CHAPTER -1

Introduction

1.1 Background of Study

The development of any country largely depends upon the economic and health condition of the country. Now day's financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of the domestic resources is one of the key factors in the economic development of the country. The central bank and commercial bank play a significant role in the economic development of the country, as they are main sources of the capital.

The most of 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 of 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 commitme4nts 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. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth. So, obviously investment of collected fun is the most important theme for the development of the country.

1.2 Origin of Banking

The 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 '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 'Bank' 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 worldwide 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 baking was developed in Italy in 2000B.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.

1.3 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 172AD 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 region 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 'Tejrath 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 4th 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 23024 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) wit 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 or 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 year 2004'. It means it comes in first position. The second joint venture commercial bank is Nepal Indosuez Bank, Which was established in 1985 A.D. with 50% share of Indosuez Bank Ltd. of Finance. 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 Standard Charted Bank Ltd. 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.

In this way, the number of joint venture commercial banks, 59 development banks with including 9 MFDBS and 5 Gramin Bikas banks, 78 Finance companies, 46 NGOs and 116 Hulak Bachat Banks operating in Nepal. After adopting the open sky policy in the financial sectors, it has helped in establishing many commercial banks and financial institutions in the country.

1.4 Introduction of Rastriya Banijya Bank

Rastriya Banijya Bank was established on 10th Magh 2022 under special charter 'Rastriya Banijiya Bank Act. 2021. It is fully owned by government. Rastriya Banijya Bank started its services with the objective of to fulfill increasing need of banking services to the people and business in the country. In the staring the service offered by RBB was deposits and loans. At present, RBB is the largest commercial bank in terms of deposit, loan distribution and wide network. Bank's has contributing significantly for country's economic development through various activities. It has Rs.15576 lacks authorized share capital and Rs.11723 lacks paid up capital. It has expanded its service by 1 central office, 15 departments in central office, 4 regional offices and 120 branches in the various places on Nepal. Its objective is also increase, which are to provide banking services to the people and business in the country, to work engine of economic development of the country and to restructure the bank. The major activities of the bank are deposit collection, accumulated largest deposit Rs.41 billion 12 lacks depositors, lending largest lending of Rs.25 billion facilitating 2 lacks borrowers in all parts of the country. The bank providing different types of loans and advances like funded loan and Non-funded loan, Overdraft loan, Hypothecation loan, Hire purchase loan, loan against Gold and Silver, loan against share and Bank Guarantee, Import loan, Export loan, importers loan and project are funded loan bank Guarantee, Letter of Credit and Contractor loan are Non-funded loan. The service offered RBB are deposit, Loans, Advances Remittances, Tele Banking services, Bank Draft T.T. Mail Transfer, Swift, House loan, Vehicle loan, Education Loan. It' a government bank so this bank involved in government transition from 65 branch offices. Recently, it has introduced ATM Card and credit card to its customer and some branches of RBB providing 365 day's services. Thus, further prospective of RBB are be expected very bright. So it is expected that the bank will be able to restore its sound financial position with in few years. So let's hope that RBB would be a lending model commercial with sound financial position in Nepalese banking system in the days to come.

1.5 Statement of the Problem

The main objectives of the commercial banks is to improve the economic condition of the country. For that they provide facilities loan and other banking services to upward the economic activities and strength welfare of the general people. Therefore, this study concentrates with the investment policy of the financial institution.

Investment decision is the main instrument of financial institution. If financial institution should adopted good investment policy then they can reach into their target. So investment policy is important assets. Various parts of the country have effect the investment decision of the commercial banks providing loan in agriculture sector, industrial sector but these sector is not satisfactory to meet the present growing need. Nepotism and political pressure also effect the investment decision of the commercial bank. Loan affects the overall development of the country. The problems of lending have become a serious for developing country. Commercial banks give too many loans, advances, over draft and many other facilities to encourage deposit to their customer they spend big amount of deposit as office operation expenses and for staffs.

Most of the financial institutional have followed conservative lending policy, the are found to make loan only on short time basis but they don't invest on long-term projects. So, they may not earn sufficient return and most of the financial institution may have to be collapsed due to poor investment policy or lack of investment strategy in future. In banking sector, there is different type of risk like, system risk etc. From this type of risk, the commercial banks are unable to invest deposit collections on profitable sectors and opportunities. They have ways feared of high degree of risk and uncertainty.

Commercial banks have lots of deposit but they are not utilizing their deposits due to lack of sound investment policy. The opportunity of investment has been found to have lower productivity and uncertainty sector due to the lack of supervision regarding whether there is proper utilization of their investment or not. Therefore, the commercial banks invest their deposit or funds in limited areas to achiever higher amount of profit.

Nepal Rastra Bank is a central bank of our country. It makes rules and regulation as the major tools to supervise and monitor the financial institutions. The commercial banks have not formulated their investment policy is an organized manner. They totally depend upon the directions and guide lines of central bank. They always move under the rules and regulation of Nepal Rastra Bank . Profit is important to every commercial banks as well as share holds and depositors point of view and it is possible when they invest on safe, sound and profitable project. Every bank must have profit to survive in the competitive market where a lot of money and very little investment policy is the basic function of all the commercial banks and other financial institution. ;The main focus of this study mainly seeks the answer of Rastriya Banijya Bank :

- Has the bank been able to utilize the effectiveness?
- What is the proportion of Non-Performing assets on the total loan and advances of the bank ?
- What is the relationship between total investment policies of the bank?
- What steps should be taken to improve the investment policy of the bank ?
- What is the portfolio behavior of the bank ?

1.6 Objective of the study

The main objective of the study to evaluation the investment policy of Rastriya Banijya Bank. However the specific objective of this study is as follows :

i. To study and evaluate Non-performing asset position of the bank .
ii. To evaluate the portfolio management of the bank under study.
iii. To examine priority sector of investment of the Rastriya Banijya Bank.
iv. To analyse deposit utilization and relationship between total investment portfolio and its return.
v. To suggest measure to improve the investment policy of the bank on the basis of study result.

1.7 Significance of the study

The study mainly fills a research gap on the study of investment policy of Rastriya Banij bank. The success and prosperity of the bank depend upon the successful implementation and investment of collected resources, which develops the economy of the country. Good investment policy of the bank has positive impact on economic development of the country and vice-versa.

- ❖ This study would provide clear picture how bank is investing its collected fund the analysis would proved a useful feedback further improve to the policy maker of the bank.
- ❖ This study also becomes a useful reference for the other commercial banks of Nepal and Central bank for formulation of the appropriate strategies.
- ❖ Depositors can take decision to deposit their surplus money.
- ❖ All stockholders to this bank will be benefited from this research.
- ❖ Moreover it will prove to be an important value for the entire individual interested value for the entire individual interested Commerce an banking fields.

1.8 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 Rastriya Banijya Bank.

- This study is based on secondary data collected from the bank.
- Only 5- year's data are used for the study purpose.
- This study is limited only in the investment policy or RBB,
- This study data collected from annual reports published by the bank, report published by NRB, Financial statement articles, journals and publications. So, the data may be either actual or estimated.
- The study focuses and investment aspect of banking performance only.
- The study is carried out in only one bank.

1.9 Organization of the study

This study will be organized into five chapters. Each chapter will be concentrated in different aspects of the 'Investment policy of Rastriya Banijya Bank' the field of each of these chapter will be as follows :

Chapter 1: First chapters deal with introduction. This includes Background, Origin of Banking, Development of bank in Nepal, Statement of the problem, Objective of the study, Significance of the study, Limitation of the study, and Organization of the study.

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

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

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

Chapter 5: The fifth and last chapter covers the summary of the study, findings, and recommendations for further improvement.

CHAPTER -2

Review of Literature

Review of literature means the study of the material available on topics. It is finding 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 givens 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 Review

Banks are those financial intermediaries who accept deposit and grant loan. In other word bank is an important for under developed economy as they promote capital formation by developing banking habit of people and collection saving. Banks are mobilizing the deposit of the public in different sector to get the productive use. The development of the country highly depends upon its economic condition. In the modern economy banks are considered not as a dealer in money but as the leaders of development. Its industry has acquired a key position in mobilizing resources for finance and social economic development of the country.

Bank plays a vital role in developing the economic of any country. It is a resources mobilizing intuition which accept deposit from various and invests such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. "The banking sector is largely responsible for collecting house hold saving in terms of different types of deposit and regulating it in the society by lending in different sector of economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economic." (Rose, 2002:9)

Resource mobilization is a key factor for Uplifting financial and economic status of the banking industry. Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country." Bank assist both the follow of goods and services from the country with a monetary system of payment and it is important part of financial system, which makes loans maintain and increase the level of consumption and production in the economy." (American Institute of Banking, 1972:162)

"A commercial bank is a business organization that receives and holds deposits of funds from others, makes loan and extends credits and transfers funds by written order of deposits." (Encyclopedia " The word book, American Grolier Incorporated" Vol3, 1984)

"Commercial banks are the vital aspects in accelerating the pace of the economic development of a country." Banking institution is inevitable for the resource mobilizing and all round development of the country. It is a resource for economic development, it maintains economic confidence of various segments and extends credit to people." (Grywinshki, 1983:87)

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

Investment means spending aside money for future financial gain. It is a commitment of funds made in the expectation of the some positive rate of returns. Investment takes place at present but return can be expected in future. In other words investment can be defined has the management of an investor's wealth which is the sum of current income and investment to increase wealth.

"Investment policy is an important factor for every organization. The sound knowledge of investment policy is the most important for the commercial banks and other financial institution. The sound policies help commercial banks to maximized quality and quantity of investment and there by achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

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

"An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it require a present certain sacrifice for a future uncertain the benefit. "(Francis, 1991:1)

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

Investment is one of the important functions of commercial banks and composition of loans and advance directly affects the performance and profitability of the bank. Investment policy is an important for the commercial bank. A good investment policy attracts both buyers and lenders, which increase both the volume and quality of deposits, loan and investment. In the investment procedures policies, it is always taken in mind, that the greater the credit created by the higher will be the profitability. A sound lending and investment policy is not only prerequisite for banks profitability but also crucially significant for the promotion of commercial saving of developing country like ours. Sound policies helps commercial banks maximize both the quality and quality of investment and there by achieve their objective of profit maximization and social welfare. Commercial banks should be careful while performing the credit function. Investment policy should ensure minimum and maximum profit for lending.

2.2 Functions of the Commercial Bank

Generally, the function of commercial bank is collecting the immobilized money in the form of deposit from every corner and parts of country. Then it is invested in profitable sector. Commercial bank collects money on various kinds of deposits, current saving, and fixed. Under current deposit the banker incurs the obligations of playing legal tender on demand, while on fixed deposits the banker incurs the obligation of playing legal tender after the expiry of a fixed period.

"The American Institute of banking has laid down four major functions of commercial banks such as receiving and handing of deposits, handing payments of its clients, making loans and investments and crating money by extension of credit." (American Institution of Banking 1971.)

Hence, commercial bank is to mobilize the scattered saving of the public through current, saving and fixed deposit account. Then it provide capital for the development of industry, trade business and other sector by grating overdrafts for fixed loan or by discounting bills of exchange or promissory notes.

The major functions of commercial banks are as follows :

- They accept custody of funds with or without interest and open fixed accounts and saving account in the name of depositors.
- The supply loans (Short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
- They help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
- Conduct transactions in bonds, provisionary notes or bills of exchange foreign exchange relating to commerce or cooperative as are redeemable with in the kingdom.
- They grant overdraft.
- They remit of credit, draft and traveler's cheque.
- They purchase, sell or accept the securities of Nepal's Government.

2.3 Feature of investment Policy

Every commercial bank has own objective. Banks are inspired with the objective of earning more profit. There are many reasons after the goal of gaining profit because it needs a great amount of expenses to run the bank for long-term. To operate the banking daily actives with success for long-term, many employees are appointed. The shareholders are the owner of the bank. The aim of any person or institution to invest the money to bank is earn more profit only. Without investment, a bank can't gain profit. The bank can't be successful until it gains profit. After the establishments of the banks it collects much deposits, gets the deposits, from the current, saving and fixed deposit account. Commercial banks have a great role to help the economic development of the country and to taker the social responsibility. Therefore to the continuous or successful of the bank, it has needed to earn more profit. The income and profit of a bank largely depends upon its lending procedure policies and investment of its funds in different securities. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful its goals, Thus, the profit of a bank largely depends upon its investment Policy. There is always a positive relation between the credit and the profitability of the bank. A sound lending and investment policy is not only the prerequisite for banks profitability, but also crucial for the promotion of commercial saving of a back ward country like ours. Hence, some the main characteristics of the investment policy are as follows.

1. Liquidity :

Liquidity means banks ability to meet its good financial situation or to satisfy its short term obligations when they become due for payments. The liquid property means cash stock of the commercial banks the amount of short term, current accounts, short term government and business security. Bank collects the money in bank on different accounts with the confidence that it will be able to repay their money when they need. In order to maintain this confidence and loyalty depositors the bank must keep this point in mind while investing its excess funds in different securities, so that it can meet current or short term obligations when they become due for payment.

Liquidity is the most important for the success of the bank. The commercial banks have liability to the deposits and they immediately should give it in the time when the depositors asked. For this purpose, the bank should keep adequate liquid funds. And also they should gain profit by utilizing the deposit its as advances. If adequate liquid fund is kept, they can return the deposits at will of the deposits but such bank can't run for a longtime. In The someway, if they invest the whole deposit loan and advances, they can't give it at the time of demand by the depositors. So, the commercial banks try to move the liquidity and profit together. It is a great challenge for the managers of the bank. The central bank pays attention to this reality to give direction on liquidity to the commercial banks.

2. Safety :

A bank should always be careful about the safety of its investment while it is following its investment policy. Safety is the bank for the investment. Bank should pay special emphasis on safety. Because, if the invested area is unsafe and it is not good omen for the bank. Bank should always invest its fund in those securities which are volatile i.e. which are subject too much deprecation and fluctuation because a little different may because a little different may cause a great loss. It invest in an unsafe sector wit the hope of gaining much is to accept the security of low quality. To invest large loan against less securities by receiving commission to invest in new places without care, observation and to follow the long term loan including these all various reasons will make unsafe for the bank's investment. So, the bank should gravely study whether there is a possibility of good quality. If the assets taken as the securities is low quality or low valued and if there is no possibility of safe of the security the bank suffers from loss. Therefore, bank should always invest its fund in good securities like gold, silver, diamond, company's share certificate, debenture development bond and other. Similar type of securities of immovable property like house, land can't be sold in time.

3. Profitability

Every organization has own special goal or objectives. The main objective of the commercial bank is to earn more profit. Profit is an income from an investment. It is the excess of income over the expenditure during a period of time. To achieve goal, the bank should adopt the theory of profitability in its investment policy. Profitability is the important for ht success of the bank. The bank can maximize can maximize its profit through maximization of return of their investment and lending. They must invest their funds in these sectors, which maximize their profit. The bank can get much profit from the safe long-term investment. Bank should also invest its fund in risky area because we know where more risk there is much profit is. But sometimes it makes create a situation where the bank should face the grate economics loss, by loss of investment in such a risk sector. The profit of commercial banks depend of on interest rate bank charge volume of loan its time period and nature of investment on different sector. In the investment policies and procedure, it is always get kept in mine that greater the credit created by the bank, higher, will be the profitability. So the bank should always think to apply and appropriate investment policy in such sector from which can earn much.

4. Diversifications ;

Diversification means divide one part in to various different parts. In baking sector diversification means bank should invest its fund in different sector not only in one or two sectors. It mean bank should diversify it's invest in various sector. If the bank should adopt theory of diversification certainties. There is a statement 'Do not put the all the eggs in same baskets." It's means diversification of loan help to certain loss according to the law of average. If bank should diversify it's invest in may sector, it become successful to keep it in balance. Therefore will be less profit from investment of some sector and there will be maximum profit form some another sector. There may b loss too if some sector one whole a bank should be able to its safe a component if it happen so the banking transition does not go up and down. The bank should diversifications its investment fund in gold, diamond, development bond, share of company, debenture, goods import and export bills and other appropriate securities. The bank always gets success in there working capacities from such investment. Hence if the bank should adopt the theory of diversification it will get success.

5. Marketability

Market is an important for the success of every organization. A bank should follow the policy of marketability of the investment. The market of Nepal is small in this condition the bank can take limitation in search of new opportunities. Banks should follow its loan by taking good quality of securities. When the bank should invest its fund in first class securities if the bank cannot receive its fund from customer then it received its amount from the scale of securities in market. So the Bank always thinks about those securities whose its sales easily in market. It means banks should follow the theory of marketability's in its investment policy. Therefore the bank should keep in mind the principle of marketability while it makes investment. Are the goods taken as securities saleable in the market or mot? Can the loan be recovered by selling it in the market or not? The bank should adopt the investment policy by paying the attention to the different aspect. It should study the market evaluate of the goods which are taken as securities. The bank should not invest by taking the se4curities the goods which are not saleable in the market and they are sold but not fetch the reasonable prices and there is no value of such thing . The bank should take as far as possible such goods which keeps may be safety and freshly in the market, The loan will be recovered by gold, sliver, diamond , company share, certificate, debenture, development bond and other similar types of securities of immovable property like house, land which cannot be sold in time. Hence the banks should do such things then the bank will get mote profit and make the investment policy successful.

6. Legality:

Legality is also one of the features of investment policy of the bank. The bank should invest its fund only in legal activities of business but not in any kinds of illegal activities. It the bank should invest its fund in illegal activities or sector that may hamper of its reputations. Bank also suffers from losses if it invests its fund in illegal securities. In another word illegal securities will bring lots of problem like market problem, safety problem and profitable problem. If bank should adopt illegal securities then it may be bankrupt. Therefore a commercial bank should must aside by rules and regulation along with different sorts of directives issued by Nepal Rastra Bank, Ministry of finance, Ministry of law and other relevant authorities while mobilizing its fund for its own interest.

2.4 Principle of Banking Investment policy

The main function of bank is to accept the deposits of public and to earn more profit from advancing loans. In the balance sheet of the banks and financial institutions, the most important things is that in the assets side, deposit collection policy affects the performance of banks of financial institutions. If the bank can't refund the loan amount in time then it can't able to pay the money to the depositors in tine. It affects believe of the bank. So the bank always should provide its fund or utilize its capital in safety areas. It means bank should always concentrate at the time funding loans so that it will collect timely. Loan investment is an important function for the reputation of bank o r financial institutions.

Bank should determine every year its investment policy to achieve maximum profit by utilizing its financial resources. Bank always focused on lending loans in the investment program. Bank investment policy means a process to give continuity to investment of bank's amount to earn more profit. The main principle of bank's investment policy is as following:

- **Principle of security**

Security is an important principle of bank's investment policy Bank always investment its fund in those sectors where it reels safety and its repayment guarantee. It calls for careful review of economic and industrial trends before choosing any type of investment or the time to investment.

- **Principle of Liquidity**

Cash and bank balance is a net assets but it can not earn income. So the bank always invest total fund except the need for daily transactions. Liquidity means to convert the bank's assets into cash without delay at full market value in any quantity. When the bank should always invest its fund in those securities which are converted into cash without delay. So that the bank repayment to the depositors.

- **Principle of Income Earning**

In the present situation, the main objectives of the bank are to earn more profit and to maximize the value of shareholders. Therefore, the bank always should invest its fund in profitable sector. Without profit the bank cannot achieve success and it cannot run for long-term. To achieve the goal, the bank should adopt the theory of earning income in its investment policy.

- **Principle of National Economic Policy**

National economic policy is also effect the investment policy of bank. When the bank prepares its investment policy it always thinks about the national economic policy. A profitable bank helps to develop the financial and social economy of the country.

2.5 Review of Books

Bank is intuition that keeps for individuals or company exchange currency makes loan and after financial services. It is a financial services specially credit saving an perform the widest range of financial function of any organization in the economy. Bank should properly utilities its fund various investment a venue with a sustain and earn profit.

"Investment in its broadest sense means sacrifice of certain present value for (possible uncertain) future value" (William F. Sharpened Gordon J. Alexdender, "Investment 5th edition March 1999).

In the words of Gitman and Jochnk "Investment is a any vehicle in to which funds can be placed with the expectation that will preserve of increase in value and generate positive returns" (L. J Gitman & Jochnk, "Fundamental of Investment" 4th edition) Emphasizing the important of investment policy H.D. Cross puts his view in the way, "lending is the essence of commercial banking and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policy and careful lending practices are essential if a bank to perform its credit function effectively and minimized the risk interest in any extension of credit". (H.D. Cross "Management policy for commercial bank, " 2nd edition 1963) Zames B. Baxley is of view that "investment disposition of the bank asset in terms the allocation for investment and loan and establishing responsibility for day to day to management of those assets". (James B. Baxley, "Banking Management" 1987) "The term investing can cover a wide range of act activities. It often refers to investing money in certificates if deposit bond, common stocks or mutual fund. More investors that are knowledgeable would include other financial asset such as warrant puts and call future contract and convertible securities, Investing encompasses very conservative's position and aggressive speculation". (Charles Parker Jhones, "Investment (Credit) policies of banks are conditional to grate extent by the national policy frame work every bank has credit, policy also in mind". (S.P. Singh & Singh "Financial Analysis for credit Management in Bank" 1983) Frank K. Rellay has define investment as, "and investment may be defined as the current commitment of funds are committed for the expected rate inflation and also the uncertain to involve in the future follow up funds " (Frank K. Relly " Investment") According to L. V. Chandler " A banker seeks optimum combinations of earning liquidity and safety while formality investment policy" (L.V. Chandler" the Economic of Money and Banking" 6^{th} edition 1973) "The rate of return on asset is a valuable measure when comparing the profitability of one bank with another or with the commercial banking system. A low rate is the result of conservative lending ad investment policy or excessive operating expenses. Bank could of course attempt to offset this by adopting more aggressive lending and investment policies to generate more income"/ (Ibid, p195) Dr. Mrs. Pretti Singh has defined investment as "investment is the employment of funds with the aim of archiving additional income or growth in value, the essential quality of an investment is that it involves 'waiting for a reward." (Preeti Singh "Investment management") Mr. Charles P. Jhones defines investment as "the commitment of funds to one or more assets that will be held over some future time period". Investment is the study of the investment process and its concern with the management of an investor wealth. In broad sense, the investment operation of bank includes lending and investment in different types of securities. Lending is the primary investment activity and investment in different types of securities is the secondary investment activity of commercial banks.

2.6 Review of Legislative Provisions

In this section, the review of legislative framework (environment) under which the commercial banks are operating has been discussed. This legislative environment has significant impact on the commercial bank's establishment, their mobilization and utilization of resources. All the commercial banks have to confirm to the legislative provisions specified in the Commercial Bank Act 2031 B.S. and the rules regulations formulated to facilitate the smooth running of commercial banks.

The preamble of Nepal Bank Act (1994) clearly the need of commercial bank in Nepal. in the absence of any bank in Nepal the economic progress to the country was being hampered and causing inconvenience to the people and for the betterment of the country , this low is hereby promulgated for the established of the bank and its operation . As mentioned in this act , commercial banks will help in banking business by opening its branches in the different parts of the country under this act will be exchange of money , to accept deposits and give loan to commercial and business activities .

NRB rules regarding fund mobilization of commercial bank

To mobilize bank's deposit in different sectors of the different parts of the nation to prevent them from the financial problems , central bank (NRB) may establish a legal framework by formulating various rules and regulations (prudential norms) . These directive must have direct or indirect impact while making decision to discuss those rules and regulation which are formulated by NRB in terms of investment and credit to priority sector , deprive sector , other institution , single borrower limit , CRR, loan loss provision , capital adequacy relation , interest spread , productive sector investment . A commercial bank is directly related to the fact that how much fund be collected as paid up capital while being established at a certain place of the nation , how much fund is needed to expand the branch and counters , how much flexible and helpful the NRB rules are also important . But we discuss only those , which are related to investment function of commercial banks. The main provisions , established by NRB in the form of prudential norms in above relevant area are briefly discussed here under.

1. Provision for investment in deprives sector:

This provision instructed by government (ministered of finance) and NRB . some rules, which are formulated by NRB , affect the areas of credit and investment extension to the deprived sector by the commercial bank . According to the new provision , with effect from 16 July 2001 , investment in shares of rural development banks by commercial banks , which used to the deprived sector lending .

According to new provision NBL , RBB, NABIL , NSCBL, NIBL are required to invest 3%, HBL NBBL, NSBL, EBL, are required to investment 2% Bank of Kathmandu Ltd. is required to invest 1.75% , Nepal Credit and Commerce Bank Ltd .is required to invest 0.75% while new commercial banks ate required to invest 0.25% of their total loans and advances to the deprives sector.

2. provision for credit to the priority sector

NRB requires commercial banks to extend loan and advance , amounting at least to 12% of their total outstanding credit to the priority sector . Commercial banks credit to the deprived sector is also a part of priority sector credit . Under priority sector , credit to agriculture ,credit to the cottage and small industries and credit to service are counted commercial bank's loan to the cooperatives licensed by the NRB is also to be computed as the priority sector credit from the4 fiscal year 1995/96 onwards.

3. provision for the investment in productive sector

Nepal , being a development country needs to develop infrastructure and other primary productive sector like agriculture , industry , etc .For this , NRB has direted commercial banks to extend at least 40% of their credit to the productive sectors . Loans to priority sector , agriculture sector , and industrial sector has to be included in productive sector investment.

4. Provision for the single borrower credit limit

With the objectives of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrower to the bank loans. NRB directed CBs to set an upper limit on the amount of loan financed to an individual, firm company of group of companies. According to this CBs are required not to exceed the single borrower limit of 35% in the case of fund-based credit and 50%, in the case f non-fund based credit such as the letter of credit, guarantee, acceptance letter, commitment has been fixed is a proportion of capital funds of banks.

5. Directives to raise capital funds

The commercial banks are allowed to included paid up capital and reserves for meeting the minimum capital requirement but they have to deduct the net loss from such funds if they are in loss. Similarly, the commercial banks are directed to maintain the minimum capital found on the basis their risk. Where, core capital includes paid up capital, share premium non-redeemable preference share, general reserve fund and accumulated loss/ profit. Supplementary capital includes general loan loss provision, exchange equalization reserves, asset revaluation reserve, Hybrid capital instrument subordinated term debt and free reserve.

6. Cash reserve requirement (CRR)

Cash reserve is a never centre of the banks, which are transaction, speculative and precaution motives operating impact. To ensure adequate liquidity in the commercial banks, to meet the depositor's demand for cash at any time and to inject the confidence in depositor's regarding the safety of their deposit funds, commercial banks to deposit minimum5.5% of current and saving.

7. Loan classification and loss provision

With view to improving the quality of assets of commercial banks NRB has directed commercial banks to classify their out-standing loan and advances, investment and other assets into six categories. The classification is done in two ways. The loans of more than 1 Lakh are to be classified as debt service charge ratio repayment situation, financial condition of borrower, management efficiency, quality of collateral. The loans of less than 1 Lakh have to be classified as per maturity period. Loan loss provisioning has affected bank's capability to extend loans and made them averse in issuing newer loans, particularly to the private sector and priority sector where the loan default is high.

8. Directives regarding interest rate spread

The interest rate spread, the different between interest charged on loan and advances and the interest paid to the depositors, has widened significantly in the aftermath of deregulation in interest rates. This has caused lowers financial intermediation. Therefore, NRB has required commercial banks to limit interest rate spread between deposit and lending rates to a maximum extent 5% NRB has also provided commercial banks with new calculation method of interest rate spread for a certain period recently.

2.7 Review of Research Article

This part of the study deals with the examination and reviewing of some related research papers, articles and journals published in different magazines, newspaper. However, there is not much articles published related to investment management in Nepal. **Shrestha Shiva Raj, (1998)** has given an insight on the, "Portfolio management in commercial banks : theory and practice." He has highlighted following issues in the article. The portfolio management is essential both for individuals and for institutional investors. Investors world like to select a best mix of investment assets subject to following aspects;

- Good liquidity with adequate safety of investment.
- Flexible investment
- Maximum tax concession
- Certain capital gains
- Economics efficient and effective investment mix.
- Higher return compared with alternative opportunities available according to the risk class of investors.

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

- Do no hold single security i.e. try to have a portfolio of deference securities.
- Do not put all the eggs in one basket i.e. try to have a diversified investment.
- Choose such a portfolio of securities, which endure maximum return wit minimum risk or lower return but with added objective of wealth maximization.

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

- To identify securities for investment to refuse volatility of return risk.
- To find out the inevitable assets (generally securities) having scope for better returns depending upon individuals characteristics like age, health, need liquidity, tax liability, disposition.
- To develop an alternative investment strategy for selecting a better portfolio that will ensure a trade off between risk and return with a view to attach the primary objective of wealth maximization at lower risk.
- To find out the risk of the securities depending upon the attitude of investor towards risk.

Mr Shreshta has presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bonds and other money and capital market instrument. He has suggested that the banks having international network can also offer to global financial markets.

He has suggested that the banks having international network can also offer access to global financial market. He has pointed out requirements of skilled workforce, research and analysis team and proper management information system(MIS) in any commercial bank to get success in portfolio management and customer's confidence.

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

- Unawareness of clients about the services available.
- Hesitation of taking risk by the clients to use such facilities.
- Lack of proper technique to run such activities in the best and successful manner.
- Less developed capital market and availability of fewer financial instruments in the financial markets.

Pradhan Radhe S. (1994), "Financial management and practices in Nepal" IN 1992, dealt mainly with financial function, sources and types of financing decision involving debt effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy. The main findings of the study connected with financial management are as follows:

- Banks are retained earnings are the two most widely used financing sources.
- The enterprises have a definite performance for the bank loans at a lower level of debts.
- Generally, there is no definite time to borrow the issues stocks. The majorities of respondents are unable to predict when interest rate will lower or group is unable to predict when the stock will increase or decrease.
- Most expertise does not borrow from one bank only and they do switch between banks whichever offer best increase or decrease.
- Most expertise finds that banks are flexible in interest rates and convenient. Thus, it can be said that, out of numerous studies in the capital market of Nepal, this study has established itself as a milestone.

Pradhan Shekhar Bahadur (1996) has presented a glimpse on investment in different sectors, its problems and prospects through his article, "Deposit mobilization, its problem and prospects." On his article, he has expressed that, "deposit is the lifeblood of any financial institution, and be it commercial bank, finance company, co-operative or non-government organization." He also added in consideration of 10 commercial banks and nearly three dozens of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few point venture banks, other organization heavily on the business deposit receiving and credit disbursement.

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

1. Due to the lesser office house of banking system, people prefers for holding the each personal possession.
2. Unavailability of the institutional services in the rural areas.
3. No. more mobilization and improvement of the employment of deposits in the loan sectors.
4. Due to the lack of education, most Nepalese people do not go for saving in institution manner.

However, they are very much used to saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with Institutional system are governed by their low level of understanding about financial organization, process requirements, Office hours with drawl system, availability of deposits facilities and so on. Mr Pradhan mentioned that deposit mobilization carried on effectively is in the interest of the depositor's society, financial sector and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Shrestha Sunity (1998), in her article "Lending operation of commercial banks of Nepal and it impact on GDP," has presented with the objectives to make an analysis of contribution of commercial bank's lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending commercial banks to the GDP. In research methodology, she has contributed GDP as the dependent variables and various sector of lending like agriculture, industry, commerce, service, and general and social sectors as the independent variables. A multiple regression technique has been applies to analyze the contribution. The multiple regression analysis has shown that all the variables except service sector lending have a positive impact on GDP. Thus, in conclusion she has accepted that there has been positive impact be lending of commercial banks in various sectors economy, except service sector investment.

Kishi Dev s Lal (1996), in his article, "The changing face to the banking sector and the HMG/N recent budgetary policy, "concluded that following an introduction of the reform in the banking sector as an integrate part of the liberal economic policy. More banks and finance companies have come up as a welcome measure of competition slowly and steadily, the two government controlled banks, Nepal Bank Ltd. and Rastriya Banijya Bank have also shown an improvement of non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice brings a significant benefit to the poor, are yet to be achieves as envisaged by the government of Nepal.

2.8 Review of Unpolished Thesis

Before preparing this thesis, many other thesis regarding various aspects of commercial banks such as (financial performance, lending policy, investment policy etc.) has been studied. Some of them were relevant for this study while others were not. So, among that relevant thesis some of are present below :

Shrestha Shrijana (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 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 advanced and current assets and current liabilities is negative and so significant relationship 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 net five year of total deposits, loan and advance, investment and net profits are in increasing trend.

Khanal Dharma Raj (1987) in his thesis entitled, "Investment in priority sector by commercial banks (A study of commercial banks of Kathamandu valley)" has pointed out the following objectives :

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

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

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

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

(e) To explore the reasons for low investment.

The main findings of the research were as followings :

(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) 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 loans requested have been rejected and even cancelled some of the projects in different sectors.

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

- To find out the non-performing assets position of the bank.
- To evaluate the portfolio management of the bank.
- To find out the bank's investment of priority sector.
- To analyze the deposit utilization and its relationship with total investment and net profit of the bank.
- To suggest measures to improve the investment policy of the bank.

The study was conducted on the basis of secondary data :

The research findings of the are :

(a) The proportion of non-performing assets on total loan and advances of the bank is more than the satisfactory level. It should be less than 5% to be regarded as internationally A-grade commercial bank. For the Nepalese context, NPA level of the bank is height than these standards. So, the management of the bank should give its attention in time to manage NPA level with in the satisfactory level.

(b) Bank is not fulfilling is priority sector investment requirement every year, during the study period. In the course of failure to fulfill the directive credit requirement, bank is subject to penalty, which affects the profitability of the bank. The average priority sector lending of the bank is less than required 12% landmark.

Joshi Jyoti (2005) conducted a study on "Investment policy of commercial banks in Nepal. A comparative study of Everest Bank Limited with NABIL Bank Limited and Bank of Kathmandu " with the objectives of :

(a) To discuss fund mobilization and investment policy of EBL, NABIL and BOK Ltd.
(b) To evaluate the liquidity, efficiency and profitability and risk position.
(c) To evaluate the growth rate of loan and advances total investment with other financial variables.
(d) To analyze the trend of deposits utilization towards total investment and loan advances.
(e) To conduct hypothetical test to find whether there is significant difference between the various important ratio of EBL, NABIL and BOK.

The study was conducted on the basis of secondary data.

The research was conducted on the basis of secondary data.

The research findings of the study are :

(a) The liquidity position of the EBL is comparatively better than NABIL and BOK. EBL has the highest cash and bank balance to current assets ratio. NABIL has the lowest liquidity position than of other two banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on lone and advances.
(b) From the analysis of assets management ratio or activity ratio ,it can be conducted that EBL is comparatively overage or in between successful in compared to NABIL and BOK. The total investment of EBL is in between in compared to other two banks .

(c) In the study, lone and advances to total deposit is higher in BOK but total investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.

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

Shrestha Sunity (1993) in her research, "Investment planning of commercial banks in Nepal, has made remarkable efforts to examine the investment planning of commercial banks in Nepal. From the study what she concluded is that bank portfolio (loans and investment) of commercial banks had been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank. As result, investments are not made in a professional manner. Similarly investment planning and operation of commercial banks in Nepal have been found unsatisfactory in terms of safety, profitability, liquidity, productivity and social responsibility. To over come this problem she has suggested, "Commercial banks should take their investment function with proper business attitude and should perform lending and investment operation effectively and efficiently with proper analysis of the projects."

(a) To evaluate the financial performance of commercial banks of Nepal.

(b) To examine the investment of commercial banks of Nepal wit reference securities, loans and advances.

(c) To establish the relationship of bank portfolio variables with the nation income and interest rates.

The research was conducted on the basis of primary and secondary data of commercial banks.

The research findings are summarized below :

(a) The general tendency of the commercial banks assets holding is growing deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratio is very high, greater than 100%.

(b) The return ratios on average are higher for foreign joint venture banks that for Nepalese banks but return of assets is found to be statically same. Risk taking attitude is higher is foreign JVBs. The total management achievement index is higher in case of foreign banks compared to Nepalese banks.

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

(d) Investment in various economic sectors shows that industrial and commercial sector are taking higher share of loan till 1990.

(e) Investment in various sectors has a positive impact on national income from their respective sectors.

(f) Lending in priority sector showed that cottage and small industry are sharing higher loans.

(g) Priority sector lending showed positive impact on the national income

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

Khadka Puspanjali (2008) in her thesis entitled, "A study on investment policy of Nepal Industrial Development Corporation" has pointed out the following objectives.

(a) To study and analyze the current investment pattern of NIDC.

(b) To examine how far NIDC is effective in allocating it's funds in different development regions and industrial industries.

(c) To highlight the growth of NIDC in the context of industrial development in the country

(d) To evaluate the existing problem and suggest the suitable models of investment policy for its effectiveness.

The study was conducted on the basic of both secondary data and primary data.
The main findings of the study are.

(a) Adopting New industry policy 1992, NIDC has made investment policy more flexible and expanded it to resources mobilizing sector. The Corporation has been going priority to invest in small hydro electricity projects.

(b) The study found that the trend of the approval and realization of financial assistance was satisfactory and disbursement of financial assistance, the trend of overdue loan is continuously increasing. It indicates that the overall corporation's financial activities have not shown its satisfactory performance in industrial sector.

(c) It is also found that disbursement of loan was not balanced between five development regions. Huge amount of investment has been made in Central Development Region and less priority has been given to Mid Western Development Region and Far Western Development Region. Similarly the sector wise disbursement pattern also shows that the highest percentage of financial assistance has been provided to Food, Tourism and Taxtile Allied Industries. Health and Education Allied Industries has got less priority. No investment was made to Cottage and Village Industries during the study period.

(d) The corporation's portfolio investment policy is not guided by modern model of investment policy because it has not followed the risk and return factor at the time of investment. Financial and investment functions of NIDC is not satisfactory because it has not fulfilled all the financial function which is directly related to investment policy of the corporation.

2.9 Research Gap

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

Topic 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. The current research by Raiya Laxmi Khadgi (2007-July) suffer a short coming of having inadequate geographical analysis is als0 in the same topic but the bank is different the topic is "Investment Policy of NABIL Bank". Moreover, there have been some development in this Bank (Rastriya Bannijya Bank) form last tow 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 weakness turned. So that in future this weakness can be turned into the strength of the investment policy of the bank. To bring the new developments and to bridge the gap between the past research and present situation, I set out to conduct the research in this intriguing topic. I have been through many literature reviews and given my best to fulfill this work. I also wanted to unveil the reasons behind common people ignorance and lack of participation in this field and their tendency to purse the traditional system of investment. So in my research efforts have been made to understand the "Investment Policy of Rastriya Banijya Bank" and I hope this research will be fulfilling for future researchers for references.

CHAPTER -3

Research Methodology

This chapter highlights the research methodology used in the study for the analysis of investment policy of Rastriya Banijya Bank. And the study will try to come at conclusion regarding what position RBB has got in the commercial banking sector in Nepal. Research means a search or study about a related subject. It means a careful investigation or enquiry especially search for new fact in any branch of knowledge in Nepal. Research means a search or study about a related subject. It means a careful investigating or enquiry especially search for new fact in ay branch of knowledge in a scientific manner. It tries to find out the main fact by defining and redefining problems, formulating hypothesis, collection and evaluation date, making dedication and determine the conclusions.

According to John W. Best, "Research may be defined as the systematic and objective analysis and recording of controlled observations that may lead to the development of generalizations of principles or theories resulting in prediction and possible ultimate control of events."

Methods mean different way to find at the solution of problems. It means methodology refers to the various ways to solve the problems. Research methodology describe4s the methods and proces applied in the entire subject of the related stuyd. Thus, "Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. " It means research methodology is away to solve the research problem systematically and scientifically. Every research should adopt the systematic research methodology to solve the research problem. The research methodology is wider concept. It considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. The main objectives of the research methodology are to analyze examine, highlight and interpret the investment situation of the bank. For that it concerned about various fact like what data have been collected what are the purpose and problem of research, why hypothesis has been formulated etc. Hence, research methodology is a way to analysis for the study, which deals with research design, sources of data, data collection, population and sample, processing and tabulating procedures.

3.1 Research Design

Research design is a plan or way for the that give a direction for the collection and analysis of data. In other words, research design is the arrangement of collections for collection and analysis of data in a systematic way. It is concerned with various steps to collect the data for analysis and procedures for acquiring the information including from which sources and by what procedure it is obtained. Hence, both analytical and descriptive methods have been used to attain the overall objectives. The main objectives of this study are to analysis the investment policy of the bank For that it includes all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach the final conclusion. Various financial tools and effective research technique are employed to identify the strength and weakness in investment policy of Rastriya Banijya Bank. Thus, research design is a plan structure and strategy of investigation conceived to obtain answer to research question and to control with the help of available data and with some useful suggestions and recommendation.

3.2 Sources of Data

A sources of data is a step to collect the necessary data and information relevant for the analysis of the study. Simply, there are two sources of data i.e. primary data and secondary data. Primary data are those data that are collected by the researcher from related fields and posses originality and authenticity. To collect primary data there are various methods like direct personal investigation (observation), indirect and investigation (personal interviews), telephone interviews, schedule questionnaire, mailed questionnaire etc. On the other hand, secondary data are those data that are collected by someone else or used already and made available to others in the form of published statistics. This study is mainly based on the secondary data relating to the study of investment analysis of Rastriya Banijya Bank. The data relating to investment e.g. loans and advances, deposits and profit loss are directly obtained from bank's annual reports and financial statement of this bank. Likewise, newspaper, journals, periodicals magazines, reports and unpublished thesis have been taking as other sources of data during the study. Thus, the primary and secondary data both were helpful obtain the additional information of the related problems.

3.3 Population and Sample

The population refers to the total numbers of organizations of the same nature, services and its product. Population is the collection of objects or the set of results of an operation. The objective of population may be finite or infinite in number and hypothetical or existence in character. Sample is a representative part of population for the study. Sample means types of elements that are selected with the intention of the universe understudy. At present there are twenty five commercial banks in Nepal. This is the population of our study. Among the total commercial banks, I have selected only one bank for the purpose of the study as a sample and that is Rastriya Banijya Bank.

3.4 Methods of Analysis

The methods of analysis are the focal part of the study, which give us the real situation of the Rastriya Banijya Bank. Generally, financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The studies are primary analysis and trend analysis. In the same way, some statistical tools such as mean, standard deviation, coefficient of determination is adopted in this study. Hence, methods of analysis are a way to find out the true picture of the bank.

3.5 Data Analysis Tools

Data analysis tools also a main part of the study. Presentation and analysis of the collected data is the core of research of research work. It is the study of tabulated material in order to determine the inseparable facts. The collected raw data are first presented in the systematic manner in tabular forms and analyzed applying different financial and statistical tools to achieve the objectives of the study. In addition to this, some graphs, charts and tables will be presented to analyzed and interpret the findings of the study. The various tools applied are :

3.5.1 Financial Tools

Financial tools are an instrument that helps to analyze and interpret the financial performance of a organization. In other words, financials tools help to analyze the strength and weakness of a firm. Ratio analysis is a most important part of financial analysis, which is used in this study that gives us financial statement of Rastriya Banjiya Bank. It helps to show the quantities relationship between two numbers. It may be expressed in terms of proportion, rates and times or in percentage. It is used to compare a firm's financial performance and status with other firms.

"Ratio analysis is such a powerful tool of financial analysis that through, it economic and financial position of a business can be fully x-rayed." (Kothari, C.R. 1990, "Quantities Techniques" 2nd edition)

"Ratio Analysis used to compare a firm's financial performance and status to that of other firms or its overtime." (Lawrence, J. Gitman, "principle of Managerial Finance," 5th Edition 1998)

Hence, ratio used to compare a firm's financial analysis that evaluates the performance of an organization by creating the ratios from the figure of different accounts consisting in balance sheet, income statement. It is the process of determining and interpreting numerical relationship between the items of financial statements. Although there are various types of ratio to analyze and interpret the financial statement, among those some are relevant for the study which is as follows :

A. Liquidity Ratios:

Liquidity ratio is a tool of financial analysis which helps to find out liquidity of an organization. In other words, which provides the liquidity in business organization. It measures the liquidity position of the firm. Liquidity ratio measures the speed with which banks assets can be converted into cash to meet the deposit withdrawal and other current obligations. It also measures the ability of the firm to meet its short-term obligation; it reflected the short term financial strength and weakness of the firm.

The firm should maintain proper liquidity over the immediate future Liquidity should be neither too low nor two high. A high degree of liquidity shows inability of proper utilization and a low degree of liquidity shows the poor credit worthiness and less creditor's confidence. Hence, the firm should maintain adequate balance between in adequate liquidity and unnecessary liquidity for the survival and to avoid the risk of insolvency. To measure the liquidity position of banks, the following ratios have been used in the study.

(i) Current Ration :

Difference between current assets and current liabilities is known as current ratio. It shows the banks short-term solvency. It is also liquidity solvency ratio and working capital ratio. The main objective of the current ratio is to measures the payment capacity of a firm. Current is calculated by applying following formula.

$$\textit{Current Ratio}\,\mathrm{X}\frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

Where, current assets includes cash and near assets i.e. marketable accounts receivable, inventories, balance with banks, accrued income, prepaid expenses, short-term investments. Current liabilities includes sundry creditors, bills payable, notes payable, bank overdraft, outstanding expenses, income revived in advance, provision for taxation, proposed divided, unclaimed divided, loan maturing with in a year.

The proportion of current ratio is 2 : 1 the natural rule is based on the assumption that even if half decrease in current assets, the firm can meet its current obligations.

(ii) Cash and Bank balance to current assets ratio :–

Cash and bank balance to current assets ratio refers the portion of cash and bank balance in total current assets of the bank. It measures the proportion of liquidity assets. It is a highly liquidity assets, so it shows higher banks ability to meet its payment capacity of cash. It represent total of local currency, foreign currencies, cheque in hand and various banks balance in local as well as foreign banks. This ratio can be calculated by using following formulas.

$$Cash \& Bank \;\; Balance \, \text{X} \frac{Cash \& Bank \, balance}{Current \; Assets}$$

Hence, the ratio shows the percentage of current available fund with in the bank.

(iii) Cash and Bank balance to total deposit ratio :

Cash and bank balance to total deposit ratio measures the percentage of liquid fund with the bank to meet immediately payment to the depositors. Higher ratio shows liquidity position and ability to cover the deposits and vice-versa. It is liquid current assets. The ratio can be calculated using the following formula.

Cash Bank Balance to Total Deposit Ratio = $\frac{Cash \& Balance}{Total \; Deposit}$

Where cash and bank includes cash balance includes cash in hand, cheque and other cash times, balance with domestic and foreign banks. Total deposit includes current deposits, saving deposits and fixed deposits, call deposits and other deposits.

(iv) Investment on Government Securities of Current Assets Ratio :-

Investment on government securities of current assets ratio measures percentage of current assets invested in government securities, treasury bills and development bonds. This ratio can be computed by dividing investing on government securities by current assets. This ratio can be calculated by applying the following formula.

Investment on Government Securities on Current Assets

Ratio = $\frac{Investment \, on \, Government \, Sec}{Total \, Current \; Assets}$

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

(v) Loan and Advance to current Assets Ratio

Loan and advance to current assets ratio shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. The ratio can be computed by dividing loan and advances by total current assets.

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

Hence, it show the percentage of loan and advances in the total current assets. It includes local and foreign bills purchased and discounted and loans, cash credit, and overdraft in local currency as well as convertible foreign currencies.

B. Assets Management Ratio :

Assets management ratio is also known as activity ratio. It shows the efficiency with of any firm. It is employed to evaluate the efficient with which the firm manages and utilizes its assets. It measures the proportion of various assets and liabilities in balance sheet. This ratio is use dot measure how effectively a firm is managing its assets and the firm's ability to utilize its a available resources. The radio is expressed on percentage. The greater the rate of turnover, the more efficient is the utilization assets.

Assets management ratio measures its efficiency by multiplying various liabilities into performing assets. These ratios are concerned with measuring the efficiency in assets sufficient, then adequate production and revenue can not be made and profitability decreases. So, proper balance between revenue and assets is desired for the reflection of optimum utilization of assets. Here, some of those ratios are computed to assess the banks efficiency in utilization of available assets.

(i) Loan and Advances to Total Deposit Ratio :-

This ratio is used to calculate to find out, how successfully the banks are utilizing their total deposits on loan and advances for profit generating purpose. Higher the ratio, the better is the utilization of total deposits. This ratio is computed by dividing the amount of loans and advances by total deposit. This ratio can be calculated by applying formula.

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

Here, loan and Advances includes loan, advances and overdraft and total deposit includes current deposits, saving deposit and fixed deposits, call deposits and other deposits.

(ii) Total Investment To Total Deposit Ratio :-

Investment is one of the major forms of credit created by the bank to earn income. It is the use of money for future profit. A firm can earn profit investing its fund on government securities, shares and debentures or bonds of other companies. Thus, investment is the utilization of firm's deposit on different securities. This ratio is calculated by applying following formula.

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

Hence, total investment includes investment on government securities, debenture and bonds, share in subsidiary companies, share in other companies and other investment.

(iii) Loan and Advances to working Fund ratio :-

Loan and advances is an important part of total working fund. This ratio measures the volume of loans and advances in the structure of total assets. It indicates the ability of banks to channel its deposits in the form of loan and advances to earn profit. A higher ratio indicates betters in mobilization of funds as loans and advances and vice-versa. This ratio is calculated by applying the following formula.

$$\text{Loan and Advances to working fund ratio} = \frac{Loan\ \&Advdnces}{Total\ Working\ Fund}$$

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

(iv) Investment on Government Securities to Total Working Fund Ratio :-

Investment on government securities to total working fund ratio shows the bank's investment on government securities compared to that of the total working fund. It is calculated by dividing investment on government securities by total working fund.

Investment of Government Securities to Total Working Fund

$$= \frac{Investment\ Governement\ Securities}{Total\ Working\ Fund}$$

(v) Investment on Shares and Debentures to Total Working Fund Ratio :-

Investment on shares and debenture to total working fund ratio shows the investment of banks and other financial institution on shares and debenture of the other companies in terms of total working fund. This ratio is companied by dividing share and investment on Shares Debentures to total working fund ratio

$$= \frac{Investment\ Shares\ Debenture}{Total\ Working\ Fund}$$

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

(C) Profitability Ratio :-

The main objectives of the commercial bank art to earn more profit. Management owner and creditors of the bank are except reasonable and more return form their investment. It measures the overall efficiency of a firm in term of profit and financial performance. It shows the effect of liquidity, assets management and debt management on operating results. It is used to indicate public acceptance of the service of bank and run competitively. Higher the profitability ratio better is the performance of the banks. In this study, the various types of profitability ratios used to compute the profits of the banks to their investment, which are as follows:

(i) Return of Total Assets Ratio (ROA) :-

Return on loan and advances ratio shows how efficiently the banks and other financial institution have utilized their resources to earn good return for providing loan and advances. It is computed by dividing net profit/loss by total amount of loan and advances. This ratio is calculated by applying following formula.

Return on Loans and advances Ratio = $\frac{Net\Pr ofit\,(Loss)}{Loan\,\&\,Advances}$

(iii)Interest Income to Total Income Ratio :-

This ratio measures the volume of interest income of the bank. Higher the ratio higher is the contribution made by the lending and investment activities and vice-versa. It is calculated by dividing interest income by total income, which is as follows:

Interest Income to Total Income Ratio $\frac{Interest\,Income}{Total\,Income}$

(iv) Interest Expenses to Total Expenses Ratio :-

It measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operational expenses an vice-versa. It is calculated by dividing interest expenses by total expenses.

Interest Expenses to Total Expenses Ratio = $\frac{Interest\,Esxpense}{Total\,Expenses}$

(v) Totals Interest Earned to total working fund Ratio :-

It is calculated to find out the percentage of interest earned to total assets. Higher the ratio the better is the performance of the banks in terms of interest earning on its total working fund. It is calculated by dividing total interest by total working fund.

Total Interest Earned to Total Working Fund Ratio = $\frac{Total\ln ters\,Earned}{Total\,Working\,Fund}$

(vi) Total Interest paid to Total Working Fund Ratio:-

It is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. It is calculated by dividing total interest paid by total working fund.

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

and loss on the basis of maturity of principal, to make the provision of 12150 and 100 percentage respectively. The provision for loan loss the increasing probability of non-performing loan in the volume of total loan loss reflects the increasing probability of non-performing loan in the volume of total loan and advances. The ratio is calculated by dividing loan loss provision by total loans and advances.

Loans Loss Provision to Total Loans and Advances = $\frac{Loan\,Loss\,\mathrm{Pr}\,ovision}{Total\,Loansand\,\,Advances}$

(ii) Non-performing Loans to Total Loan and Advances Ratio :-

It measures the proportion of non-performing loans on the total volume of loans and advances. Thus, it reflects the quality assets that the banks posses. Higher ratio reflects the bad performance of the bank in mobilizing loans and advances and bad recovery rate and vice-versa. It is calculated by dividing the non-performing loans by total loans and advances.

Non-performing Loans to Total Loans and Advances Ratio

$$= \frac{Non\,Perfor\,\mathrm{min}\,g\,\,Loan}{Total\,\,Land\,\,and\,\,Advances}$$

(E) Risk Ratio :-

Risk means possibility of increasing loss of misfortune. Risk taking is the prim business of bank's investment management. Higher the risk, higher the profit, when a firm wants to bear risk and uncertainly the profitability and effective of the firm's increase. These ultimately influence the bank's investment policy. To measure the risk ration, the following rations has been calculated and analyzed.

(i) Credit Risk Ratio :-

Credit risk ratio helps to check the possibility of loan non-repayment or the possibility of loan to into default. It measures the possibility whether the loan will be repaid or that investment will deteriorate in quality. It is expressed as the percentage of non-performing loan to total loan and advances. The ratio is calculated by dividing total loan and advances by total assets. It can be shown as,

Credit Risk Ratio = $\frac{Total\,\,Loan\,\&\,Advance}{Total\,\,Assets}$

(ii) Capital Risk Ratio :--

The capital risk of a bank indicates how much assets value may decline before the position of depositors and other creditors are jeopardized. A bank must maintain the adequate capital in relation to the nature and condition of its assets, deposit liabilities and other corporate responsibilities. It means the bank's ability to attract deposits and inter bank funds. It also determines the level of profit, a bank can earn if a bank chooses to take high capital applying following formula.

Capital Risk Ratio = $\frac{Share\,Capital}{Risk\,Weight\ Assets}$

(F) Growth Ratio :-

Growth ratio represents low well the banks are maintaining their economic and financial condition. It is related to the find mobilization and investment management of the bank. The higher ratio represent the superior performance. Thus, in order to examine and analyze the expansion and growth of the banking business, the following growth ratios are calculated.

(i) Growth Ratio of total Deposit

(ii) Growth Ratio of Loans and Advances

(iii) Growth Ratio of Total investment

(iv) Growth Ratio or Net Profit.

3.5.2 Statistical Tools :

Statistical tools help to analyze the financial position of the bank. Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. It is also helps to analyze the relationship between variables and helps bank to make appropriate investment policy regarding to profit maximization and deposit collection. Statistical tools are used to analyze the objectives of the stud with the use of statistical tools, it become easy to convert abstract problems into figure and complex data in the form of tables. Some of the statistical tools used in the study are as follows.

(i) Arithmetic Mean :-

An arithmetic mean is also called as 'the man', 'average' or 'the arithmetic average'. A mean is the average value or the sum of all observations divided by the number of observations. An arithmetic mean is used in a situation of studying practical problems relating to production, price, income, expenditure, etc. but it is not useful for qualitative characteristics open-ended classes etc. It is denoted and given by the formula.

Mean = $\frac{X}{n}$

Where,

X = Mean of the value
n = No. of observations

(ii) Standard Deviation :-

Standard deviation measures the absolute dispersing and gives uniform current and stable results. It is the positive square root of average sum of square of deviation of given observation from the arithmetic mean of the distribution. Higher the value of standard deviation higher will be the variability and vice-versa. A standard deviation is always a positive number and is superior to mean deviation, quartile deviation and the ranges as it is used of the measurement. It is denoted by a small Greek letter (sigma). Standard deviation is calculated by using following formula.

Standard Deviation (|∃_) = $\sqrt{\frac{fX^2}{n} \mathrm{Z} \overline{X}^2}$

(iii) Coefficient to Variation :

Coefficient of variation (C.V.) measures the percentage of coefficient of coefficient of standard deviation. It is used in such problems where the researcher should to compare the variability of more than two years. It is the most commonly used measure of relative of two or more distributions. Higher the C.V. for more variable or conversely less consistent, less uniforms or less homogeneous from others. Lowers the C.V. less variable or more consistent, more uniform of more homogeneous. The coefficient of variable or more consistent, more uniform or more homogenous. The coefficient of variation (C.V) is given by the following formula. C.V $= \frac{\pm}{\bar{x}}$

(iv) Co-efficient of Correlation :-

Co-efficient of Correlation is the mathematical method of measuring the degree of association between the two variable i.e. one dependent and another is independent. This analysis identifies the relationship between two or more variables. The effect of none variable may have effect on other correlated variable in the of highly correlated variables. This topic with the study to find out relationship between the mentioned variables.

(i) Coefficient of correlation between deposits and loan advances.

(ii) Coefficient of correlation between loan and advances and net profit

(iii) Coefficient of correlation between deposits and investments

(iv) Coefficient of correlation between deposits and investments

(v) Coefficient of determinations :-

Coefficient of determination provides the variation in the dependent variable that is explained by the independent variable. According to the value that is computed from the coefficient of determinations, we can conclude that the percentage variation in the dependent variable is due to the variation in the independent variable and the remaining portion of the variation is due to the other factors. It is the square of coefficient of co-relationship and is stated as (r2).

(v) Trend Analysis :-

The least square method is mostly used for determining the trend of time series and it is commonly used for the estimate of the future trend values of different variables. Hence, for the estimation of linear trend line, the following formula is used.

$Yc = a + bx$

where,

yc = Dependent variable

x = Independent variable

a = y intercept

b = slope of the trend line.

Hence, using this method, trend analysis of following variables is conducted

(i) Trend analysis of Total Deposit

(ii) Trend analysis of Loan and Advances

(iii) Trend analysis of Investment

(iv) Trend analysis of Net profit.

CHAPTER -4

Data Presentation and Analysis

This is an analytical chapter which contains data collected from various. Theere are presented and analyzed to measure the various dimension of the problems of the study and measure the findings of the study are presented systematically. These data concerns the measurement of investment management and fund mobilization.

4.1 Financial Tools

Financial tools are an instrument that helps to analyze and interpret the financial performance of an organization. In other words, financial tools help to analyze the strength and weakness of a firm. Ratio analysis is a most important part of financial analysis, which is used in this study that given us financial statement of Rastriya Banijya Bank. It helps to show the quantities relationship between two number two numbers. It may be expressed in terms of proportion, rates and times or in percentage. It is used to compare a firm's financial performance and status with other firm.

A. Liquidity Ratios

Liquidity Ratio is a tool of financial analysis which helps to find the liquidity of an organization. In other words, difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organization. It measures the liquidity position of the firm. Liquidity ratio measures the speed with which banks can be converted into cash to meet the deposit withdrawal and other current obligations. It also measures the ability of the firm to meet its short-term obligation it reflected the short-term financial strength and weakness of the firm.

(ii) Current Ratio

The calculation of current ratios based on a simple comparison between current assets and current liabilities It shows the bank's short term solvency. It indicates the extent to which current liabilities are covered by assets expected to be converted to cash in near future. The main objective of the ratio is to measure the payment capacity of a firm. It is the broad measure of liquidity position of the bank. Thus, the ratio shows the relationship between current assets and current liabilities.

Table No. 4.1

Current Ratio **Rs In Million**

Year	Current Assets	Current Liabilities	Ratio (times)
2005/06	38070.32	51988.24	0.73
2006/07	41547.49	54979.14	0.76
2007/08	48013.05	67726.61	0.71
2008/09	27903.41	50452.71	0.55
2009/10	33278.28	56535.00	0.59
		Mean ($\bar{x}$) S.D. (|∃) C.V.	0.67 6.43 9.59

The above table shows that the current liabilities of RBB have exceed current assets in average in the study period from 2005/06-2009/10. The highest ratio is 0.76 in 2006/07 while the lowest is 0.55 in 2008/09 with an average ratio 0.67 during the study period. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V.) between the ratios for the study is 9.59% which shows that current ratio during the study period are not so consistent. In general, the bank is able to its short term obligation. Generally, the standard of the current ratio is 2:1 but for the banks and financial institution 1:1 is considered as the standard current ratio. The current ratio of RBB seems to less than normal level.

(ii) Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio refers the portion of cash and bank in total of current assets of the bank. It measures the proportion of liquidity assets. This shows the bank's liquidity capacity based on cash and bank balance. Higher ratio indicates the bank's ability to meet the daily cash requirements of their customer deposit and vice-versa. Similarly , lower ratio is also not appropriate as the bank may not be able to make payment against cheque presented by the customers. Thus, it should have a proper balance of this ratio so that it has adequate cash to meet.

Table No. 4.2

Cash and Bank Balance to Current Assets Ratio **Rs In Million**

Year	Cash and Bank Balance	Current Assets	Ratio (%)
2005/06	3736.05	38070.32	9.81
2006/07	7019.09	41547.s49	16.89
2007/08	5553.19	48013.05	11.57
2008/09	5228.82	27903.41	18.74
2009/10	6034.40	33278.28	18.13
		Mean ($\bar{x}$) S.D. (|∃) C.V.	15.03 3.63 24.15

The above table shows that the cash and bank balance to current assets ratio of RBB has fluctuating trend. The highest ratio is 18.47% in 2008/089 and the lowest ratio is 9.81% in 2005/06. Similarly, the name of the ratio for the study period is 15.03% and the C.V. IS 24.15%. Based on the C.V., we can conclude that the ratio is less consistent and more variable. The bank can meet its daily requirement to make the payment on customer deposits withdrawals. `

(iii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio measures the percentage of liquid fund with the bank to meet immediately payment to the deposits. This ratio measures the percentage of most liquid fund with the bank to make immediate payment. The bank should maintain a proper balance of this ratio. If the bank has higher ratio of cash, it has to pay interest on deposits that has been kept idle and the earning will be lost. And if the bank maintain a low ratio of cash, it may fail to make payments for the demands of t he depositors. So an appropriate cash reserve should be maintained.

Table No. 4.3

Cash and Bank Balance to Total Deposit Ration **Rs In Million**

Year	Cash and Bank Balance	Total Deposit	Ratio (%)
2005/06	3736.05	39402.27	9.49
2006/07	7019.09	40866.77	17.18
2007/08	5553.19	43016.06	12.91
2008/09	5228.82	46195.48	11.32
2009/10	6034.40	50465.13	11.96
		Mean ($\bar{x}$)	12.57
		S.D. (|∃)	2.57
		C.V.	20.45

The above table shows that the ratio of cash and bank balance to total deposit ratio is in fluctuating trends. The higher ratio is 17.18% in 2006/07 while the lowest ratio is 9.49% in 2005/06 with standard deviation of 2.57% and coefficient of variation of 20.45%. According to NRB guidelines, there should be minimum balance of 6% of total deposit liability. The above analysis of cash and bank balance to total deposits shows that RBB is successful in maintaining this balance.

(iv) Investment On Government Securities to Current Assets Ratio

Investment on government securities of current assists ratio measure the percentage of current assets invested n government securities, treasury bills and development bonds. It examines the portion of commercial banks current assets invested of different government securities. Through government securities are not as liquid as cash and bank balance, yet they can be easily sold in the market or converted into cash and are risk free.

Table No. 4.4

Investment On Government Securities to Current Assets Ratio   Rs. In Million

Year	Investment on Government **Securities**	Current Assets	Ratio (%)
2005/06	4137.10	38070.32	10.87
2006/07	2918.19	41547.49	7.03
2007/08	6434.03	4813.05	13.40
2008/09	8874.39	27903.41	31.80
2009/10	10023.29	33278.28	30.12
		Mean ($\bar{x}$) S.D. (|∃) C.V.	18.64 10.28 55.15

The above table shows that the investment on government securities to current assets ratio of RBB has fluctuating trend with the highest ratio of 31.80% in 2008/09 and lowest ratio is 7.03% in 2006/07. The mean ratio of the bank is 18.64%and C.V. between them the ratios are inconsistent and volatile.

(v) Loans and Advance to Current Assets Ratio

Loan and advances to current assets ratio shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. A bank should mobilize its funds in investments as loans and advances in order to earn high profit rather than keeping it as cash and balance. The high loans and advances may be harmful to keep in the liquid position because they can only be collected at the time of maturity and the low loans and advances can not pay interest on the deposited funds and may loose its earnings.

Table 4.5

Loans and Advances to Current Assets Ratio   Rs. in Millio

Year	Loans and Advances	Current Assets	Ratio (%)
2005/06	11679.49	38070.32	30.68
2006/07	10831.08	41547.49	26.07
2007/08	13430.93	48013.05	27.97
2008/09	14633.54	27903.41	52.44
2009/10	17006.46	33278.28	51.10
		Mean ($\bar{x}$) S.D. (|∃) C.V.	37.65 11.63 30.89

The above tables show that the ratios of the bank are in fluctuating trend. The highest ratio is 52.44% in 2008/09 and the lowest radio is 26.07% in 2006/07. The mean radio of the bank is 37.65% and C.V. IS 30.89%.Since, the bank is in better position to mobilize its fund as loans and advances with respect to current assets.

B. Assets Management Ratio

Assets management ratio is also known as activity ratio. It shows the efficiently with of any firm. It is employed to evaluate the efficiency with which the firm managers and utilizes its assets. It measures the proportion the proportion various assets and liabilities in balance sheet. This ratio is used to measure to measure how effectively a firm is managing its assets and the firm's ability to utilize its available resources. A bank must be able to manage its assets properly in order to earn high profit as well as maintain an appropriate level of liquidity. Thus, it measures the efficiency of the bank to manage its assets in profitable and satisfactory manner.

(i) Loans and Advances to Total Deposit Ratio

This ratio is used to calculate to find out, how succefully the banks utilizing their total deposits on loan advances for profit generating purpose. Higher the ratio, the better is the utilization of total deposits. This ratio measures the extent to which the bank is bucketful in moiling its deposits on loan and advance for generation income. Higher ratio indicates better mobilization of collected deposits and vice-versa.

Table No. 4.6

Loan and Advances to Total Deposits Ratio **Rs In Million**

Year	Loans and Advances	Total Deposit	Ratio (%)
2005/06	11679.49	39402.27	29.64
2006/07	10831.08	40866.77	26.50
2007/08	13430.93	43016.06	31.22
2008/09	14636.54	46195.48	31.68
2009/10	17006.46	50464.13	33.70
		Mean ($\bar{x}$)	30.55
		S.D. (∃)	2.28
		C.V.	7.79

The above table shows that the loans and advances to total deposit ratio are in fluctuating trend. The lowest ratio is 26.50% in 2006/07 and the highest ratio is 33.77% in 2009/10. The average mean ratio is 30.55% with the standard deviation of 2.38% and coefficient of variation is 7.79%. Higher the ratio shows that the bank is in better position to mobilize its total deposits as loan and advances.

(ii) Total Investment to Total Deposit Ratio

Investment is one of the major forms of the credit created by the bank to earn income. It is the use of money for future profit. A firm can earn more profit by investing its fund on government securities, shares and debentures or bonds of other companies. This ration measures the extent to which banks are able to mobilize their deposit on investment in various securities. A high ratio indicates the success in mobilizing deposits in securities and vice-versa. Thus, investment is the utilization of firm's deposit on different securities.

Table No. 4.7

Total Investment to Total Deposit Ratio Rs In Million

Year	Total Investment	Total Deposit	Ratio (%)
2005/06	4623.13	39402.27	11.73
2006/07	3117.03	40866.77	7.63
2007/08	8415.88	43016.06	19.56
2008/09	11555.36	46195.48	25.01
2009/10	12620.15	50464.13	25.07
		Mean ($\bar{x}$)	17.8
		S.D. (|∃)	7.04
		C.V.	39.55

The above table shows that the ratio of RBB are in fluctuating trend during the study period. The highest ratio is 25.07% in 2009/10 and the lowest ratio is 7.63% in 2006/07 with the mean ratio of 17.8. The C.V. 39.55% shows that the ratios are less consistent and less consistent and more variable .

(iii) Loan and Advances to Total Working Fund Ratio

Loan and advances is an important part of total working fund. This ratio measures the volumes of loans and advances in the structure of total assets. It indicates the ability of banks to channel its deposits in he form of loan and advances to earn more profit. A higher ratio indicates betters in mobilization of funds as loans and advances. And a low ratio indicates low productivity and high degree of safety in liquidity and vice-versa. This ratio also shows the credit risks taken by the bank towards mobilizing its fund ratio into different types of assets. This ratio reflects the extent to which the banks are bucketful in mobilizing their total assets on loans and advances for generating income.

Table No. 4.8

Loan and Advances to Total Working Fund Ratio **Rs In Million**

Year	Loans and Advances	Total Working Fund	Ratio (%)
2005/06	11679.49	43172.43	27.05
2006/07	10831.08	45056.32	24.04
2007/08	13430.93	56822.02	23.64
2008/09	14633.54	39879.93	36.69
2009/10	17006.46	46367.93	36.68
		Mean ($\bar{x}$) S.D. (|∃) C.V.	29.62 5.89 19.88

The above table shows that the ratio is 36.69% in 2008/09 and lowest ratio is 23.64% in 2007/08. Similarly, the mean ratio is 29.62% and the C.V. is 19.88%, which indicates that the mobilization of total working fund in loan and advance is in fluting condition.

(IV) Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to total working fund ratio shows the bank's investment on government securities compared to that of the total working fund. Banks utilize its resources in various ways apart from investing in loans and advances. Though it uses a major portion of funds in loans and advances, it also invests its fund in purchasing different types government securities. Government securities are not liquid as cash and bank balance. A high ratio indicates better mobilization of funds as investments on government securities and vice-versa.

Table No. 4.9

Investment on Government Securities to Total Working fund   Rs In Million

Year	Investment on Government **Securities**	Total Working Fund	Ratio (%)
2005/06	4137.10	43172.43	9.58
2006/07	2918.89	45056.32	6.48
2007/08	6434.39	56822.02	11.32
2008/09	8874.03	39879.62	22.25
2009/10	10023.29	46367.93	21.62
		Mean ($\bar{x}$) S.D. (|∃) C.V.	14.15 6.47 45.40

From the above table we can see that the ratio is in fluctuating trend. The lowest ratio is 6.48% in 2006/07 and highest ratio is 22.25% in 2008/09. The mean ratio was found to 14.25% with 6.47% standard deviation and coefficient of variation of 45.40%.

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

Total investment is divided into two parts : investment on government securities and investment shares and debentures. Most of the banks, now a day investment on share and debentures of other different companies. Investment on shares and debenture to total working fund into shows the investment of banks and other financial institution on shares and debenture of the other companies in terms of total working fund. This ratio reflects the extent to which banks are successful in mobilizing their total excess funds. A high ratio indicates more portion o investment on shares and debentures out of total indicates more portion of investment on shares and debentures out of total working fund and vice-versa.

Table No. 4.10

Investment on Shares & Debentures to Total Working fund   Rs In Million

Year	**Investment on Shares & Debentures**	**Total Working fund**	Ratio (%)
2005/06	1172.3	43172.43	2.72
2006/07	1172.3	45056.32	2.6
2007/08	1172.3	56822.02	2.06
2008/09	1172.3	39879.62	2.94
2009/10	1172.3	46367.93	2.54
		Mean ($\bar{x}$) S.D. (|∃) C.V.	2.57 0.31 12.06

From the above table shows the ratios are in fluctuating trend during the study period. The highest ratio is 2.94% in 2008/09 and the lowest ratio is 2.06% in 2007/08. The mean ratio is found to be 2.57% with 12.57% with 12.06% C.V. between them. Bank shall invest in the shares and securities of organized institutions, which are already listed in stock exchange or arrangement exists for listing within one year.

C. Profitability Ratios

The main objective of the commercial bank are to earn more profit. Management , owner and creditors of the bank are except reasonable and more return. It measures the overall efficiency of a firm in term of profit and financial performance. It shows the effect of liquidity, assets management and debt management on operating results. It is the indicates of efficient operation of a bank. It is used to indicates public acceptance of the service of bank and run competitively. Higher the profitability ratio better is the performance of the banks. Higher ratio indicate the higher contribution made by the lending and investing activities and vice-versa.

(i) Return of Total Assets Ratio (ROA)

Return on total ratio is measures the profitability with respect to the total assets. It provides an idea of the overall return on investment earned by the firm. The return on total assets ratio is measured the overall profitability of total assets. A higher ratio usually indicates efficiently in utilizing its overall resources and vice-versa.

Table No. 4.11

Return on Total Ratio **Rs In Million**

Year	Net Profit(Loss)	Total Assets	Ratio (%)
2005/06	(4839.78)	43172.43	(11.21)
2006/07	1040.10	45056.32	2.31
2007/08	1322.89	56822.02	2.33
2008/09	1591.59	39879.62	3.99
2009/10	1697.09	46367.93	3.66
		Mean ($\bar{x}$) S.D. (|∃) C.V.	0.22 5.75 26.14

From the above table shows that RBB had suffered from loss in 2005/06 in high ratio and the bank had gain profit from 2006/07 to 2009/10. he maximum loss is 11.21% in 2005/06 and the maximum profit is 3.99% in 2008/09. We know that RBB had suffered from loss in first year but now there is a new management team who are trying to get success in banking competition market. We can see that new management team who are trying to get success banking completion market. We can see that the new management team has do better improvement because in banking competition market. We can see that the new management team has do better improvement because in one year period the bank has subtract losses into profit from 11.21% loss to 3.99% profit.

(ii) Return on Loan and Advances ratio

This ratio shows how efficient the banks have utilized their resources to earn good return for providing loan and advances. It also measures the earning capacity of a commercial bank through its mobilized funds in the form of loans and advances. High ratio indicates greater success to mobilize funds as loans and advances and vice-versa.

Table No. 4.12

Return on Loan and Advances **Rs In Million**

Year	Net Profit(Loss)	Loan and Advances	Ratio (%)
2005/06	(4839.78)	11679.49	(41.44)
2006/07	1040.10	10831.08	9.60
2007/08	1322.89	13430.93	9.85
2008/09	1591.59	14633.54	10.87
2009/10	1697.09	17006.46	9.98
		Mean ($\bar{x}$) S.D. (|∃) C.V.	(0.23) 20.61 (89.61)

The above table shows that the bank's return on loan and advances are in negative position in 2005/06 and in positive position from in 2006/07 to 2009/10. The highest loss ratio is 41.44% in 2005/06. But from 2006/07 the bank has got profit and return on loan and advances is better. The highest return on loan and advances is 10.87% 2008/09, which improvement condition than before.

(iii) Interest Income to Total Income Ratio :-

This ratio measures the volume of interest income in total income of the bank. Higher the ratio higher is the contribution made by lending and investment activities and vice-versa. The ratio also helps to measure the bank's performance on how well they are mobilizing their funds for the purpose of income generation.

Table No. 4.13

Interest Income to Total Income Rs In Million

Year	**Interest Income**	**Total Income**	Ratio (%)
2005/06	2050.68	2355.92	87.04
2006/07	2235.88	3764.89	59.39
2007/08	2328.82	3509.96	66.35
2008/09	2282.82	4299.02	53.10
2009/10	2358.34	4240.91	55.61
		Mean ($\bar{x}$)	64.30
		S.D. (|∃)	20.19
		C.V.	31.40

The above table shows a fluctuating trend of the ratios during the study period. The highest ratio is 87.04% in 2005/06 and the lowest ratio is 53.10% in 2008/09. The mean ratio is 64.30% and the C.V. is 31.40%. Since the mean ratio is high we can conclude that the contribution made be lending and investing activities is high or on the other hand the contribution made by lending and investing activities is high or on the other hand the contribution by interest income to total income is high.However the C.V. is less which means that the ratios are less variable and more consistent.

(iv) Interest Expenses to Total Expenses Ratio

It measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operating expenses and vice-versa.

Table No. 4.14

Interest Expenses to Total Expenses Ratio   Rs In Million

Year	**Interest Expenses**	**Total Expenses**	Ratio (%)
2005/06	2108.16	7195.71	29.30
2006/07	1494.84	2724.79	54.86
2007/08	1004.72	2187.07	45.94
2008/09	850.14	2674.14	31.79
2009/10	942.80	2540.05	37.12
		Mean ($\bar{x}$)	39.80
		S.D. (|∃)	9.45
		C.V.	23.74

The above table shows that the ratios are in fluctuating trend. The highest ratio is 54.86% in 2006/07 and the lowest ratio is 29.30% in 2005/06. However the ratio seem to be increasing in 2005/06 to 2007/08 but decreasing in 2008/09. The mean ratios seem to be increasing in 2005/06 to 2007/08 but decreasing in 2008/09. The mean ratio for the study period is 39.80% with 23.74% C.V. between them. Based on the C.V. we can conclude that the interest expenses is also increasing. It is better for banks because when the deposit is increasing than the bank can mobilize its fund in different sector. In the other hand when the interest expenses are increasing then the total expenses in also increase.

(v) Total Interest Earned to total working fund ratio

It is calculated to find out the percentage of interest earned to total assets. This reflects the extent to which banks are successful in mobilizing their total to generate high income as interest. Higher the ratio better is the performance of the banks in terms of interest earning on its total working fund.

Table No. 4.15

Total Interest Income to Total working fund ratio Rs In Million

Year	**Total Interest Income**	**Total working fund**	Ratio (%)
2005/06	2050.68	43172.43	4.75
2006/07	2235.88	45056.32	4.96
2007/08	2328.82	56822.02	4.09
2008/09	2282.82	39879.62	5.72
2009/10	2358.34	46367.93	5.09
		Mean ($\bar{x}$) S.D. (|∃) C.V.	4.92 0.54 10.97

The above table shows that the ratio are in fluctuating trend. The maximum ratio is 5.72% in 2008/09 and the minimum ratio is 4.09% in 2007/08. The mean ratio is found to be 4.92% and a C.V. of 10.97% between them, which indicates the ratios are variable and less consistent.

(vi) Total Interest paid to Total Working Fund Ratio

It is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. This ratio measures the percentage of total interest paid against the total working fund. High ratio indicate the higher interest expenses on total working fund and vice-versa.

Table No. 4.16

Total Interest paid to Total Working Fund Ratio Rs In Million

Year	**Total Interest paid**	**Total Working Fund**	Ratio (%)
2005/06	2108.16	43172.43	4.88
2006/07	1449.84	45056.32	3.32
2007/08	1004.72	56822.02	1.77
2008/09	850.14	39879.62	2.13
2009/10	942.80	46367.93	2.03
		Mean ($\bar{x}$) S.D. (∃) C.V.	2.83 1.15 40.64

The above table shows that the ratios are in fluctuating trend. The highest ratio is 4.88% in 2005/06 and the lowest ratio is 1.77% in 2007/08. The mean ratio is 2.83% and the C.V. is 40.64% which is very high. Thus, the ratios are less consistent and more variable. Hence the bank has paid less interest on its total working fund as a whole.

(vi) Total Income to Total Expenses Ratio

The comparison measures the productivity of expenses generating income. The amount of income that a unit of expenses generates is measured by the ratio of total to total expenses. The high ratio is the indicator of higher productivity of expenses and vice-versa.

Table No. 4.17

Total Income To Total Expenses Ratio Rs In Million

Year	**Total Income**	**Total Expenses**	Ratio (%)
2005/06	2355.92	195.71	0.33
2006/07	3764.8	2724.79	1.38
2007/08	3509.96	2187.07	1.60
2008/09	4299.02	2674.14	1.61
2009/10	4240.91	2540.05	1.67
		Mean ($\bar{x}$)	1.32
		S.D. (|∃)	0.50
		C.V.	37.88

The above table shows that the first year and total expenses is higher than total income because in this period the bank has suffered from losses. And the last two years the total income is higher than total expenses because in this period bank has get some profit. The highest ratio is 1.67 in 2009/10 and the lowest ratio 0.33 in 2005/06 with the mean ratio of 1.32 times and C.V. of 37.88%. The ratios are in fluctuating trend.. Analysis of the C.V. shows that the ratios are consistent and less variable during the study period.

(vii) Total Income to Total Working Fund Ratio

It measures how efficiently the assets of a business are utilized to generate income. It also measure the quality of assets in income generation.

Table No. 4.18

Total Income to Total Working Fund Ratio   Rs In Million

Year	**Total Income**	**Total Working Fund**	Ratio (%)
2005/06	2355.92	43172.73	5.46
2006/07	3764.8	45056.32	8.35
2007/08	3509.96	56822.02	6.18
2008/09	4299.02	39879.62	10.78
2009/10	4240.91	46367.93	9.15
		Mean ($\bar{x}$)	7.98
		S.D. (|∃)	1.96
		C.V.	24.56

The above table shows that the ratios are in fluctuating trend. The highest ratio is 10.78% in 2008/09 and the lowest ratio is 5.46 % in 2005/06 respectively. Similarly, the mean ratio is 7.98% and C.V. between them is .56% which indicates that the ratios are less consisted over the study period.

D. Activity or Performing Ratios

Activities ratio measures the performance efficiency of organization from various angles of its operation. These indicate the efficiency of activity of an enterprise to utilize available funds, contribution of loans and advances in total profitability. To measure the performance efficiency of the bank to utilize its fund these activity ratios are used.

(i) Loan Loss provision to Total Loans and Advances

The ratio of loan loss provision to total loans and advances describes quality of assets that a bank is holding. Nepal Rastra Bank has given directives to commercial banks to classify its loans and advances into pass, sub-standard, doubtful and loss on the basis of maturity of principle to make the provision of 1, 25, 50 and 100 percentage respectively. The provision for loan reflects the increasing probability of non-perfuming loan in the volume of total and advances.

Table No. 4.19

Loan Loss provision to Total Loans and Advances Rs In Million

Year	**Loan Loss provision**	**Total Loans and Advances**	Ratio (%)
2005/06	1492.34	11679.49	127.83
2006/07	1427.59	10831.08	131.79
2007/08	1356.99	13430.93	101.03
2008/09	8612.96	14633.54	58.86
2009/10	7864.90	17006.46	46.25
		Mean ($\bar{x}$)	93.15
		S.D. (|∃)	35.03
		C.V.	37.31

The above table shows that the loan loss provision to total loans and advances ratio is in fluctuating trend during study period. The lowest ratio is 46.25% in 2009/10 and highest ratio is 131.79% in 2006/07. The mean ratio is 93.15% and the C.V. between them is 37.61%. Through the loan loss provision to be increasing trend but from the last three year it is in decreasing trend shows that the bank efficiency in managing the loans and advances effort of the bank to recover in the loans in time.

(ii0 Non-Performing Loan to Loans and Advances Ratios

It measures the proportion of non-performing loans on the total volume of loans and advances. Thus, it reflects the quality of quality assets that the banks posses. Higher ratio reflected the bad performance of the bank in mobilizing loans and advances and bad recovery rate.

Table No. 4.20

Non-Performing Loans to Total Loans and Advances Ratios   Rs In Million

Year	**Non-Performing Loans**	**Total Loans and Advances**	Ratio (%)
2005/06	15991.91	11679.49	136.92
2006/07	14460.87	10831.08	133.51
2007/08	13689.47	13443.93	101.92
2008/09	8622.13	14633.54	58.92
2009/10	6876.93	17006.46	40.44
		Mean ($\bar{x}$)	94.34
		S.D. (|∃)	38.90
		C.V.	41.23

From The above analysis we can see that ratios are fluting over the study period. The highest ratios range is 136.92% in 2005/06 and a lowest ratio is 40.44% in 2009/10 with an average of 94.34% during study period. Similarly, the C.V. is 41.23% which is high as a result the ratio are variable and less consistent. As per the international standard, the non-ratio of RBB is very high, so we can conclude that the NPA level of RBB is very bad. But from the last two years the NPA level of the bank is in improvement condition.

E. Risk Ratios

Risk means possibility of increasing loss of misfortune. Risk taking is the prime business of bank's investment management. Higher the risk, higher the profit, when a firm wants to bear risk and uncertainly the profitability and effectiveness of the firm's increase. These ratios indicate the amount or risk associated with the various banking operating, which ultimately influences the bank's investment policy. Investment is a risky business and bank have to take great risk to get subtotal return on investment.

(i) Credit Risk Ratio

Credit risk ratio helps to check e possibilities of loan non-repayment or the possibility of loan to go into default. It measles the possibility whether the loan will be repaid or that investment will deteriorate in quality. It is expressed as the percentage of non-perfuming loan to total loan will be repaid or that investment will deteriorate in quality. It is expressed as the percentage of non-performing loan to total loan and advances.

Table No. 4.21

Credit Risk Ratio **Rs In Million**

Year	Loan and Advances	Total Assets	Ratio (%)
2005/06	11679.49	43172.43	27.05
2006/07	10831.08	45056.32	24.04
2007/08	13443.93	56822.02	23.64
2008/09	14633.54	39879.62	36.69
2009/10	17006.46	46367.93	36.68
		Mean ($\bar{x}$) S.D. (|∃) C.V.	29.62 5.89 19.88

The above ratio shows that the bank has maintained a highest ratio is of 36.69% in 2008/09 a lowest ratio of 23.64% in 2007/08 Similarly, the bank has a mean ratio of 29.53% and C.V. of 19.88% which shows that the ratios are consistent and less variable, Thus, this indicates that the bank has a good credit policy.

(ii) Capital Risk Ratio

The capital risk of a bank indicates how much assets value may decline before the position of depositors and other creditors are jeopardized. A bank must maintain the adequate capital in relation to the nature and condition of its assets, deposit liabilities and other corporate responsibility. It measures the bank's ability to attract determines the levels of profit, a bank can earn if a bank chooses to take high capital risk, and its ROE will be higher and vice-versa.

Table No. 4.22

Capital Risk Ratio **Rs In Million**

Year	Share Capital	Total Assets	Ratio (%)
2005/06	1172.3	43172.43	2.72
2006/07	1172.3	45056.32	2.60
2007/08	1172.3	56822.02	2.06
2008/09	1172.3	39879.62	2.94
2009/10	1172.3	46367.93	2.53
		Mean ($\bar{x}$)	2.57
		S.D. (|∃)	0.29
		C.V.	11.28

The above ratio shows that the capital risk ratio of RBB has followed fluctuating trend. The highest ratio is 2.94% in 2008/09 and a lowest ratio is 2.06% in 2007/08 with mean of 2.57% standard deviation of 0.29% and coefficient of variation of 11.28% which shows that the rations are consistent and stable during the study period.

F. Growth Ratio

Growth ratio represent the fund mobilization an investment decision of a commercial bank. It shows how well banks performance of the bank. To measures the growth ratios of Rastriya Banijya Bank following rations has been calculate and nasalized.

(i) Growth Ratio of Total Deposit

(ii) Growth Ratio of Total Loans and Advances

(iii) Growth Ratio of Total Investment

(iv) Growth Ratio of Net profit

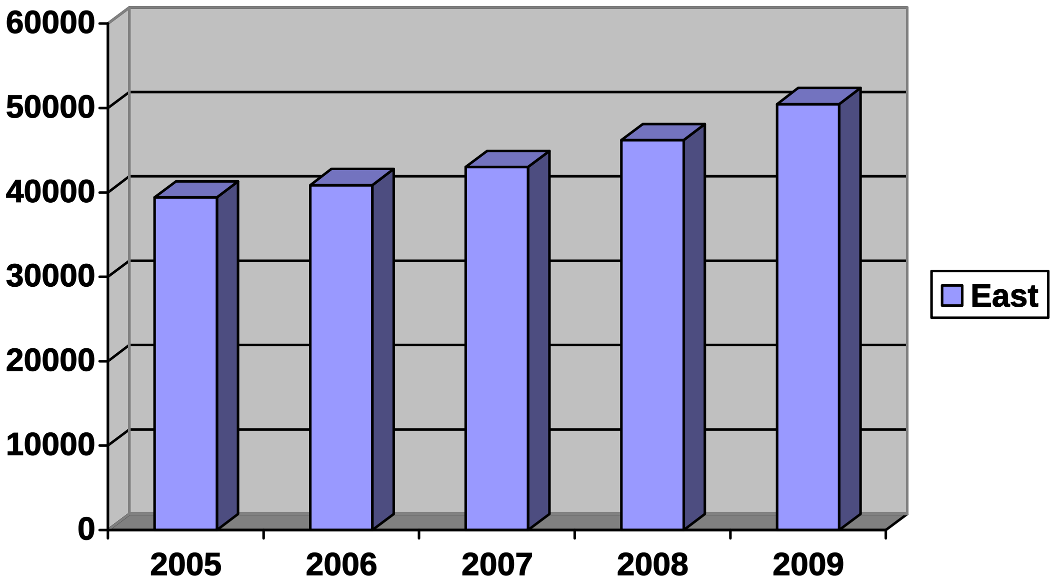
(i) Growth Ratio of Total Deposit

Table No. 4.23

Growth Ratio of Total Deposit **Rs In Million**

Year	**2005/06**	2006/07	2007/08	2008/09	2009/10	**Growth Ratio (%)**
Total Deposit	39402.27	40866.77	43016.06	46195.48	50464.13	6.38%

Figure 4.1



The above table shows the growth ratio of the bank is 6.38%. Total deposit was highest in 2009 and lowest in 2005. (See annexure 1)

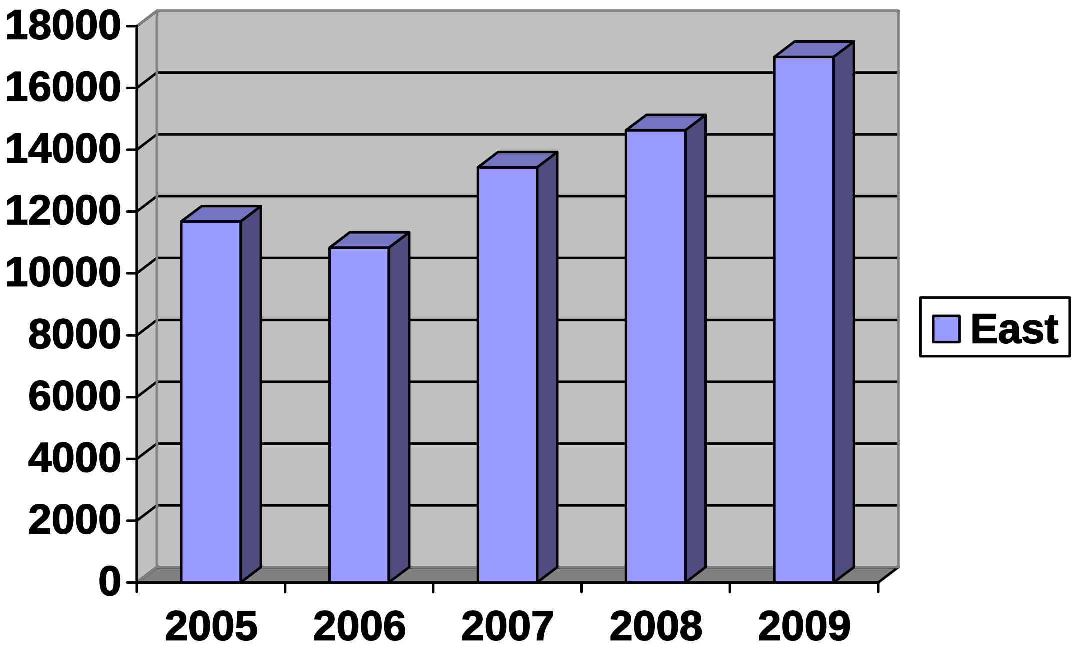
(ii) Growth Ratio of Total Loans And Advances

Table No. 4.24

Growth Ratio of Total Loans And Advances **Rs In Million**

Year	**2005/06**	2006/07	2007/08	2008/09	2009/10	**Growth Ratio (%)**
Loans & Advances	11679.49	10831.08	13430.93	14633.54	17006.46	9.84

Figure 4.2



The above table shows the loans and advances are in fluctuating order. The highest amount was in 2009 and the lowest amount in 2006. The net growth rate is 9.84% during the study period. (See Annexure 2)

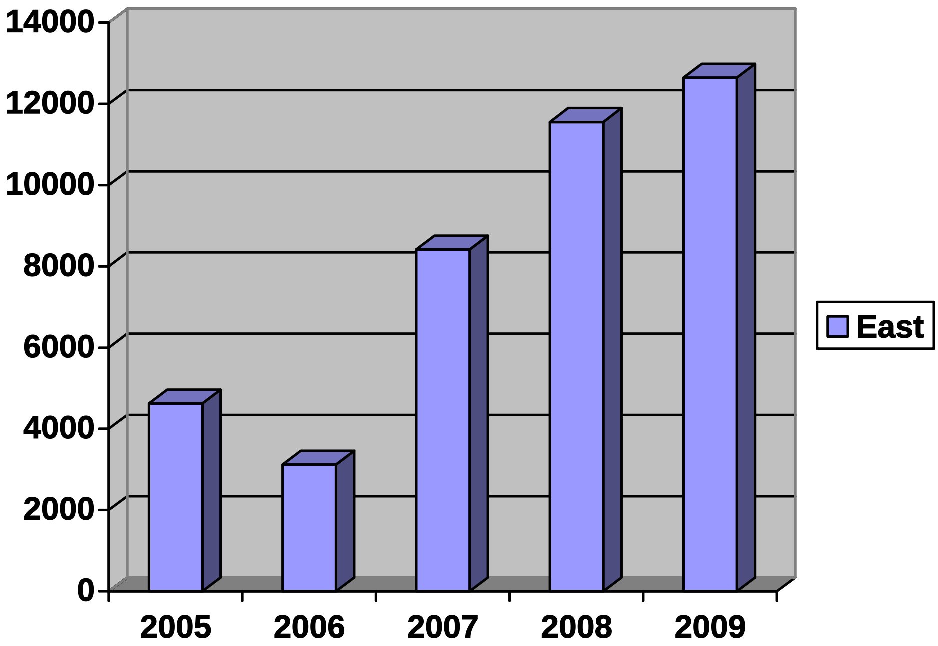
(iii) Growth Ratio of Total Investment

Table No. 4.25

Growth Ratio of Total Investment **Rs In Million**

Year	**2005/06**	2006/07	2007/08	2008/09	2009/10	**Growth Ratio (%)**
Total Investment	4623.13	3117.03	8415.88	11555.36	12650.15	28.61%

Figure 4.3



The above table shows that net growth rate of the bank is 28.61% with the highest investment of Rs.12650.15 million in 2009 and the lowest of Rs.3117.03 million in 2006 (See annexure 3)

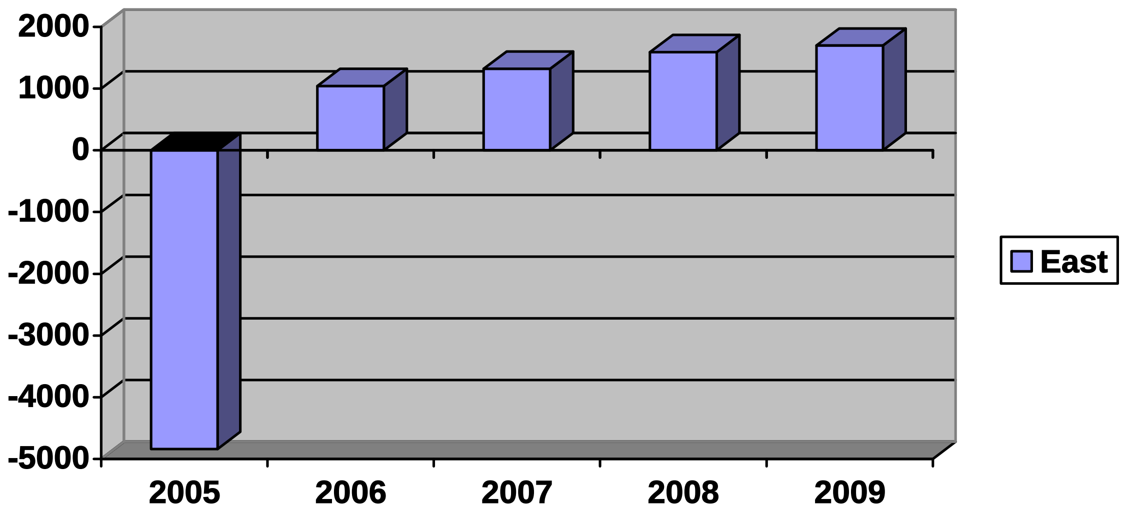
(v) Growth Ratio of Total Net Profit (Loss)

Table No. 4.26

Growth Ratio of Total Net Profit (Loss) Rs In Million

Year	**2005/06**	2006/07	2007/08	2008/09	2009/10	**Growth Ratio (%)**
Net profit (Loss)	(4839.78)	1040.10	1322.89	1591.49	1697.09	(1.77)

Figure 4.4



The above table shows the shows the net profit of RBB is in increasing trend. But the net growth rate of the bank is in negatives i.e. (1.77%). Due to which, in first year the bank was in losses. But in year 2006 to 2009 . The bank was gain profit. Nowadays, there is new management team who always try to improve the bank condition. And We hope in future the bank will get more profit. (See annexure 4)

4.2 Statistical Tools

Statistical Tools help to analyze the financial position of the bank. Statistical tools are the mathematical techniques used to facilities the analysis and interpretation of numerical data. It is also helps to analyze the relationship between variable and helps bank to make appropriate investment policy regarding to profit maximization and deposit collection. Statistical tools are used to analyze the objectives of the study with the use of statistical tools, it become easy to convert abstract problems into figures and complex data in the study are as follows.

A. Standard Deviation

Standard deviation measures the absolute dispersion and gives uniform correct and stable result. It is the position square root of average sum of square of deviation of given observation from the arithmetic mean of the distribution. Higher the value of standard deviation higher will the variability and vice-versa. A standard deviation and the ranges as its is used of measurement. It is denoted by a small Greek ∃. In the this study standard deviation of different ratios are calculated.

B. Coefficient Correlation Analysis

Correlation refers to measure of relationship between two or more characteristics of a population or a sample. It measures the changes between the phenomenons. Coefficient of correlation is the mathematical method of asocial between the two variable i.e. one dependent the relationship between two or move variable may effect o other correlated variable. This topic deals with the study to find out relationship between the mentioned variables.

(i) Coefficient of correlation between Deposit and Loans & Advances

(ii) Coefficient of correlation between Deposit and Investment

(iii) Coefficient of correlation between Loans & Advances and Total Net Profit

(iv) Coefficient of correlation between Investment and Net Profit.

The above analysis tools analysis tools analyze the relationship between these relevant variables and help the bank to make appropriate policies regarding deposit collection, fund utilization (loan & advances) profit maximization. The reliability of the value of coefficient of correlation of correlation is measured by probable error. The limits of correlation are always between -1 to + 1. In this chapter, Karl Person's coefficient of correlation (r) is used to find out the relation between two variable and when r = -1, it means there is signification relationship between two variable and when r =-1, it means there is no signification relationship between two variable.

Coefficient of Correlation (r) $\frac{\phi xy}{N \pm x \pm y}$

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

(i) Coefficient of Correlation between Deposits and Loans & Advances

Deposits have played a vital role in the better performance of a commercial bank and loan & advances are important to mobilize the colleted deposits in different sectors. Coefficient of correlation between deposit and loan and advances measures the degree f relationship between these two variables. In this analysis,. deposit independent variable (X) and loan & advances are dependent variables (y). The main objectives of computing 'r' between these two variable are to justify whether deposits are significantly used as loan and advances in a proper way or not. The given table shows value of 'r', 'r2' probable error (P.Er) and 6p.Er between total deposits and loan and advances.

Table No. 4.27

Correlation between Deposits and Loans & Advances

Correlation Coefficient (r)	r^2	P. Er.	6P. Er.	Remark
0.97	0.94	0.02	0.12	r >6P.Er.

The above table shows the coefficient of correlation between deposits and loans & advances is .97, which shows a positive relation between these two variables. Similarly, when we consider the value of coefficient of determination (r^2) , Which is 0.94 it means that, 94% of the variation in the dependent variable (loans and advances) has been explained by said that there is a higher positive correlation between deposits and loans & advances. But result indicates that the bank is successful in mobilizing its deposits in proper way as loans and advances (See annexure 5)

(ii) Coefficient of Correlation between Deposits and Total Investment

Coefficient of Correlation between Deposits and Total Investment measures the degree of relationship between these two variable. In this analysis, deposits are independent variables (x) and investment is dependent variables (Y). The main objectives of computing 'r' between these two variable are to justify whether deposits are significantly used as investment in a proper way or not.

Table No. 4.28

Correlation between Deposits and Investment

Correlation Coefficient (r)	r^2	P. Er.	6P. Er.	Remark
0.92	0.84	0.05	0.3	r >6P.Er.

From the above table, it found that the coefficient of correlation between deposits and investment is 0.92, which shows a positive relationship between these two variables. Similarly, when we consider the value of coefficient of determination (r^2) which is

0.84, means that 80% of variation in the dependent variable (deposits). Since, r>6P.Er and positive, it can infer that there is a higher positive correlation between deposits and total investment. Thus, this indicates that the bank is successful in maximizing the investments of its deposits. (See annexure 6)

(iii) Coefficient of Correlation between Loans & Advances and Total Net Profit

The correlation between loans and advances and total met profit measures the degree of relationship between these two variables. The values of (r) explains whether a percentage change in loans and advances contribute to increase the same percentage of net profit. Here, loans and advances is the independent variable (x) and total net profit is dependent variable (y). The main objective of computing 'r' between these two variable is to find out whether loans and advances and total net profit are significantly correlated or not. The given table shows the value or 'r', 'r^2' probable error (P.Er.) and 6P. Er. between loans and advances and net profit.

Table No. 4.29

Correlation between Total Loans & Advances and Total Net Profit (Loss)

Correlation Coefficient (r)	r^2	P. Er.	6P. Er.	Remark
0.50	0.25	0.23	1.38	r <6P.Er.

From the above table shows that the correlation between loans and advances total net profit of the bank is 0.50. The value of coefficient of determination (r^2) is 0.25 means that 25% of the variation in the dependent variable (total net profit) has been explained by the independent variable (loans and advances). Since, r<6P.Er. It can be inferred that there is a no strong correlation in loan and advances affects the total net profit of the bank. (See annexure 7)..

(iv) Coefficient of Correlation between Investment and Net Profit

The correlation between total investment and total net profit (loss) measures the degree of relationship between these two variables (Y). The value of 'r' explains a percentage changes in investment contribute to increase the same percentage of net profit. The main objectives of computing 'r' between these two variable is to justify whether investment are significant used to earn net profit in proper way or not.

Table No. 4.30

Coefficient Correlation between Total Loans & Advances and Total Net Profit (Loss)

Correlation Coefficient (r)	**r^2**	**P. Er.**	**6P. Er.**	**Remark**
0.54	0.29	0.21	1.26	r <6P.Er.

From the above table shows that the correlation between total investment and total profit of the bank is 0.54, which shows a positive relationship between these two variable. The value of coefficient of determination (r^2) is 0.29 that means 29% of the valuation in the dependent variable (total net profit) has been explained by the independent variable (total investment). Since r<6P. Er it can be inferred that these is no strong correlation between total investment and total net profit. Thus, this indicates that the increase or decrease in total investment affects the total net profit of the bank. (See annexure 8)

C. Trend Analysis

The main objectives of this topic are to analyze the trend of deposit collection, its utilization and the net profit of RBB. Under this topic, trend of deposit, loans and advances, total investment and total net profit are forecasted for next five years time. The following trend value analyses have been used in this study.

- Trend Analysis of total deposit
- Trend Analysis of loans and advances
- Trend Analysis of total investment
- Trend Analysis of net profit

The trend of related variables can be calculated as, Yc = a + bx

(i) Trend Analysis of Total Deposit

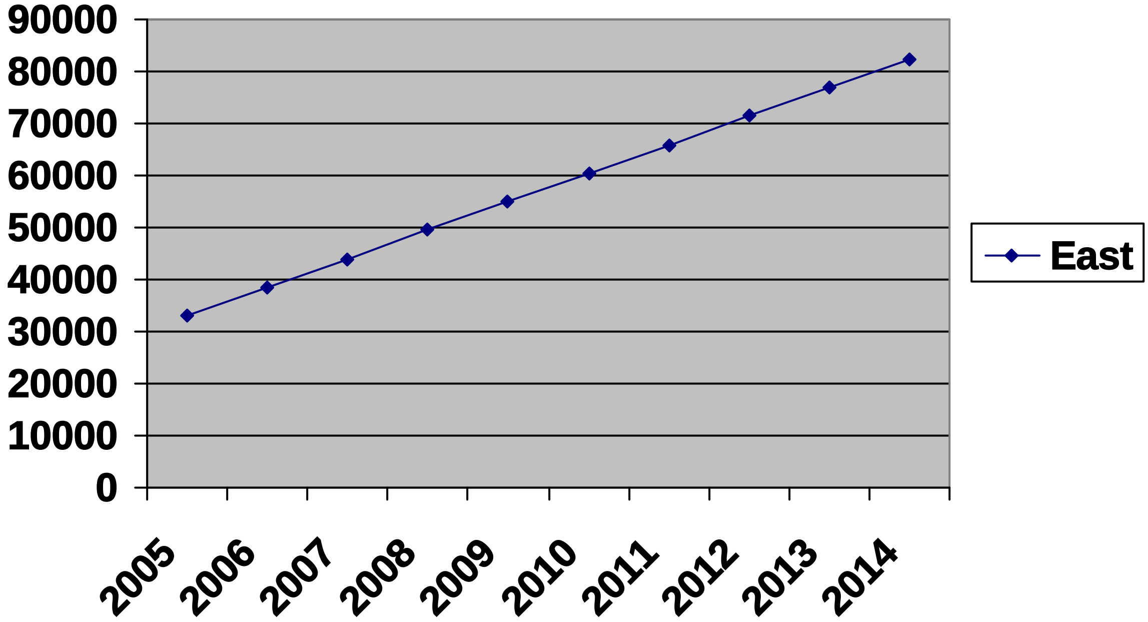
The following shows the trend value of total deposit of RBB for five years from 2005/06to 2009/10 and forecasted the same for next five years from 2010/11 to 20014/15.

Table No. 4.31

Trend value of Total Deposit **Rs In Million**

Years	Trend Values
2005/06	33007.96
2006/07	38498.45
2007/08	43988.94
2008/09	49479.43
2009/10	54969.92
2010/11	60460.41
2011/12	65950.9
2012/13	71441.39
2013/14	76931.88
2014/15	82422.37

Figure 4.5



From the above the table, we see that the total deposit of the bank is in increasing trend. Other things remaining the same, total deposit of RBB will be Rs.82422.37 million in 2014, which is the highest under the study period. (See annexure 9)

(ii) Trend analysis of Total Loans & Advances

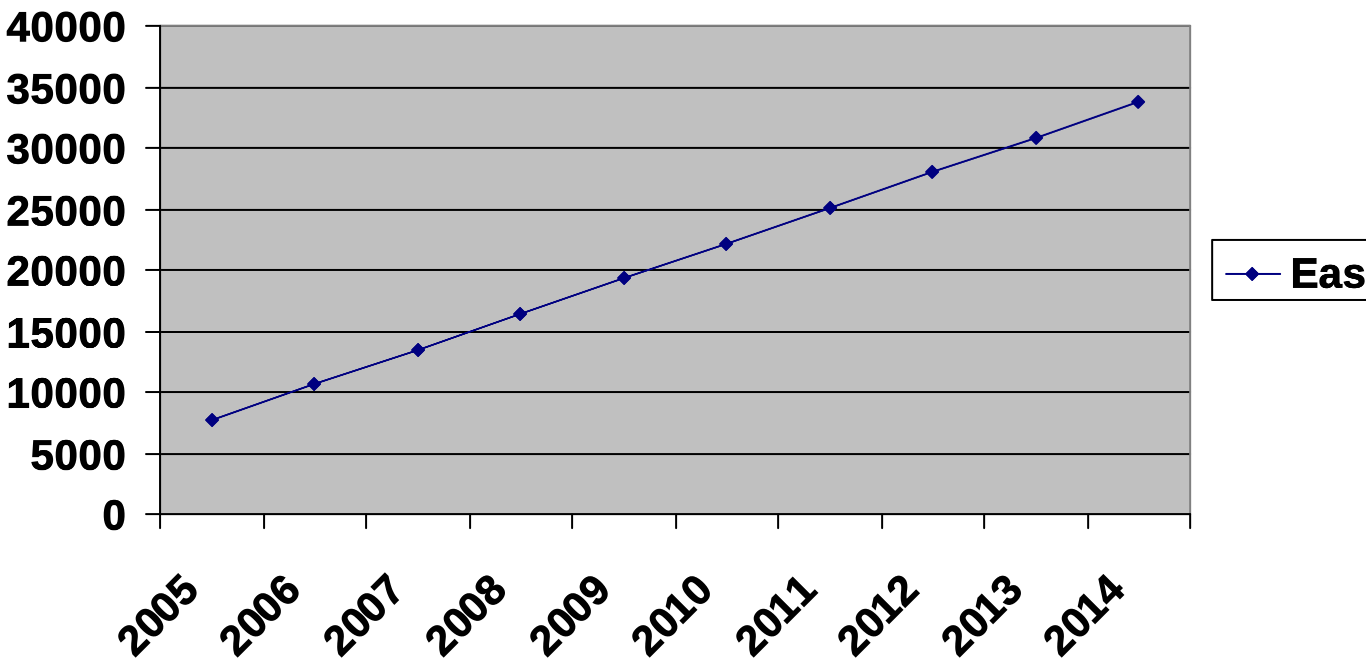
The table below shows the trend value of total loans and advances from 2005to 2009 and forecasted the same for next five years from 2010 to 2014.

Table No. 4.32

Trend value of Total Loans & Advances **Rs In Million**

Years	Trend Values
2005/06	7733.74
2006/07	10625.02
2007/08	13516.3
2008/09	16407.58
2009/10	19298.86
2010/11	22190.14
2011/12	25081.42
2012/13	27972.7
2013/14	30863.98
2014/15	33755.26

Figure 4.6



From the above the table, it has been seen that the total loans and advances of RBB is in increasing trend. Other things remaining the same, the total loan and advances of

RBB in 2013/14 will be Rs.33755.26 million, which is the highest under the study period. (See annexure 10)

(iii) Trend Analysis of Total Investment

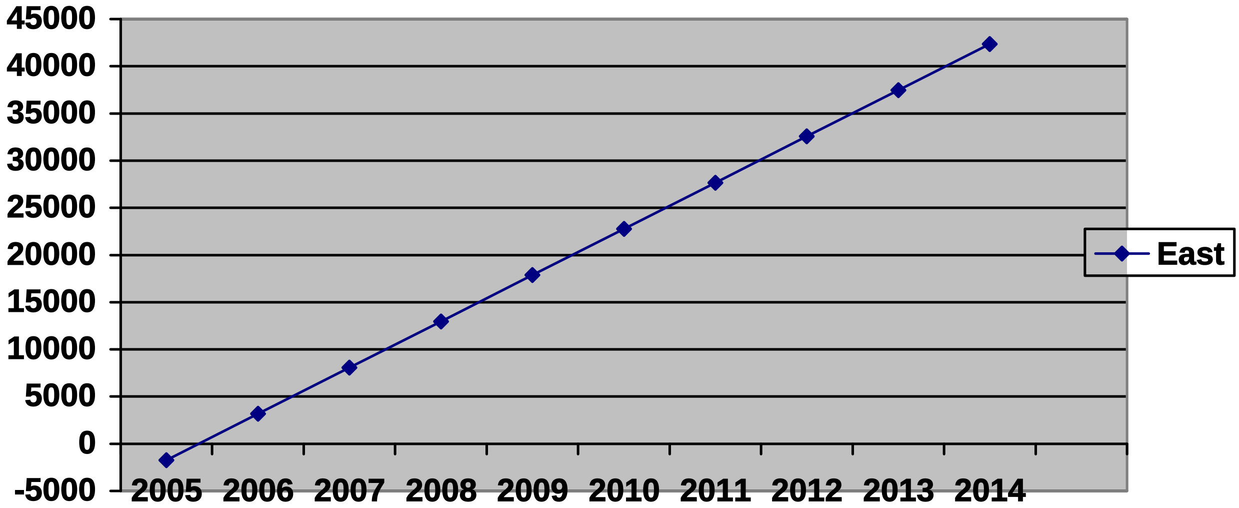
Here, an attempt has been made to analyze the trend value of total investment of RBB for five years from 2004/05 to 2008/09 and forecast the same for the next five years from 2009/10 to 2013/14.

Table No. 4.33

Trend value of Total Investment Rs In Million

Years	Trend Values
2005/06	(1724.63)
2006/07	3173.84
2007/08	8072.31
2008/09	12970.78
2009/10	17869.25
2010/11	22767.72
2011/12	27666.19
2012/13	32564.66
2013/14	37463.13
2014/15	42361.60

Figure 4.7



From the above the table we see that the trend value of total investment of RBB are in increasing trend. Other things remaining same, total investment of the bank will be Rs. 42361.60 million in 2014, which is the highest under the study. (see annexure 11)

Trend Analysis of Net Profit

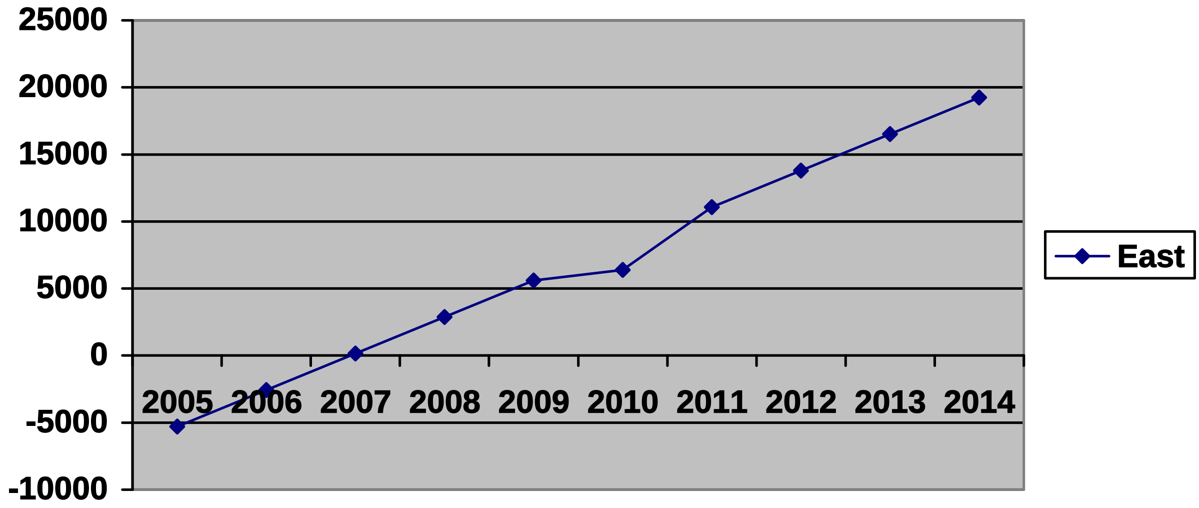
Here, an attempt has been made to analyze the trend values of total net profit of RBB for five years from 2005 to 2009 and forecasted the same for the next five years from 2010 to 2014

Table No. 4.34

Trend value of Net Profit (Loss) Rs In Million

Years	Trend Values
2005/06	(5287.7)
2006/07	(2562.67)
2007/08	162.36
2008/09	2887.39
2009/10	5612.42
2010/11	8387.45
2011/12	11062.48
2012/13	13787.51
2013/14	16512.54
2014/15	19237.57

Figure 4.8



From the above the table , it is clear that the net profit of RBB is in fluctuating trend. Other things remaining same, the net profit of RBB will be Rs. 19237.57 million which is the highest under the study period. (See annexure12)

4.3 The Major Findings of the study

It is an analytical part, which is the most important function of the study. It makes an analysis of various aspects of the investment policy of RBB. After the completion of the basic analysis required for the study, the final and the most important task of the researcher, is to enlist findings issues and gaps of the study and give suggestions for the improvement of the overall activity of the bank. This would be meaningful to the top management of the bank to initiate action and achieve the desire result. The objective of the research isn't just to pinpoint the errors and mistakes but to correct and recommend corrective measures for the future growth and improvement. The major findings of the study, that are derived on the basis of financial data analysis of Rastriya Banijya Bank Limited presented below:

Liquidity Ratios

From the analysis of the current ratio, current liabilities of RBB have exceeds current assets in average in the study period. The analysis of the bank indicates that it was able to meet its short-term obligation and had a satisfactory liquidity position. The cash and bank balance to current assets ratio of RBB has fluctuating trend. The ratio is less consistent and more variable. The bank can meet its daily requirements to make the payments on customer highest deposits withdrawals. The cash and bank balance to total deposit ratio is in fluctuating trend. The investment on government securities to current assets ratio of RBB has fluctuating trend. The ratio are variable and less consistent. The Loan and advances to current assets ratio is in fluctuating trend. The bank is in better position to mobilize its fund as loan and advances with respect to current assets. Hence it is found that 6the bank is able to maintain liquidity position to meet the daily cash requirement or meet its short term obligation. This means it is strong enough from the liquidity element. It suggests that RBB is sound in this regards.

Assets Management Ratio :-

It is found that the bank is in better position to mobilize its total deposits as loan and advances. The investment to total deposit ratios is in fluctuating trend during the study period. The bank has mobilized higher amount of deposits insecurities. The loans and advances to total working fund ratio is in decreasing trends in first two year but after that it is in increasing condition. The study shows that a little more than one-fourth of the assets comprises loan and advances i.e. risky assets. High ratio means high risk and eventually higher return. Therefore, the bank has taken minimum risk towards the mobilization of its funds to risky assets. Investment on government securities to total working fund ratio is in fluctuating trend. This ratio shows that the bank has mobilized a considerable amount of fund on government securities, which is less productive and risk free sector.

Profitability Ratios :-

Return on total assets ratio shows that RBB had suffered from loss in first year but now there is new management team who are trying to get success in banking completion market. Return on loans and advances ratio shows that the bank's return on loan and advances are in negative position in 2004/05 and positive position from 2005/06 to 2008/09. The interest income to total income ratio is in fluctuating trend. The interest expenses to total expenses ratio are in fluctuating trend. The ratios are inconsistent and variables. When the deposits of different accounts is increasing than the interest expenses is also increasing. It is better for bank can mobilize its fund in different sector. In the other hand when the interest expenses are increasing then the total expenses is also increase. The total interest paid to total working fund ratio are in fluctuating trends. The ratio are less consistent and more variable. Hence, the bank has paid less interest on its total working fund as a whole. The income to total expenses ratios are in fluctuating trend. In first three year the total expenses is higher than total income because in this period the bank has suffered from losses. And last two years the total income is higher than total expenses because in this period the bank has got some profit. Total income to working fund ratio are in fluctuating trend. The ratios are less consistent over the study period.

Activity Ratio :

The loan loss provision to total loans and advances ratio is in fluctuating trend during the study period. The ratio seems to be increasing trend increasing trend in first two years and is in decreasing trend form the last three years, which shows that the banks efficiency in managing the loans and advances and the efforts of the bank to recover the loans in time The non-performing loans to total loans and advances ratios are fluctuating over the study period. The ratios are variable and less consistent.

Risk Ratios :

The credit risk ratio shows that the ratios are consistent and less variable. Thus, this indicates that the bank has a stable credit policy though the chances of default or the loan being not paid is a little more. The capital risk ratio of RBB has followed fluctuating trend. The ratio shows that the ratios are consistent and stable during the study period.

Growth Ratios :

The growth ratio of total deposits of the bank is in fluctuating trend with slow growth rate. The loans and advances and investment are in fluctuating trend.But have satisfactory growth rte. The net profit of the bank which is in increasing trend with slowly shows that the bank is performing well in its overall operation.

Correlation Analysis :

The coefficient of correlation between deposits and loans and advances that it is positive of the bank which indicates that increase in deposit will increase in loans and advances. So, that the bank is successful in maximizing its deposits in proper way as loans and advances. The coefficient of correlation between deposits and investment is also found that it is positive and it is directly related to the deposit. Thus, the bank is successful in mobilizing the investments of its deposits. The correlation between loans and advances and total net profit of the bank is also positive. The correlation between total investment and total net profit of the bank is also psositive. Thus, this indicates that the increases or decrease in total investment affects the total net profit of the bank.

Findings from Trend :

The trend analysis of total deposit, total loan and advances and total investment of the bank is in increasing trend. The profit of RBB is in fluctuating trend.

Hence, from the above study we conclude that the overall picture of the investment policy of RBB is not good. So it is recommended for RBB to follow liberal policy. When, the bank invest its fund in loan and advances with sufficient guarantee and implement a sound collection policy including procedure which rapid identification of bad debtors loans, immediate contract with borrower, continual follow up and as well as legal procedure if required.

CHAPTER -5

SUMMARY CONCLUSION AND RECO\MMENDATIONS

This is the last chapter of the research, which includes summary, conclusion and recommendations from the fact findings through analysis of various aspects of investment of commercial banks by using some important financials as well as statistical tools.

5.1 Summary

Investment means sum of the money is to mobilize in different sector that obtained a good income. Investment means to mobilize the capital in profitable sector or to move the scattered saving for future financial gain. Investment is a present sacrifice for the sake of future benefits. The present is certain but the future is uncertain. Therefore investment always involves risk present decision about selecting the best investment alternatives should always take the future risks into consideration. Thus, investment means spending aside money for future financial gain. It is a commitment of funds made in the expectation of the some positive rate of returns. Investment takes place at present but return can be defined as the management of an investor's wealth which is the sum of current income and invested to increase wealth.

Banks are those financial intermediaries who accept deposit and grant loan. In other word banks is an important for under developed economy as they promote formation by developing banking habit of people and collection saving. Banks are mobilizing the deposit of the public in different sector to get the productive use. The development of the country highly depends upon its economic condition. In the modern economy banks are considered not as a dealer in money but as though the leaders of development and social economic development of the country

Bank plays a vital role in economic development of the country. It is a resource mobilizing institution which accepts deposit from various sources and invest such accumulated in the different field. The banking sector is largely responsible for collecting household saving in terms of different types of deposits regulating it in the society by lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy.

Investment has to suffering from various types of risk. It means investment operation of commercial banks is a very risky one. It is the most important factor from the point of view of bank management for this commercial bank has to pay the due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. Goods investment policy of the bank has positive impact on economic development of the country.

The main source of income of a bank is interest income which is very important that the bank have sound investment policy. A good investment policy attracts both buyers lenders, which increase both volume and quality of deposits, loan and investment. The greater the credit created by the bank, the higher will be profitability. Since investment is the most risky venture from the view point of shareholders and management of the bank, the bank should be cautious while formulating investment policy.

The main objective of this study is to evaluate the investment policy of Rastriya Banijya Bank and to suggest measures to improve the investment to improve the investment policy of the bank. This study has been constrained by various common limitations. The study is based o n the secondary data from 2004/05 to 2008/09. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contracts with the bank personnel have also been made.

Financial as well as statistical tools are used to analyze and interpret the data and information in the study. Under financial analysis various financial ratios relates to the investment function of commercial bank i.e. liquidity ratios, assets management radio, activity ratio, profitability ratio and growth ratio have been analyzed and interpreted. Similarly, under statistical analysis some relevant statistical tools i.e mean, standard deviation, C.V., coefficient of correlation, trend analysis have been used. The finding from etch of these form each of theses rations are personated which will give a better picture of the performance of the bank.

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

The income and profit of a bank depends upon its lending procedures., lending policy and investment of its different securities. The greater the credit created by the bank the higher will be the profitability. A sound lending and investment policy is not significant for the promotion of commercial savings of a backward country like Nepal.

5.2 Conclusion

- The current ratio of the bank over five years is 0.67 times on average during the study period. The standard of the current ratio is 2:1, through the acceptability of the value depends on the nature of the business and industry for the banks, a current ratio of 1:1 or above considered acceptable. Hence, based on this, the liquidity position of the Rastriya Banijya Bank is below from the normal level. The cash and bank balance to current ratio shows that only 15.03% of the current assets are liquid. Thus, bank has maintained the low percentage of liquid assets with respect to its current assets but still can meet the daily requirements to make payments on customer's deposit ratio is also sufficient to meet the short-term obligation of the bank. The mean cash and bank balance to total deposit ratio is also sufficient to meet the short-tem obligation of the bank. The mean cash and bank balance to total deposit ratio of 12.57% shows that the bank has enough liquidity to meet the customers deposit withdrawal demand. However, the ratios are variable and less consistent. The investment on government securities to current ratio is 18.64% on an average during the study period the study period, which indicates that the bank has maintained sufficient amount of adequate liquid assets to meet the unexpected future liquidity needs. But the ratio over the study period does not seem consistent during the study period with 55.15% C.V. The loans and advances to current assets ratio is 37.55% on an average during the study period. This ratio indicates that the bank has mobilized a large percentage of its current assets as loans and advances in order to earn high profit rather than keeping it idle as cash and bank balance .

Hence, the above results show that the liquidity position of the bank is good enough to meet the short term obligations. The maintenance of the liquidity also depends on the past withdrawal trend of the bank. The investment on loans and advances and government securities are good, which shows that the bank has invested in high earning assets with a view to earn high return.

- The loans advances to total deposit ratio is 30.50% an average on during the study period. This shows that the bank is not aggressively lending. Thus, the bank is not able to mobilize properly the total deposits in loans and advances, which has higher return. The investment to total deposit ratio is 17.8% on average during the study period. This shows that the bank has invested a lower portion of its deposits in investment on government securities, shares and debentures of other companies. The loans and advances to total working fund ratio is 29.26% in average during the study period. However, this shows that the bank has not satisfactorily utilized its total assets for the purpose of income generation. It has been able to mobilize around one fourth of the total assets in average in productive areas. The bank has invested 14.25% of founds on government securities in average. The ratios are inconsistent and fluctuating also. So the bank has less investment securities. The bank has invested 2.57% of funds on shares & debentures in average during the study period. This shows that the bank has very less investment in the shares and debenture of other companies.

The return on total assets ratio of the bank is 0.22% on average during the study period. First year the bank has suffered from losses but now there is a new management team who are trying to get success in banking completion market. The returns on loans and advances ratio is (0.23%) in an average. This ratio shows also that the RBB has failed to utilize their resources to earn good return for providing loans and advances. In the first year of the study period, the bank has got the highest loss ratio i.e. 41.44% and in the last year of the study period, the bank had got the highest loss profit ratio i.e. 9.98%. In this way, we hope the bank will get more profit very soon. The interest income to total income ratio is found to be 64.30% in an average during the study period. This ratio shows that the bank has invested large amount of found into different areas. We know higher the interest income to total income ratio indicates that the bank has investment high percentage of fund of risk free areas. The interest expenses to total expenses to total expenses ratio for the study period is 39.80% and is in fluctuating trend. This shows that the cost of interest to pay customer is very high. We know that when the deposits of different accounts are increasing than the interest expenses are also increasing. It is better for banks because increasing than the interest expenses are also increasing. It is better for banks because when the deposit is increasing that the ability of the bank to mobilize it s fund indifferent sectors. The total interest earned to total working fund ratio is 4.92% with a fluctuating trend. This show that the ability of the bank to mobilize its total assets to generate high income as interest is deteriorating or in other words, the earning power of the bank is decreasing. Total interest paid total working fund ratio for the study period is 2.83% an average and is in fluctuating trend. The ratio seems to be consistent and less variable. Total income to total expenses ratio is 1.32 times in an average during the study period. This ratio seems to be consistent over the years. Thus, we conclude that a unit of expenses could generate two units of income. Hence, the productivity of expenses to generate income is shown by this ratio. Total income to total working fund ratio is 7.98% on average during the study period with in fluctuating trend. This shows that the earning power of the assets is less consistent and generating income at a less consistent rate.

Hence, the above results show that the interest earning capacity of total working fund is inconsistent but variable is positive way. Interest income has higher contribution total income of the bank, which shows that the bank has higher proportion of income from fund based transitions. Similarly profitability ratios such as return on loans and advances, return on assets etc are less consistent and variable in the positive way as a result profitability of the bank is increasing. At last, we conclude that the investment policy adopted by the bank is apposite from the perspective of profitability.

- The loan loss provision to total loans and advances ratio is found to be 93.15% in an average within fluctuating trend. Through the loan loss provision seems to be increasing trend but the ratio of the last two years is in decreasing trend which shows the bank is able to efficiency manage its loans and advances ratio is 94.34% in an average within fluctuating trend. As per the international standard the non-performing assets for commercial banks should be in single digit i.e. less than 10%. But the high mean ratio shows that the NPA is in improvement condition.
- The credit risk ratio is 29.62% during the study period with fluctuating trend but more consistency. This shows that the risk of non-payment of loans or the chances of default ids high through the bank has more good credit policy. The capital risk ratio of the bank is 2.57% in average in the study period with fluctuating trend. Thus, this shows that there is a greater risk of the mussels value declining.

The growth ratio of total deposit during the study period is 6.38%. The amount of deposit is in increasing trend of the study period is found to be 9.84% and is in increasing trend of the study period in a slow pace. The growth rate of investment during the study period is 28.61% with the fluctuating trend. Similarly, the net profit of the bank is also in an increasing trend with the net growth rate of (1.77%) during the study period. We know that the net growth rate is in negative because the bank had get losses in the first year with high amount.

Hence, the above the results show that the bank has been collecting the deposit funds are in increasing trend in the study period. Similarly, the loans and advance is also in increasing trend. So, both the sources and uses of fund are in an increasing trend. Though, the investment seems to fluctuate, the growth ratio seems to be satisfactory for investment. The net profit is in increasing trend but it is in negative position. We know from the first year of the study period the profit is in negative position but in last four years the bank has got profit.

- The correlation analysis shows that the correlation coefficient (r) between posits and loans & advances of the bank is 0.97 and probable error multiplied by six is found to be 0 .12 since r> 6P.Er. and r is positive. So it is inferred that there is low positive correlation between total deposits and total investment as (r) is 0.92. probably error multiplied by six is found to be .0.3. This correlation between loans & advances to total net profit 0.50% which shows there is positive correlation between them. The correlation between total investment and total net profit is 0.54 and problem error multiplied by six is found to be 1.26. Since, r< 6P.Er. it is insignificant and there is no correlation between total investment and net profit.

The trend analysis of total deposits of the bank is in increasing trend but in slow pace. Other things remaining same, the total deposits of the bank will be Rs. 82422.37 million until at the end of 2012/13, which is the highest under study period. Similarly, growth rate of loans and advances is also in increasing trend. Other things remaining same , the loans and advances of RBB will be Rs 33855.26 million in 2012/13, which is the highest under study period. The total investment of the bank is in fluctuating trend. Other things remaining same, the net profit of RBB will be Rs. 19237.57 million, which is the highest under the study period.

5.3 Recommendations

Recommendations mean suggestion, which help to take corrective actions in their activities in future. On the basis of above analysis and finding of the study, following recommendation or suggestions have been put forward with a view to improve weakness, inefficiency and for the satisfactory improvement of the investment policy of Rastriya Banijya Bank Limited.

- From the analysis of liquidity ratios of the bank, the current ratio shows the bank's ability to meet the current obligations. Generally 2:1 is considered as the standard current ratio but for the banks and financial institutions 1:1 is considered as the standard current ratio. The current ratio of RBB seems to be les than 1 from the second year of the study period. So, it is suggested to increase the bank's current ratio as soon as possible as it could impose bad impact on depositors. Cash and bank balance to current assets ratio shows the bank's liquidity capacity based on cash and bank balance. Based on the analysis of this ratio, we can conclude that the ratio is less consistent and more variable. We know that higher ratio indicates the bank's ability to meet the daily cash requirement of their customer. So it suggested to the bank to increase its liquidity capacity.
- Total investment to total deposit ratio shows the bank's ability to mobilize its deposit in different securities. Total investment to total deposit ratio of RBB is very low. This indicates that the bank has not been properly mobilizing its deposits in different sector. If the bank wishes to increase its profit it is highly recommended to increase its investment in different securities. The bank has very nominal investment on government securities, shares and debentures of other companies. Bank may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized instituting. However it is good that the bank invest more on government securities, shares and debentures of other companies as it encourage financial and economic development of the country.
- The main objectives of commercial banks are to earn more profit. Return on total assists ratio of RBB shows that the bank and had suffered from losses with high ratio. However, it is good that the bank has invested its fund in low

risky areas and invests on pass loans. Return on loans and advances ratio also shows that the bank has not properly invest its fund on pass loans. We know high ratio indicates greater success to mobilize its fund as loans and advances. But the return on loan and advances of RBB is in highly negative position. Hence, the bank is recommended to invest its fund on secured area. The bank always considers investing its fund on cash flow secured better than collateral based.

- The interest income to total income of the banks is high, which indicates that a major portion of the income is generated as interest. The bank is recommended to increase its assets efficiently to earn interest income.
- The interest income to total working fund is low and decreasing which indicates that the earning power of the bank is deteriorating. Thus, the bank should consider its investment policy and if it wishes to increase it interest income, it should invest more on risky assets that will give higher return.
- The bank's Credit risk are quite high. The credit risk ratio indicates the changes of default of or the risk or non payment of loans. Hence, in order to maximize this, adopt aggressive loan recovery and follow up policy. It should flow scientific project appraisal method and train its employees in identifying a better investment avenue from the perspectives of risk return.

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