.
- From this study we can concluded that NABIL and NIBL, there is positive relationship between deposit & loan and advance. The relation between deposit & loan and advances is significant. The both banks are successful to mobilize their deposit in proper way as loan and advance whereas, relation between deposit and total investment there is no significant different between the both banks.
- From the study it can be conclude that the trend analysis of total deposit and total investment of NABIL is in decreasing trend whereas the NIBL is in increasing trend. But the loan and advances &net profit of both banks are in increasing trend.

- The hypothesis test on loan & advances to total deposit, and total investment to total deposit shows that there is no significant difference between mean ratio of loan &advances to total deposit and total investment to total to total deposit of NABIL and NIBL.

5.3 Recommendations

Suggestions help to take corrective actions in their activities in future. On the base of analysis and findings of the study, following recommendations can advanced to overcome weakness and efficiency and to improve fund mobilization and investment policy of NABIL and NIBL.

Increase deposits ratio

The commercial bank's main source of fund is collecting deposit from public, who don't need that fund recently. Without enough deposit collection, banks cannot operate effectively. The growth rate of the deposits of NIBL's is higher than that of NABIL, so it is suggested to attract depositors through variety of deposits schemes & facilities like cumulative deposit scheme, prize bonds schemes, gift cheque scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.

Increase investment in government securities

NABIL has not invested more money in government securities than that of NIBL. Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and have very lower yield than other companies' securities. This also helps to maintain the sound portfolio of the bank. It is better in regard to safety than other means of investment. So both banks are strongly recommended to invest more funds in govt. securities.

Increase loan & advances

From the above study, NABIL has not properly used their existing funds as loan and advances. The largest item of the bank in the asset side is loan and advances. If it is neglected, than it could be the main cause of liquidity crisis in the bank and one of the main reasons for a bank’s failure. So NABIL is strongly recommended improving the efficiency in utilizing the deposits in loan and advances for generating the profit.

Increase investment in shares &debentures of the other company

It is good to investment more on share and debenture as it encourage financial and non –financial companies. It has been found that NABIL's investment on share and debenture to total working fund ratios are higher than that of NIBL. So, NIBL bank is suggested to invest its more funds in share & debenture of other different companies.

So, it can get either dividend from the existing hares & capital gain after selling those shares & debentures in capital market after holding for some time.

Liberal Lending policy and sound credit collection policy

Loan & advances are the main source of income and also utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in the bank and one of the main reasons of bank failure. When the bank grants loan & advances, it must be collected after a certain period. But now days there are many difficulties in recovery loan and advances and large amount of loan is blocked as non performing assets and which sometime reduce income. So it is essential to exercise a suitable mechanism through with the overdue loan can be recovered within time. To fulfill this purpose both banks are suggested the special "Loan Recovery Act" should be enacted. Therefore both banks follow liberal policy when sanctioning loan & advances with sufficient guarantee and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and a legal procedure if required.

Investment vision

Portfolio management is very important for each and every investor's. Forming the efficient and optimal portfolios can minimize the risk. Both banks have been increasing total investment in every year and total investment amount size of NIBL is higher in comparison to NABIL. So, portfolio conditions of NABIL a well as NIBL should be examine carefully from time to time and alternation should be made to maintain equilibrium in the portfolio of loans & investment & make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize the return.

Increase profit

Profitability is the main indicator of the financial performance of every business organization & is essential for the survival and growth of banks. But over the study period, NABIL and NIBL are seen unable to earn a satisfactory level of profit. So, both banks are recommended more to earn profit and adopt various measures to improve its profitability.

Extend branches over the country

Both NABIL & NABIL do not have branches in the rural area of the country. Its branches are limited only to the urban areas only. Therefore, both banks recommended to open branches in rural areas to help in economic development of the country. HMG/G has also encouraged the joint venture banks to expand banking service in rural areas and communities without making unfavorable impact in their profit.

Both NABIL & NIBL banks are taken as the one of the most leading joint venture bank in Nepal. It is the one of the most successful bank in Nepal. Today is the world of the competition is growing day by day in the banking sector. It must mobilize its deposits and other fund to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can convert into cash whenever needed.

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. The bank is recommended to adopt new technology and services or innovator in introducing many new products such as SWIFT, ATM card, international credit card, locker services, lending against gold and silver services, 24 hours service, holiday banking etc. The bank should involve in different kind of social and community development activities. The bank has been able to provide more personalized services and a better environment for its customer, it is an effective tool to attract and retain the customers.

An income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank the higher will be the profitability. NABIL Bank has achieved a success in banking sector in term of market share and profitability compared to NIBL because of its reliable and professional services. In other to collection much funds, both banks are not to be surrounded and limited only big clients i.e. multinational companies, large industries, manufacturing companies, NGOs and INGOs etc. It should also cater the lower and middle level people too.

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Appendix – A (1)
Current Assets to Current Liabilities
NABIL
(Rs in million)

F/Y	Cash and Bank Balance Rs.	Current Assets Rs.	Ratio times
2004/05	13868.30	15248.43	0.91
2005/06	14244.04	15263.80	0.93
2006/07	14969.38	15528.69	0.96
2007/08	20640.70	20420.37	1.01
2008/09	20322.65	25196.34	0.80

NIBL
(Rs in million)

F/Y	Cash and Bank Balance Rs.	Current Assets Rs.	Ratio times
2004/05	7517.89	8375.70	0.89
2005/06	11144.33	12526.45	0.89
2006/07	13967.78	15093.89	0.92
2007/08	17906.12	19364.69	0.92
2008/09	23582.10	24912.72	0.94

Appendix – A (2)
Cash and Bank Balance to Current Assets
NABIL
(Rs in million)

F/Y	Cash and Bank Balance Rs.	Current Assets Rs.	Ratio %
2004/05	1144.77	13868.30	8.25
2005/06	970.49	14244.04	6.82
2006/07	559.38	14969.38	3.74
2007/08	630.238	20640.70	3.05
2008/09	1399.825	20322.65	6.89

NIBL
(Rs in million)

F/Y	Cash and Bank Balance Rs.	Current Assets Rs.	Ratio %
2004/05	926.53	7517.89	12.32
2005/06	1,226.92	11144.33	11.00
2006/07	1,340.50	1 3 9 6 7.78	9.60
2007/08	2336.521	1 7 9 06.12	13.04
2008/09	2441.514	2 3 5 82.10	10.35

Appendix – A (3)
Cash and Bank Balance to Total Deposit Ratio
NABIL
(Rs in million)

F/Y	Cash and Bank Balance Rs.	Total Deposit Rs.	Ratio Times
2004/05	1144.77	13447.65	8.51
2005/06	970.49	14119.03	6.87
2006/07	559.38	14586.61	3.83
2007/08	630.238	19347.40	3.26
2008/09	1399.825	23342.285	5.99

NIBL
(Rs in million)

F/Y	Cash and Bank Balance Rs.	Total Deposit Rs.	Ratio Times
2004/05	926.53	7,922.75	11.69
2005/06	1,226.92	11,524.67	10.65
2006/07	1,340.50	14,254.60	9.40
2007/08	2336.521	18927.30	12.34
2008/09	2441.514	24488.85	9.97

Appendix - B
Investment on Govt. Securities to Current Asset Ratio
NABIL
(Rs in million)

F/Y	Investment on Govt. Sec.(Rs)	Current Assets Rs	Ratio Times
2004/05	3588.77	13868.30	25.88
2005/06	3672.63	14244.04	25.78
2006/07	2413.94	14969.38	16.13
2007/08	2301.463	20640.70	11.15
2008/09	4808.348	20322.65	23.66

NIBL
(Rs in million)

F/Y	Investment on Govt. Sec.(Rs)	Current Assets Rs	Ratio Times
2004/05	400.00	7517.89	5.32
2005/06	2001.10	11144.33	17.96
2006/07	1948.50	1 3 9 6 7.78	13.95
2007/08	2522.30	1 7 9 06.12	14.09
2008/09	3256.40	2 3 5 82.10	13.81

Appendix-C
Loan & Advance to Current Assets Ratio
NABIL
(Rs in million)

F/Y	Loan and Advance Rs	Current Assets Rs	Ratio Times
2004/05	7755.90	13868.30	55.93

2005/06	8189.99	14244.04	57.50
2006/07	10586.17	14969.38	70.72
2007/08	12922.54	20640.70	62.61
2008/09	15545.78	20322.65	76.49

NIBL
(Rs in million)

F/Y	Loan and Advance Rs	Current Assets Rs	Ratio Times
2004/05	5772.14	7517.89	76.78
2005/06	7130.13	11144.33	63.98
2006/07	10126.05	1 3 9 6 7.78	72.50
2007/08	12776.208	1 7 9 06.12	71.35
2008/09	17286.43	2 3 5 82.10	73.30

Appendix-D
Loan & Advances to Total Deposit Ratio
NABIL
(Rs in Million)

F/Y	Loan and Advance Rs	Total Deposit Rs	Ratio Times
2004/05	7755.90	13447.65	57.68
2005/06	8189.99	14119.03	58.01
2006/07	10586.17	14586.61	72.57
2007/08	12922.54	19347.40	66.79
2008/09	15545.78	23342.285	66.60

NIBL
(Rs in million)

F/Y	Loan and Advance Rs	Total Deposit Rs	Ratio Times
2004/05	5772.14	7,922.75	72.86
2005/06	7130.13	11,524.67	61.87
2006/07	10126.05	14,254.60	71.04
2007/08	12776.208	18927.30	67.50
2008/09	17286.43	24488.85	70.59

Appendix-E
Total Investment to Total Deposit Ratio

NABIL
(Rs in million)

F/Y	Total Investment Rs	Total Deposit Rs	Ratio Times
2004/05	6031.17	13447.65	44.85
2005/06	5836.07	14119.03	41.33
2006/07	4269.66	14586.61	29.27
2007/08	6178.533	19347.40	31.93
2008/09	8945.31	23342.285	38.32

NIBL
(Rs in million)

F/Y	Total Investment Rs	Total Deposit Rs	Ratio Times
2004/05	1705.24	7,922.75	21.52
2005/06	3862.48	11,524.67	33.51
2006/07	3934.19	14,254.60	27.60
2007/08	5602.87	18927.30	29.60
2008/09	6505.68	24488.85	26.57

Appendix-F
Loan & Advances to Total Working Fund Ratio
NABIL
(Rs in million)

F/Y	Loan and Advance Rs	Total Working Fund Rs	Ratio Time
2004/05	7755.90	1 6 562.61	46.83
2005/06	8189.99	1 6 745.61	48.91
2006/07	10586.17	1 7 1 86.33	61.60
2007/08	12922.54	2 2 3 29.97	57.87
2008/09	15545.78	2 7 253.39	57.04

NIBL
(Rs in million)

F/Y	Loan and Advance Rs	Total Working Fund Rs	Ratio Time
2004/05	5772.14	9 0 14.24	64.03
2005/06	7130.13	1 3 255.50	53.79
2006/07	10126.05	1 6 2 74.06	62.22
2007/08	12776.208	2 1 3 3 0.137	59.90
2008/09	17286.43	2 7 5 90.85	62.65

Appendix-G
Investment on Govt. Securities to Total Working Fund Ratio
NABIL
(Rs in million)

F/Y	Invst. in Govt. Sec. Rs	Total Working	Ratio Time

		Fund Rs	
2004/05	3588.77	1 6 562.61	21.67
2005/06	3672.63	1 6 745.61	21.93
2006/07	2413.94	1 7 1 86.33	14.05
2007/08	2301.463	2 2 3 29.97	10.31
2008/09	4808.348	2 7 253.39	17.64

NIBL
(Rs in million)

F/Y	Invst. in Govt. Sec. Rs	Total Working Fund Rs	Ratio Time
2004/05	400.00	9 0 14.24	4.44
2005/06	2001.10	1 3 255.50	15.10
2006/07	1948.50	1 6 2 74.06	11.97
2007/08	2522.30	2 1 3 3 0.137	11.82
2008/09	3256.40	2 7 5 90.85	11.80

Appendix-H
Investment on Shares to Total Working Fund Ratio
NABIL
(Rs in million)

F/Y	Investment in Share & Debenture	Total Working Fund Rs	Ratio Time
2004/05	22.22	16562.61	0.13
2005/06	22.22	16745.61	0.14
2006/07	27.36	1828.63	1.50
2007/08	27.563	19347.40	0.14
2008/09	57.853	23342.28	0.25

NIBL
(Rs in million)

F/Y	Investment in Share & Debenture	Total Working Fund Rs	Ratio Time
2004/05	13.89		0.15
2005/06	13.89		0.07
2006/07	17.74		0.11
2007/08	17.74		0.19
2008/09	35.24		0.14

Appendix-I
Return on Loan and advances
NABIL
(Rs in million)

F/Y	Net Profit (Rs.)	Loan and	Ratio (Time)

		Advance Rs	
2004/05	416.25	7755.90	5.37
2005/06	455.32	8189.99	5.56
2006/07	518.63	10586.17	4.90
2007/08	635.262	12922.54	4.92
2008/09	673.96	15545.78	4.34

NIBL
(Rs in million)

F/Y	Cash and Bank Balance (Rs.)	Total Deposit Rs	Ratio (Time)
2004/05	116.82	5 7 7 2.14	2.02
2005/06	152.67	7 1 3 0.13	2.14
2006/07	232.15	1 0 126.05	2.29
2007/08	350.54	1 8 927.30	1.85
2008/09	501.40	2 4 488.85	2.04

Appendix-J

Net Profit to Equity Ratio

NABIL

F/Y	Net Profit (Rs.)	Equity (Rs)	Ratio (%)
2004/05	416.235	1314.187	31.67
2005/06	455.31	1481.68	30.72
2006/07	518.635	1657.63	31.29
2007/08	635.262	1875	33.88
2008/09	673.959	2057.05	32.76

NIBL

F/Y	Net Profit (Rs.)	Equity (Rs)	Ratio (%)
2004/05	116.817	638.54	18.29
2005/06	152.67	729.047	20.94
2006/07	232.15	1180.17	19.67
2007/08	350.536	1415.45	24.76
2008/09	501.398	1878.12	26.70

Appendix-K

Total Interest Earned To Total Outside Assets

NABIL

F/Y	**Total Interest Earned (Rs)**	**Total Outside Assets (Rs)**	**Ratio (%)**
2004/05	1017.87	13787.125	7.38
2005/06	1001.61	14025.94	7.15
2006/07	1068.746	13053.4	8.18
2007/08	1310.00	19101.07	6.86
2008/09	1587.76	24491.08	6.48

NIBL

F/Y	**Total Interest Earned (Rs)**	**Total Outside Assets (Rs)**	**Ratio (%)**

2004/05	459.5	7477.4	6.15
2005/06	713.4	10992.6	6.45
2006/07	886.8	14060.24	6.30
2007/08	1172.42	18379.08	6.38
2008/09	1584.98	23792.1	6.66

Appendix-L

Cash and Bank Balance to Total Deposit

NABIL

FY	Cash and Bank Balance (Rs)	Total Deposit (Rs)	Ratio (Time)
2004/05	1144.77	13447.67	8.51
2005/06	970.48	14119.03	6.87
2006/07	559.38	14588.6	3.83
2007/08	630.24	19347.34	3.26
2008/09	1399.85	23342.28	6.00

NIBL

FY	Cash and Bank Balance(Rs)	Total Deposit (Rs)	Ratio (Time)
2004/05	926.54	7922.76	11.69
2005/06	1226.92	11524.68	10.65
2006/07	1340.5	14254.6	9.40
2007/08	2336.52	18927.3	12.35
2008/09	2441.51	24488.85	9.97

Appendix-M

Total Loan and Advances to Total assets

NABIL

FY	Total Loan and Advances(Rs)	Total Assets(Rs)	Ratio (Time)
2004/05	7755.95	16562.62	46.68
2005/06	8189.99	16745.48	48.90
2006/07	10586.17	17186.33	61.60
2007/08	12922.54	22329.97	57.87
2008/09	15545.78	27253.39	57.04

NIBL

FY	Total Loan and Advances(Rs)	Total Assets(Rs)	Ratio (Time)
2004/05	5772.14	9014.25	64.03
2005/06	7130.125	13255.5	53.79

2006/07	10126.05	16274.06	62.23
2007/08	12776.2	21330.14	59.89
2008/09	17286.43	27590.85	62

Appendix-N (1)
NABIL

FY	Deposit (X)	Loan & Advances (Y)	x =(X-16968.98)	y=(Y-11000.08)	x2	y2	xy
2004/05	13447.67	7755.95	-3521.31	-3244.13	12399624.12	10524379.46	-11423587.41
2005/06	14119.03	8189.99	-2849.95	-2810.09	8122215.00	7896605.81	-8008616
2006/07	14588.6	10586.17	2380.38	-413.91	5666208.94	171321.49	-985263.08
2007/08	19347.34	12922.54	2378.36	1922.46	5656596.30	369585.45	4572301.97
2008/09	23342.28	15545.78	6373.3	4545.7	40618952.89	20663388.49	28971109.81
	16968.98	**11000.08**	**Σx=0.02**	**Σy=0.03**	**Σx²=72463597.25**	**Σy²= 39625280.7**	**Σxy=13125945.29**

Appendix-N (2)
NIBL

FY	Deposit (X)	Loan & Advances (Y)	x =(X-16968.98)	y=(Y-11000.08)	x2	y2	xy
2004/05	7922.76	5772.14	-7500.878	-4846.049	56263170.77	23484190.91	36349622.33
2005/06	11524.68	7130.125	-3898.958	-3488.064	15201873.49	12166590.47	13599815.04
2006/07	14254.60	10126.05	-1169.038	-492.139	1366649.85	242200.80	575329.19
2007/08	18927.30	12776.20	3503.662	2158.011	12275647.41	4657011.48	7560941.14
2008/09	24488.85	17286.43	9065.212	6668.241	82178068.86	44465438.03	60449018.33
	15423.638	**10618.189**	**Σx=0**	**Σy=0**	**Σx²=167285410.4**	**Σy²=85015431.69**	**Σxy=64130626.03**

Appendix-0(1)
NABIL

FY	Deposit (X)	Total investment (Y)	x = (X-16968.98)	y= (Y-6252.25)	x2	y2	xy
2004/05	13447.67	6031.7	-3521.31	-220.554	12399624.12	48644.066	776639.00
2005/06	14119.03	5836.07	-2849.95	-416.18	8122215.00	173205.79	1186092.19
2006/07	14588.6	4269.66	-2380.38	1982.59	5666208.94	3930663.10	4719317.58
2007/08	19347.34	6178.53	2378.36	-73.724	5656596.30	5435.22	175342.21

2008/09	23342.28	8945.31	6373.3	2693.056	40618952.89	7252550.61	17163653.8
	16968.98	**6252.25**	**Σx=0.02**	**Σy=0.008**	**Σx²=72463597.25**	**Σy²=11410498.**	**Σxy =23670360.36**

Appendix-0(2)

NIBL

FY	Deposit (X)	Total investment (Y)	x = (X-16968.98)	y= (Y-6252.25)	x2	y2	xy
2004/05	7922.76	1705.24	7500.878	-2616.85	56263170.77	6847903.92	19628672.59
2005/06	11524.68	3862.48	3898.958	-459.612	15201873.49	211243.19	1792007.88
2006/07	14254.60	3934.19	1169.038	-387.902	1366649.85	150467.96	453472.17
2007/08	18927.30	5602.87	3503.662	1280.78	12275647.41	1640397.41	4487420.21
2008/09	24488.85	6505.68	9065.212	2183.58	82178068.86	4768021.61	19794615.62
	15423.638	**4322.09**	**Σx=0**	**Σy=0**	**Σx²=167285410.4**	**Σy²=13618034.09**	**Σxy =46156188.47**

NABIL

Year (t)	**Total Deposit (y)**	**X (t-2004)**	**X²**	**XY**	**YC=a+bx**
2002	15,839.01	-2	4	-31678.62	15478.19
2003	15,506.44	-1	1	-15506.44	15088.969
2004	0	0	0	0	14699.748
2005	14,119.03	1	1	14119.03	14310.527
2006	14,586.61	2	4	29173.22	13921.306
N = 5	**73,498.74**	0	10	**-3892.81**	

Year (t)	**X(t - 2004)**	**Trend values(YC= 14699.748+(-389.221)**
2007	3	13532.085
2008	4	13142.864
2009	5	12753.643
2010	6	12364.422
N =5	7	11975.201

NIBL

Year (t)	Total Deposit (y)	X (t-2004)	X^2	XY	YC=a+bx
2002	4,256.21	-2	4	8512.42	2957.266
2003	4,174.76	-1	1	4174.76	5691.93
2004	7,922.75	0	0	0	8426.594
2005	11,524.68	1	1	11524.68	11161.258
2006	14,254.57	2	4	28509.14	13895.922
N = 5	**42,132.97**	0	10	**27346.64**	

Year (t)	X(t - 2004)	Trend values(YC= 8426.594+(2734.664)
2007	3	16630.586
2008	4	19365.25
2009	5	22099.914
2010	6	24834.578
N =5	7	27569.242

ABBREVIATIONS

BOK	Bank of Kathmandu
C.B	Commercial Bank
C.V	Coefficient of variation
CAR	Capital adequacy ratio
CRR	Cash Reserve Ratio
F/Y	Fiscal Year
Int.	Interest
Inv.	Investment
L&A.	Loan and Advances
LBL	Lumbini Bank Ltd.
Ltd.	Limited
M	Million
NIBL	Nepal Investment Bank Ltd.
NRB	Nepal Rastra Bank
P.E	Probable Error
R	Correlation
ROA	Return on Assets
ROE	Return on Equity
S.D	Standard deviation
SBL	Siddhartha Bank Ltd.
SCBNL	Standard Chartered Bank Nepal Limited
SDC	Shanker Dev Campus
TUCL	Tribhuvan University Central Library