

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. There are many ways to measure financial performance, but all measures should be taken in aggregate. Line items, such as revenue from operations, operating income, or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Bhandari, 2008).

Performance Analysis provides the athletes and coaches with objective information that helps them understand performance. This process is underpinned by systematic observation, which provides valid, reliable and detailed information relating to performance. Performance Analysis can help enhance the coaching process by providing statistical and video information (Gupta, 2009).

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy. It has been witnessed that the Nepalese economy has been passing through very difficult times over the decade. Agriculture and Non-agriculture production has remained constant so far over the decade after the restoration of democracy in Nepal. Foreign aid in the form of grants now has been turned into loans that have to be repaid within the stipulated time period with certain interest. As a result we see that debt payment is eating up the huge portion of annual budget of the government (Joshi, 2008).

It is the harsh reality that the development of economics conditions cannot be improved without the help of banking industry. After the implementation of the policy of privatization and economic liberalization policy by the government, it is seen that there is remarkable growth in the banking industry in Nepal. The financial system in Nepal has evolved from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. This constitutional network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

1.1.1 Profile of the Organization

A) Nabil Bank Limited

NABIL Bank limited is first joint venture bank in Nepal which was in commenced its operation on 12 July 1984 as first partnership of Dubai Bank limited, Dubai (later acquired by Emirates Bank international limited, Dubai) currently NB (International limited Ireland) is the foreign partner. Nabil limited had the official name Nepal Arab Bank limited till 31st July December 2001. Hence 50% equity shares of Nabil bank ltd are held by N.B. International Limited and out of another 50% shares, 20% shares has been hold by financial institutions and remaining 30% shares were issued to general public of Nepal.

Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector in Nepal with 181 branches and 184 ATM counters in all major cities. It also was the first to introduce consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Tele Communications Corporation, Nepal electricity authority, Nepal Oil Corporation, Nepal television, water supply and the royal Nepalese Army. It is the only Bank having it's presence at Tribhuvan International Airport, only international airport of the country .Also, the number of out lets in the country is the highest among the joint venture and private banks operating in Nepal. The bank is major player in facilitating import export activities with modern and efficient Trade Finance and international trade support services, to large multinational as well as established business conglomerates in the private sector. Success of Nabil is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions (www.nabilbank.com.np)

Table 1.1 Schedule of Capital Structure of Nabil Bank Limited

Particular	Rs.
1. Authorize capital	
100,000,000 ordinary shares of Rs 100 each	10, 000, 000, 000
2. Issued capital	
90,118,544 ordinary shares of Rs 100 each	9,011, 854, 400
3. Paid up capital	
90,118,544 ordinary shares of Rs.100 each	9,011, 854, 400

Source: (www.nabilbank.com.np-2076/77)

B) Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. Nepal Investment Bank Limited has offered deposit accounts such as normal saving account, social deposit account, Parivar Bachat Khata, trade finance, corporate finance, remittance services, e-banking, utility payment system etc. It has 82 branches with 125 ATM outlets. (www.nibl.com.np)

Table 1.2 Schedule of Capital Structure of Nepal Investment Bank Limited

Particular	Rs.
1. Authorize capital	
150,000,000 ordinary shares of Rs 100 each	15,000,000,000
2. Issued capital	
128,697,491 ordinary shares of Rs 100 each	12,869,749,100
3. Paid up capital	

128,697,491 ordinary shares of Rs.100 each	12,869,749,100
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Source: (www.nibl.com.np-2076/77)

1.2 Statement of the Problem

Financial performance analysis is a relatively new concept in Nepalese. Many companies still have no awareness towards it. The study proposes to the investors' awareness about the financial performance analysis of the financial institutions while investing. Investors can be classified into three categories on the basis of risk and return. First type of investors is risk seeker who becomes ready to face high risk in the hope of high return. The second type of investors is risk averters who try to avoided risk and ready to be satisfied in the low return. The third type of investors comes along in between these two investors called risk neutral. These investors are ready to bear medium sized risk and have medium sized return.

The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and acts as development banks, due to the lack of other specialized institutions. Thus, in this scenario of Nepalese Commercial banking sector, this study mainly seeks the answers of the following specific problems related to financial performance analysis of Nabil Bank Ltd. and Nepal Investment Bank Ltd. This study has tried to answer the following statement problems:

- i. What is the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks?

1.3 Objective of the Study

The main objective of the study is to compare the financial performance analysis of Nabil Bank Ltd. and Nepal Investment Bank Ltd. However the specific objectives will be as follows:

- i. To analyze the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks.

1.4 Significance of the Study

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern times, since credit or bank money establishes majority is of the economy's aggregate money supply, it mostly changes

the volume of bank money or credit rather than changes in the total supply of the high - powered money issued by the reserves held by the bank against their deposit liabilities that account for changes in the aggregated money supply.

The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it too have a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment to the country by providing specially considered loans and advances towards less privileged sectors.

Hence, the study is needed to examine the overall performance of Nabil and NIBL especially in collection of deposits and its utilization. The study will have to know the overall performance of Nabil and NIBL. So, it will be useful for the different stakeholders.

1.5 Limitations of the Study

This study has the following limitations:

- i. The study is based on secondary data collected from the commercial bank. Research based on secondary data may be far from accuracy due to inherent character.
- ii. A whole study is based on the data of five years period i.e. from fiscal year 2072/73 to 2076/77 and hence the conclusion drawn confines only to the above period.
- iii. The scope of the studies limited within the sampled commercial banks.
- iv. Among many factors affecting investment decision, only certain factors i.e. liquidity, profitability, diversification, growth, etc. have been considered.

1.6 Organization of the Study

The whole study has been divided into five chapters as:

Chapter I. Introduction: This Chapter deals with the background of the study, focus of the study, introduction of banks under study, statement of the problem, Objective of the study, Significance if the study, Limitations of the study, and organization of the study.

Chapter II. Review of Literature: This chapter includes the conceptual review and review of related studies.

Chapter III. Research Methodology: This chapter includes the research design, sources of data and data analysis tools.

Chapter IV. Presentation and Analysis of Data: This chapter includes the liquidity ratios, assets management ratios, activity ratios, profitability ratios, growth ratios, correlation coefficient analysis, trend analysis, and major findings of the study.

Chapter V. Summary, Conclusions and Recommendations: This chapter includes Summary, Conclusions, and Recommendations of the study.

CHAPTER-II

REVIEW OF LITERATURE

This chapter is mainly concerned with the competent exploration of the background to the work and a comprehensive review of recent and relevant literature. In this regard, the effort has been made to grasp knowledge and information that is available from libraries, document collection center, other information managing bureaus and concerned commercial banks. This chapter helps to take adequate feedback to broaden the information base and inputs to the study. Conceptual framework is given by different researchers, authors, practitioners, scholars, etc. is reviewed from research papers, books, annual reports, articles, etc.

2.1 Conceptual Review

A commercial bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credits and transfers funds by written order of deposits. Commercial Bank Act of Nepal (1974) has defined that commercial bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture and industries or for such specific purpose.

American Institute of banking (1972) has defined as Commercial bank is a corporation, which accepts demand deposits subject to check and makes short - term loans to business enterprise, regardless of the scope of its other services. This act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short – term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase discount bills and promissory notes and exchange foreign currencies. They discharge various functions on behalf of their customer that they are paid for their services.

Commercial banks, as financial institution, perform a number of internal functions. Among them, providing credit is considered as most important one. In the words of H.D. Crosse (1963), “Commercial banks are very risky one. For this, commercial banks have to pay due consideration while formulating investment policy regarding loan investment. Investment policy is one facet of the overall spectrum of policies that guide banks investment operations.”

A bank's marketing starts with proper relationship with customers either to attract savings or for the loan disbursement. Both the depositors and creditors are customers of the banks. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products. And credit products can be bifurcated into fund based products and non-fund based products" (NRB, 2007:1). The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loan medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.)

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the bank of America has the vast range of banking business serving individuals and small firms and a big share of the loan syndicate market (Economist, 2006:10). It means markets are there for some products and it is created for others. Banks in Nepal are weak in locating the existing market and in creating new markets too.

Loan disbursement is a trade of win-win game lenders and borrowers both get benefited out of it. Customers, not products are the ultimate source of income. For the analysis of customers several questions need to be answered. These includes questions such as which customers buy the product and how they use it, where customers buy the product, when customer buy, how customer choose, why they preferred that product, how they respond,

and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective (NRB, 2007:3)

Market makers play an important role in the contract between the borrowers and the bank. In principle, it is the duty of the consultant to sell the project on behalf of the borrower to the bank. The rejection of the project can raise the question about the knowledge and quality of the consultant. But in Nepal, after the preparation of the project the duty of the consultant gets over. And it is the borrower who exercises his personal contact to get the project approved. Each bank follows some process and system for loan approval and for accepting the deposits. At first, the banks demand a detailed proposal of a project along with an application for loan. The respective loan officer accesses.

The proposal submitted to the bank and recommends for approval if the proposal is found viable. Normally, only feasible projects are accepted. The preparation of project proposal is a professional job assigned to any consulting firm or organization. The company that needs credit lacks that type of expertise with in the organization. To get the bank credit properly and effectively, there is a network of the parties' involved in the borrowing. These parties are: a) Borrower, b) Consulting firm for the project preparation, c) Bank and d) Consulting firm for collateral valuation.

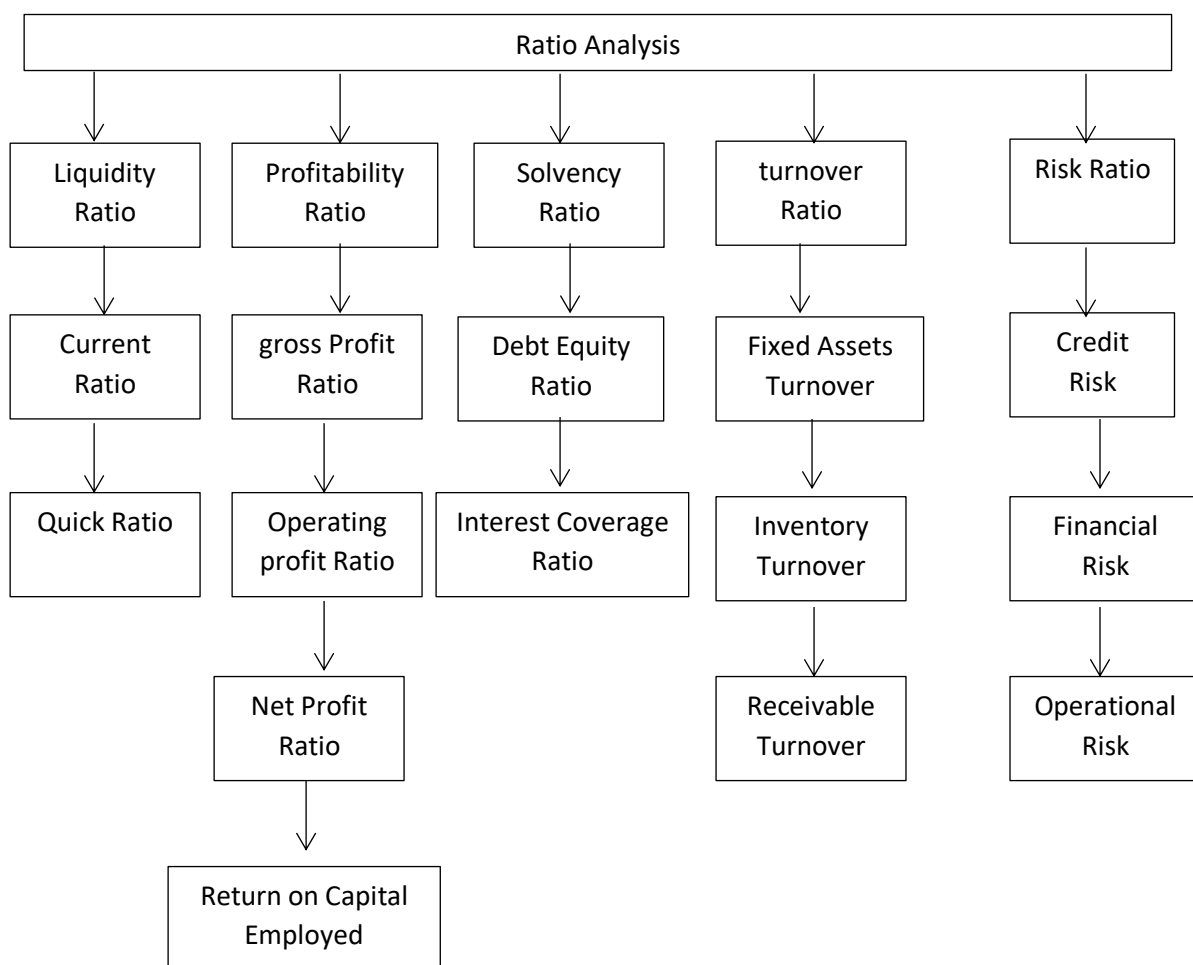
2.1.1 Financial Performance Analysis

The analysis of financial performance is done to obtain a better insight into a firm's position and performance. Analysis of financial performance is a process of evaluating the relationship between the component parts of the financial statements to obtain better understanding of a firm's position and performance.

In order to make financial statement more meaningful, analysis of financial statement is prepared. Analysis of financial statement means a study of relationship among the various financial factors. It is a process of classifying and arranging mass data of financial statement. For obtaining a better understanding of the position of a business and its performance, classifying and arranging are needed. The objective of this process is to understand the financial position, profitability, operational efficiency and growth potential of the business (Pradhan, 2012)

Figure 2.1

Type of ratio analysis



Source: www.educaba.com

I) Ratio Analysis

A ratio is a figure or a percentage the comparison of one-dollar amount with some other dollar amount as a base. Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a for ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 2011).

Ratio is the expression of one figure in terms of another. It is the expression of the relationship between mutually independent figures. It is a simple mathematical expressions of the relation of one item with another independent figure alone convey no meaning unless

they are compared each other. Accounting ratios shows the interrelationship existed among various accounting data (Pandey, 2011).

A ratio is the relationship of one amount with another expressed as the ratio of or as a simple fraction, integer, and decimal fraction percentage (Pradhan, 2012).

Ratio analysis is the numerical relationship between any two variables of financial statements, which should serve some meaningful purpose. Ratios are expressions of logical relationship between items in the financial statements of a single period. Analysts can compute many ratios from the same setup financial statements. A ratio can show relationship between two items on the same financial statement or between two items on different financial statements (e.g. balance sheet and income statement). The only limiting factor in choosing ratios is the requirement that the items used to construct a ratio have a logical relationship to one another (Pradhan, 2012).

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined (Khan and Jam, 2013).

A. Liquidity Ratio

Liquidity ratios are devices to judge the company's ability to meet its short-current obligations and provide measure of liquidity position. There shouldn't be the condition of lower and higher liquidity. Lower liquidity indicates the failure of meeting the company's current obligations and adverse result. On the other hand, higher liquidity indicates idle assets which is also not good as it earns nothing. So, it is essential for the corporation to maintain the balance of liquidity position. In the context of examining liquidity position of the corporation, only one liquidity ratio has been computed, that is current ratio. Current ratio is the measurement of a short-term solvency to show the availability of current assets expressed in rupees for every one rupee of the current liability. It is computed by dividing total current assets by total current liabilities. The standard of this ratio is generally accepted as 2:1. A relatively high current ratio means the company is able to meet its short-term obligations and vice-versa (Pandey, 2011).

B. Leverage Ratio

The leverage ratios are also termed as capital structure ratio. They are computed in order to get insight in the long-term financial status of the company. These ratios show the company's current debt-paying ability. The risk of the company can be diversified by issuing bond and debentures or by using creditor ship capital. The owners, creditors and outsiders are interested in firm's debt-paying ability. If the company is high levered, then the firm was faced difficulties to raise funds, not only from the creditors but also from the owners too. The owners of the company may take advantages if the firm raises funds through the debt. In such case, they loose control over funds (Khan and Jam, 2013).

The nature of issuance of the debt of the firm to make equity holder more beneficial is called "trading of equity". The main disadvantage of the issuance of debt funds in the company is that the owners of the company can get the residual portion of assets when the firm is in liquidation or nothing if there are no residual funds. Debt is considered more risky than the equity due to their obligation to pay certain interest. Consequently there should be optimum combination of the debt and equity in capital structure (Munakarmi, 2010).

C. Profitability Ratio

Profitability ratios are a bunch of financial metrics which measures the profit generated by the company and its performance over a period of time. The profit of the company which is assessed by these ratios can be simply defined or explained as the amount of revenue left after deducting all the expenses and losses which incurred in the similar time period to generate that revenue. Ultimately, these ratios are nothing but a simple comparison of various levels of profits with either loan investment.

D. Activity Ratio

An activity ratio is a type of financial metric that indicates how efficiently a company is leveraging the assets on its balance sheet, to generate revenues and cash. Commonly referred to as efficiency ratios, activity ratios help analysts gauge how a company handles inventory management, which is key to its operational fluidity and overall fiscal health. An activity ratio broadly describes any type of financial metric that helps investors and research analysts gauge how efficiently a company uses its assets to generate revenues and cash. Activity ratios may be utilized to compare two different businesses within the same sector, or they may be used to monitor a single

company's fiscal health over time. Activity ratios can be subdivided into merchandise inventory turnover ratios, total assets turnover ratios, return on equity measurements, and a spectrum of other metrics.

E. Risk Analysis

Risk is the chance of financial loss. In general, other things being equal, a firm would be well advised to accept a project which is less risky and reject those that involve more risk. This recommendation is consistent with the assumption that the management is averse to risk. Some risk directly affects the financial managers and shareholders. Business risk and financial risk are more firm, specific and therefore are of greatest interest to financial managers. Interest rate, Liquidity and market risks are more share-holder specific and therefore are of greatest interest to stock holders. Events, exchange rate, purchasing power, and task risk directly affect financial and shareholders (Thakur, 2014).

II) Methods of Financial Statement Analysis

A. Horizontal Analysis

Horizontal analysis of financial statements involves comparison of a financial ratio, a benchmark, or a line item over a number of accounting periods. This method of analysis is also known as trend, analysis. Horizontal analysis allows the assessment of relative changes in different items over time. It also indicates the behavior of revenues, expenses, and other line items of financial statements over the course of time. Accounting periods can be two or more than two periods. Accounting period can be a month, a quarter or a year. It will depend on the analyst's discretion when choosing an appropriate number of accounting periods. During the investment appraisal, the number of accounting periods for analysis is based on the time horizon under consideration.

B. Vertical Analysis

Vertical analysis of financial statements is a technique in which the relationship between items in the same financial statement is identified by expressing all amounts as a percentage of a total amount. This method compares different items to a single item in

the same accounting period. The financial statements derived by using this technique are known as common size financial statements. When applying this method on the balance sheet, all of the three major categories accounts (i.e. assets, liabilities, and equity) are compared to total assets. All of the balance sheet items are presented as a proportion of total assets. These percentages are shown along with the absolute currency amounts. And when applying this technique to the income statement, each of the expense is compared to the total sales revenue. The expenses are presented as a proportion of total sales revenue along with the absolute amounts. The main advantage of using vertical analysis of financial statements is that income statements and balance sheets of companies of different sizes can be compared. Comparison of absolute amounts of companies of different sizes does not provide useful conclusions about their financial performance and financial position.

C. Common Size Statement Analysis

While most firms do not report their statements in common size format, it is beneficial for analysts to do so to compare two or more companies of differing size or different sectors of the economy. Formatting financial statements in this way reduces bias that can occur and allows for the analysis of a company over various periods. This analysis reveals, for example what percentage of sales is the cost of goods sold and how that value has changed over time. Common size financial statements commonly include the income statement, balance sheet, and cash flow statement. Common size financial statements reduce all figures to a comparable figure, such as a percentage of sales or assets. Each financial statement uses a slightly different convention in standardizing figures. Common size financial statements make it easier to determine what drives a company's profits and to compare the company to similar businesses.

D. CAMELS Rating System

The CAMELS Rating System was developed in the United States as a supervisory rating system to assess a bank's overall condition. CAMELS is an acronym that represents the six factors that are considered for the rating. Unlike other regulatory ratios or ratings, the CAMELS rating is not released to the public. It is only used by top management to understand and regulate 'possible risks.

i) Capital Adequacy

Capital adequacy assesses an institution's compliance with regulations on the minimum capital reserve amount. Regulators establish the rating by assessing the financial institution's capital position currently and over several years. Future capital position is predicted based on the institution's plans for the future, such as whether they are planning to give out dividends or acquire another company. The CAMELS examiner would also look at trend analysis, the composition of capital, and liquidity of the capital.

ii) Assets

This category assesses the quality of a bank's assets. Asset quality is important, as the value of assets can decrease rapidly if they are high risk. For example, loans are a type of asset that can become impaired if money is lent to a high- risk individual. The examiner looks at the bank's investment policies and loan practices, along with credit risks such as interest rate risk and liquidity risk. The quality and trends of major assets are considered. If a financial institution has a trend of major assets losing value due to credit risk, then they would receive a lower rating.

iii) Management Capability

Management capability measures the ability of an institution's management team to identify and then react to financial stress. The category depends on the quality of a bank's business strategy, financial performance, and internal controls. In the business strategy and financial performance area, the CAMELS examiner looks at the institution's plans for the next few years. It includes the capital accumulation rate, growth rate, and identification of the major risks. For internal controls, the exam tests the institution's ability to track and identify potential risks. Areas within internal controls include information systems, audit programs, and recordkeeping. Information systems ensure the integrity of computer systems to protect customer's personal information. Audit programs check if the company's policies are being followed.

Lastly, record keeping should follow sound accounting principles and include documentation for ease of audits.

iv) Earnings

Earnings help to evaluate an institution's long-term viability. A bank needs an appropriate return to be able to grow its operations and maintain its competitiveness. Specifically looks at the stability of earnings, return on assets, net interest margin, and future earning prospects under harsh economic conditions. While assessing earnings, the core earnings are the most important. The core earnings are the long term and stable earnings of an institution that is affected by the expense of one-time items.

v) Liquidity

For banks, liquidity is especially important, as the lack of liquid capital can lead to a bank run. This category of CAMELS examines the interest rate risk and liquidity risk. Interest rates affect the earnings from a bank's capital markets business segment. If the exposure to interest rate risk is large, then the institution's investment and loan portfolio value will be volatile. Liquidity risk is defined as the risk of not being able to meet present or future cash flow needs without affecting day-to-day operations.

vi) Sensitivity

Sensitivity is the last category and measures an institution's sensitivity to market risks. For example, assessment can be made on energy sector lending, medical lending, and agricultural lending. Sensitivity reflects the degree to which earnings are affected by interest rates, exchange rates, and commodity prices, all of which can be expressed by Beta.

E. EAGLES Model

EAGLES model that showed to be a worthy model to consider. The model examines six areas that mostly affect the financial soundness of banks. These areas are earning, assets quality, growth, liquidity, equity, and strategic responsiveness. This study aims

to compare the financial soundness of Islamic and conventional banking sub-sectors. EAGLES model, like CAMELS model is based on financial ratios which proven to be very useful in determining the financial soundness of banks.

i) Earning

Accounting earnings, or net income, represent the amount of money gained or lost after all costs, depreciation, interest, taxes and expenses have been deducted from a company's total sales. The problem is that companies often publish various versions of profit, or earnings, in their financial statements.

ii) Assets Quality

The asset quality rating reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance sheet transactions. The ability of management to identify and manage credit risk is also reflected here. An asset quality rating refers to the assessment of credit risk associated with a particular asset, such as a bond or stock portfolio. The level of efficiency in which an investment manager controls and monitors credit risk heavily influences the rating bestowed. And because asset quality is an important determinant of risk that profoundly impacts liquidity and costs, analysts go to great lengths to make sure they issue the most accurate evaluations possible. After all, their pronouncements can greatly affect the overall condition of a business, bank, or portfolio for years to come.

iii) Growth

The growth accounting equation is a weighted average of the growth rates of the factors involved. Economic growth accounting model looks at three factors: labor market growth, capital investment, and technology. Capital investment is often the key component obtained from statistical data releases.

iv) Liquidity

In other words, liquidity describes the degree to which an asset can be quickly bought or sold in the market at a price reflecting its intrinsic value. Cash is universally considered the most liquid asset because it can most quickly and easily be converted

into other assets. Tangible assets, such as real estate, fine art, and collectibles, are all relatively illiquid. Other financial assets, ranging from equities to partnership units, fall at various places on the liquidity spectrum.

v) Equity

Equity, typically referred to as shareholders' equity (or owners' equity' for privately held companies), represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation. In the case of acquisition, it is the value of company sale minus any liabilities owed by the company not transferred with the sale.

vi) Strategic

Strategy models are tools to help a company develop an action plan. They exist as blueprints for your business growth. Strategy formulation is a process in it which a company chooses the right course to achieve their business goals. Utilizing strategy models aid in the process. . The strategic model is creating a mission statement. Why did you found your company, and why does it exist? Once you have determined your mission, identify your immediate goals. At this point, develop strategies that will help you reach these goals. ,

2.1.2 Review of NRB Act and Policy .

Monetary policy aims at maintaining price and external sector stability, financial stability and facilitating high and sustainable economic growth. The monetary policy is aimed at containing inflation within a desired limit, maintain external and financial sector stability, utilize credit in the productive sector and expand financial access. The monetary policy for the current fiscal year has been widely considered as a "cautious" one with focus on mobilization of excess liquidity in the financial system to productive sectors through channeling investment to hydropower, agriculture, small and medium enterprises, and export industries by providing refinancing facilities for loans floated (Rimai, 2014). One of the major objectives of monetary policy is to attain 5.5% economic growth along with objective to limit inflation rate at 8% and also to maintain foreign exchange to cover the import of goods and services for at least 8 months. The monetary policy has sought to increase internal credit by 17.1

percent to achieve the economic growth target. The development banks cash reserve ratio (the part of total deposits that should keep at NRB) has been reduced to 5% for A class, 4.5% for B class and 4% for C class, which is bound to make liquidity available to development banks that can be used to expand lending. Refinancing rate for agriculture, hydro-power and other productive sectors have been decreased to 5% from the earlier 6%. Likewise, the policy has also specified Statutory Liquidity Ratio (SLR) of 12% for category A, 9% for category B and 8% for category C financial institutions, which is 1% decrease from earlier provision. SLR is the percentage of total currency deposits invested in government securities or kept at the central bank. Similarly, the policy has the provision to maintain Credit-Deposit Ratio (CDR) at 80%. The policy has made provisions for development banks to flow 20% of total loans in the productive sector including at least 12% in agriculture and energy sector until Ashad 2072 B.S. (NRB, 2015). The monetary policy has also announced to take prompt corrective action (PCA) against banks and financial institutions failing to maintain adequate liquidity. Previously, such action was taken only for BFI failing to maintain capital adequacy ratio at the required level. The NRB will also introduce guideline on acquisition to encourage consolidation of the banking sector. Financial performance analysis is quantitative analysis of firm's efficiency. In other words it is a way of studying financial position or condition of a company. The company's financial plan and policy prepared and implemented by management should be judge on the basis of its financial performance. Conceptually, the financial operation of a firm through profitability liquidity and turnover and their cost volume profit relationship approaches. Financial managers also have the responsibility for deciding the credit terms under which costumers may buy. How much inventory the firm should carry, how much cash to keep on hand, whether to require other firm.

2.2 Review of Related Studies

Bhattarai (2012) in her thesis, "*Lending Policy of Commercial Banks in Nepal*" has made an effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So, she recommended that banks give emphasis on efficient utilization of resources.

The main objective of the study:

- i. To evaluate the lending policy of commercial banks in Nepal.
- ii. To examine the investment of commercial banks of Nepal with reference to securities, loans & advances.
- iii. To establish the relationship of banks' portfolio variables with the national income and interest rates.

The general trend of commercial banks asset 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 ratios are very high, greater than 100%. The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically some. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks. 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 not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.

- i. Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.
- ii. Investment in various sectors has a positive impact on the national income from their respective sectors.
- iii. Lending in priority sector showed cottage and small industry sector sharing higher loans.
- iv. Priority sector lending showed positive impact on the national income.

Pandit (2012) in his thesis, *“A study on the investment policy analysis of Standard Chartered Bank Nepal Limited in comparison to Nabil and Nepal Bangladesh Bank”* has mainly found that SCB's loan & advances to total deposits ratios are significantly lower than that of Nabil and Nepal Bangladesh Bank, SCB is recommended to follow a liberal lending policy, invest more portion of deposition loan & advances. He has further stated that besides giving priority of investing on government securities, SCB is recommended to invest its fund in the purchase of shares and debentures of other financial, non-financials companies, hotels and government companies. This also helps in the maintenance of a sound portfolio of the banks.

Lamichhane (2013) in his thesis, *“Investment policy of the Joint Venture Banks in Nepal”* had analyzed between investment policy and different variables like deposits, commission and discount, net profit, interest on loan and investment. He applied correlation, ratio analysis, t-test, and standard deviations. He concluded that there is significant relationship between deposit and loan and advances as well as outside assets and net profit but not deposits and total investment in case of Nabil and other joint venture banks. Most of the joint venture banks have focused their banking services especially to big clients such as to purchase shares and debentures of other financial and non-financial companies.

Poudel (2013), in his thesis paper *“Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal”* had made an attempt to evaluate liquidity and investment of joint venture Banks, special reference to Everest Bank Ltd. and Nabil Bank Ltd. He has concluded that liquidity position of EBL is comparatively better than Nabil. Growth rate of investment is higher in EBL than Nabil. He further found the banks do not have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. A commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment and to increase its investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return. The main objective are: to examine the liquidity and investment position of joint venture commercial banks, to evaluate the trend analysis of joint venture banks and to analyze the relationship between correlations of joint venture banks.

Wagle (2014) Study in his thesis paper *A study on trends of savings, investment and capital formation in Nepal* he concluded that in Nepal there is large gap between investment and saving rate. The low savings rate implies that majorities of people are poor. Low rate of saving and investment has been the continuing characteristic of the Nepalese economy as compared to some selected Asian countries. The need for the improving internal savings and investment performance in the country has been high in the agenda of Nepalese policy declarations but the performance in has remained rather poor. The rate of investment and capital formation is low in Nepal because of low saving. He has recommended that the government should review existing restriction on foreign direct investment.

Basnet (2014) has submitted a thesis *“Financial performance analysis of joint venture banks in Nepal”* was undertaken by Jagadish Basnet in 2014. The study is somehow related to this research. Among various objectives, the relevant one related with this research was to

identify the situation of financial performance analysis of joint venture banks in Nepal. Furthermore, another related specific objective was to evaluate the investment and advances portfolio of joint venture banks. Basnet chose NBBL, HBL, SCBNL and EBL as a sample. The study covered the eight years (F/Y 2009-2014) data in order to achieve the study objectives.

Bajracharya, (2015) in her thesis paper entitled, "*Investment of Commercial Banks in Priority Sector*" has made an effort to examine the banking procedures and services in disbursing loan in priority sector. She has found that:- The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by Rastriya Banijya Bank. The trend of investment are continued to increase in the following years. The regression analysis of the investment and relationship between investment and repayment. Investment on agriculture is higher than investment on industry and service sector because investment on agriculture benefited a higher number of households. (Bajracharya, 2015:79)

Loudari (2015), conducted a study on "*A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.*" with the objective of:

- i. To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
- ii. To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank Ltd.
- iii. To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The Current ratios for both the banks are satisfactory. Although Cash reserve ratio is managed by both banks as per Nepal Rastriya Bank directives, both banks have not paid sufficient insight towards cash management. Their cash reserves have fluctuated in a high degree. Nepal SBI Bank Ltd. has increased investment in government securities whereas Nepal Indosuez Bank has decreased. Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd. Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI

Bank. Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund. The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.

Bhatta (2016) has submitted a thesis "*Financial performance analysis of listed finance companies in Nepal*". The study of Bhatta is a new concept in financial performance analysis of Nepalese companies. Under the study, the main objectives was to study and analyze the existing situation of financial performance analysis of listed finance companies of Nepal. The study used secondary as well as primary data through opinion survey. The study period is 7 year from 2009 to 2016. The study used 20 percent samples and analyzed data in order to fulfill the set objectives. After analyzing the secondary data, the study conducted, "Expected market return is lower in comparison to market risk, so market is highly risky place to invest". Moreover, the study found all the listed six finance companies stock are underpriced. So investors need to buy these stocks. In most of cases, financial performance analysis of listed finance companies in Nepal is not systematically organized.

Khania (2018) has studies on "*Investment Portfolio Analysis of Joint Venture Banks*". The study is based on five joint venture banks and they are NABIL, SCBNL, HBL, NBBL and EBL. The general study of the present study is to identify the current situation of investment portfolio of Joint venture banks in Nepal. The objectives are to analyze the risk and return ratio of commercial banks, to evaluate the financial performance of joint venture banks and portfolio structure of Nabil bank for investment between loan investments. Investments in real fixed assets and investment in financial assets. The major finding of the analysis is Nabil is investing the highest amount of funds on NRB bond as compare to other joint venture banks i.e. 3 percent. Beta coefficient of HBL is lowest among all the banks so the systematic risk of HBL is low. The coefficient of correlation between the loans and advances in private sector and portfolio return of joint venture banks come out to be $r_{xy} = -0.6$ therefore it indicates that there is negatives correlation between loans and advances in private sector and portfolio return of five join venture banks in Nepal.

Silwal (2020) has studies on "*Financial performance analysis of commercial banks in Nepal*" by Silwal meets the stated objectives of the study descriptive cumulative analytical research design has been adopted. According to him all the historical closing stock prices of banks, percentage of cash and stock dividend, and NEPSE index for the seven years including the market capitalization of the banks for 2003 are enumerated. The objectives of the research

were to evaluate common stock and beta for analysis of systematic risk with common stock prices and identify the range for true beta true alpha of listed commercial 45 bank under present study in terms of risk and return. The study findings are presented under different sub headings such as investment, risk and return analysis optimal portfolios etc. The study summarized that the investment in single assets is extremely volatile. Construction of portfolio can be diversifying such volatility to some extent. Using the tools developed by Sharpe, Treynor and Jensen, stocks of the banks in terms of risk and return associated to the stocks have been evaluated in this study. Researcher found that majority of the risk adverse investors find minimum variance portfolio yielding optimal satisfaction.

2.3 Research gap

There is gap between the present research and the previous research in terms of some objectives, tools for analysis, period of data and the organization. There are 27 commercial banks are operating in Nepal ([www.nrb](http://www.nrb.gov.np), 2077). This is the population of the study and among them Nabil Bank Limited & Nepal Investment Bank Limited has been selected as sample for the period of FY 2072/73 to 2076/77 by using Convenience sampling method for the evaluation. This study has used financial and statistical tool for portfolio management. Most of the researchers conducted previously were in financial performance and defects and difficulties of commercial banks mainly based on secondary data.

There are very few research studies found in the area of commercial banks field but this research mainly based on Nabil and NIBL. It is a new research in the field of commercial banks especially in Nabil and NIBL. Thus this study is designed to highlight the effect of financial performance analysis regarding this practices of the commercial banks. This study has been done to analyze and identify the strengths and weaknesses of investment financial performance analysis of Nabil and NIBL & to provide recommendations to the concerned organization for future improvement on the basis of this study. The study in the framework of case study of a unitary commercial banks. Descriptive research seeks to find out the fact with the help of sufficient data and information. The financial and statistical tools are applies to examine facts and descriptive techniques are adopt to evaluate financial performance analysis of Nabil and NIBL.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Methodology

The main objective of this topic is to identifying the tools to analyze, examine, highlight and complete the portfolio managements and recommend suggestions for improvements. This chapter looks into the research designs, nature and sources of data, data collection, procedures and tools and techniques of analysis.

3.2 Research Design

For the purpose of this study, a quantitative research design has been followed. Quantitative method are used which focuses on gathering the numerical data. Descriptive and analytical research design are used to generalize the study to find out the financial performance analysis practices of Nabil Bank Limited and Nepal Investment Bank Limited.

3.3 Population and Sample

The study is focused on 'A' graded commercial Banks, the total number of commercial banks currently 27 bank are operating in Nepal. Nabil Bank Limited and Nepal Investment Bank Limited are selected as sample by using convenience sampling method for the evaluation. Similarly, financial statements of five years F.Y. 2072/73 to 2076/77 are used for the evaluation of the study.

3.4 Nature and Sources of data

The data for the study are collected from secondary sources. It makes the study more realistic and meaningful because of the use of historical and secondary data. The secondary source of data will be used to compare the situation of banks before and after merger. This study is merely base on secondary data. Some of the sources of the data are as follows:

- i. Annual reports of commercial banks.
- ii. Materials published in magazines.
- iii. Related Websites
- iv. Course books etc.

3.5 Data Collecting Procedures

As mentioned above all the data's for the study are collect from the secondary source. The annual report, websites and other information of Nabil Bank Ltd and Nepal Investment Bank Ltd is obtains from the commercial banks. Similarly NRB publications will be collect from the website of NRB. First of all, necessary data are extracts from the audited financial statements which is record in the master sheet to work out the financial ratios and prepare the necessary figures. Finally, different financial ratios is work out with the help of computer programs like Microsoft Excel, Microsoft Word.

3.6 Tools and Techniques used

The analysis of data consists of organizing, tabulating, and performing statistical analysis. In this study, various financial and statistical tools are used to achieve the objective of the study. According to the pattern of data available, the analysis of data are done. The various tools applied in this study is briefly presented as under:

3.6.1 Financial Tools

Financial performance analysis is analyzed through the use of two important tools. The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis are used in this study. Financial tools are used to examine the financial strength and weakness of commercial banks. Although there are many financial tools are used in this study.

1. CAMELS Analysis

The six components of CAMEL frameworks are capital adequacy, assets quality, and management efficiency, earning quality, liquidity and sensitivity to market.

Capital Adequacy (C)

The first component of the CAMELS rating is capital adequacy. A key principle in bank supervision which is regards capital as the cornerstone of a banks' strength. Bank capital is a source of financial support to protect an institution losses arising out of the unexpected risks. Strong capital base is the prerequisite for the safety and soundness of any bank. Commercial bank should have adequate capital to support the stability and sustainability of its operation. A financial institution, which has adequate capital can flow more loan and has

the capital to bear the possible risk in future. Adequate capital helps to gain faith of the depositors, investors and the loan donors to increase the loan investment capacity to make defective property bearable and to make defective property bearable and to raise the credit of the bank. Bank capital serves three basic roles. The first, and most obvious, is that it is a source of funds. A new bank requires funds to internal investment. Established banks require capital to finance their growth, as well as to maintain and modernize operations. The second function of capital is to serve as a cushion to absorb unexpected operating losses. The third function of bank capital bears on the question of adequate capital bank regulators establishes minimum requirements to promote safety and soundness in banking system. The capital component is based on evaluation of and provide for future growth. An evaluation of capital relies on many factors such as regulatory capital requirements trends portfolio and institutional risk growth, adequacy of risk funds, management capability and other factors as appropriate.

Assets Quality (A)

This is one of the most critical factors in determining overall condition of any bank. Primary factors that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. The assets quality means the capacity of assets to generate income as well as the recover ability of the principal amount.

This component is based on an assessment of both the quality of the current portfolio and the quality of the associated management process that substantially impact the quality of assets. An assessment of assets relies on many factors such as loan portfolio management, investment portfolio trends, risk identification process, and other factors that affect the quality performance, income producing capacity and stability of assets. Examiner judgment is to the quality of each borrowers and his ability to repay the loan. It is necessary to study the quality of assets to maintain the sound economic condition of the financial institutions. For this purpose, it should be checked up whatever the risk found, which is fixed by the NRB is maintained or not by the commercial banks and FIs.

Management Quality (M)

The quality of management is probably the single most important element in the successful operation of a bank. For purpose of this section, management includes both the board of directors and executive officers. Board of director is elected by the shareholders and executive officers who are appointed to their position by the board. It is evaluated by

checking the effectiveness of the board of directors, the quality of the qualification, the manpower and official management operating expenditure customer relationship between the official and institution, management information system, organization and working method, control system, power decision process, policy, rules etc. Sound management is the key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. As management quality is subjective measure, it is very difficult to prescribe any specific ratings method for this parameter, leaving this parameter open to subjective judgments. The management rating is based on the examiner's perception of the quality of the bank's officers and the efficiency of the management structure. Management is responsible to mobilize the securities of the bank and to create a sound control environment of and risk management practice. Thus this review is focused on appraising the competence. Involvement and integrating of the management in day to day administration of the bank's involvement in formulating, implementation control policies, and insuring the banks compliance with applicable laws and regulations.

Earnings Quality (E)

This parameter lays importance on how a bank earns its profit. This also explains the sustainability and growth in earnings in the future. Earnings are rated on both recent performance and the historical stability of the earnings stream. The earnings of the banks should able to absent normal and expected losses in given period. It also provides a source of financial support by contributing to the intuition's internal generation of capital.

Earning quality is the ability of a bank to continue to realize strong earnings performance. It is based on an evaluation of the quantity, quality and sustainability of the banks earning performance.

An evaluation of earning considers factors, composition and quality of net income, stability of earnings performance, relationship to portfolio risk and quality of earning management etc.

Earning quality is quite possible for a bank to register impressive profitability ratio and assuming unacceptable degree of risk. Return on assets return on equity, interest spread ratio, gross margin operating profit margin and net profit margin are commonly used profitability indicators.

Liquidity (L)

Liquidity management is a critical factor influencing the financial health of the banks. It is the extent to which the bank has funds available to meet cash demands for loans and deposit withdraws. This is an important area of risk facing banks because a liquidity crisis many result in the failure of a solvent bank. Examiners look at the banks funding sources as well as the liquidity of assets in determining the rating.

Banks must be able to manage demand and supply of funds. Cash balance bank, bank balance and investment in government bonds are the most liquid form assets. Optimum liquidity is achieved by balancing risks and returns. In banks liquidity needs to be high enough to meet even unexpected changes in liquidity needs and sources. On other hands, liquidity should not be too high because there is on opportunity cost in the sense of excessive near cash assets that could be earning higher rates of return if funds were invested in other assets. Thus, the bank must trade off the cost of maintaining excessive liquidity and the cost of insufficient liquidity. NRB directive (2062B.S) number E.Pra.Ni. 05/061/062 requires the banks to classify the assets and liquidity on the basis of maturity period classification different time interval for liquidity risk minimize.

Sensitivity to Market Risk (S)

Market risk is the current and potential risk to earnings and stockholder's equity resulting from adverse movements in market rates or prices. The three areas of market risk are interest rate risk, foreign exchange risk and commodity or equity price risk. For most FIs, market risk primarily reflects exposing to changes in interest rates. The sensitivity to market risk components focuses on an institution's ability to identify, monitor, manage and control its market risk and provides FIs management with a clear and focused indication of supervisory concerns in this area.

Market risk is the current and potential risk to earnings and stockholders' equity resulting from adverse movements in market rates or price. The sensitivity to market risk is assessed to determine the bank's ability to monitor and manage its exposure to market risk; it reflects the degree to which changes in the interest rates, foreign exchange rates and equity prices can adversely affect a bank's earnings and capital. Equity prices risk examines how changes in market prices, interest rates and foreign exchange rates affect the market values of any equities, fixed income securities, foreign exchange currency holdings, and associated derivative and other off-balance sheet contracts. Foreign exchange risk arises from changes in foreign exchange rates that affect the values of assets liabilities and off-balance sheet

activities denominated in currencies different from the banks domestic currency. According to NRB directive every commercial bank should classified of risk and provision for minimizes the risk. There are liquidity, interest rate, foreign exchange, loan and investment risk to monitoring on related of banking and financial institutional risk.

2. (i) Liquidity Ratio

Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the [current ratio](#), [quick ratio](#).

a) Current Ratio

Current ratio is the relationship of current assets and the current liabilities. The current assets are those assets, which can be converted into cash within short period i.e. one year. Current assets includes inventories, cash in hand, cash in bank, bills receivables, account receivables, marketable securities, prepaid expenses, short term loan and advance etc. and currents liabilities includes bills payables, cash payable, cash credit, outstanding expenses, bank overdraft etc. The ratio shows that the firm's current position to pay its current obligation. Higher ratio shows the favorable position of the firm. The standard of this ratio is taken as 2:1. Lower the ratio indicates unfavorable position of the firm. This shows the solvency position of the business is not good. This ratio shows the bank's short term solvency. It shows the ratio of current assets over the current liabilities. Higher ratio indicates the strong short -term solvency position and vice-versa. As being the commercial organization and dependent upon the deposits of the customers', the organizations use to maintain the ratio just as the directives of the NRB.

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

b) Cash and Bank Balance to Current Assets Ratio

This ratio is also supportive to analyze liquidity position of the firm. It measures the position of the cash and bank balance, the most liquid current asset in the total current assets. Higher ratio implies sound liquidity position and vice-versa. This ratio measures the proportion of most liquid assets viz. cash balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. This ratio should be

adequately managed by the bank; neither too high nor too low since high ratio doesn't yield might any interest and low ratio is failure to meet the request of the customers. This ratio is obtained by using the following formula:

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

c) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

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

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers through different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

d) Investment on Government Securities to Total Current Assets Ratio

This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. This ratio shows the proportion investment of commercial banks in its current assets. The commercial banks invest their funds to various types of securities such as government securities and non-government securities. Government securities consists of treasury bills, development bonds and national saving bond and non-government securities consist of share, debenture, preference share, mutual fund and hybrid securities. The ratio is stated as under;

$$\text{Investment on Govt. securities to total current assets ratio} = \frac{\text{Investment on Govt Securities}}{\text{Current Assets}}$$

ii) Assets Management Ratio

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a) Loan and Advances to Total Deposit Ratio

This ratio is also called credit- deposit ratio (CD ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under.

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

b) Total Investment to Total Deposit Ratio

Investment is one of the major form of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares & debentures of other companies and banks. A high ratio indicates the better performance of the bank in mobilizing its deposits in investment activities and vice- versa. The bank should maintain the balance between the return from the investment and the risk of liquidation from the investment.

This ratio can be calculated by total investment divided by total deposit as:

$$\text{Total investment to total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

c) Loan and Advances to Working Fund Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

$$\text{Loan and Advances to Working Fund Ratio} = \frac{\text{Loan and Advances}}{\text{Working Fund}}$$

3. Profitability Ratio

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

a) Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the lending and investing and vice -versa. This ratio can be completed by dividing interest income by total income presented as under;

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income Ratio}}$$

b) Total Interest Earned to Total outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as under;

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

The numerator includes total interest income from loans and advances and investment whereas the denominator comprises loan and advances, bills purchased and discounted and all type investment.

c) Interest Expenses to Total Expenses Ratio

This ratio measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operation efficiency and vice -versa. This ratio is calculated by dividing interest expenses by total expenses which can be presented as under;

$$\text{Interest Expenses to Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

d) Return on Equity (ROE)

ROE indicates the return a company is generating on the owner's investment. In the policyholder owned case. We would use policy holder's surplus as the denominator. As

general rule for development banks, ROE should lie between 10-15 %. ROE calculating by following formula:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

e) Return on Assets (ROA)

ROA indicates the return a company is generating on the firm's investment/assets. In general development banks should have an ROA that falls in 0.5-1 % range ROA calculating by following formula.

$$\text{Return on total Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

f) Earning per Share (EPS)

Earning per share calculated net profit after tax divided by no of share.

$$\text{Earning per share (EPS)} = \frac{\text{Net Profit}}{\text{No of Share}}$$

g) Price Earning ratio (P/E Ratio)

Price earning ratio reflects the price, which is currently paid by the market for each rupees of earning, which is currently reported earnings per share. The P/E ratio could be calculated by dividing the market value per share by earning per share. It is calculated as:

$$\text{Price Earning Ratio (P/E Ratio)} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

3.6.2 Statistical Tools

Some statistical tools are also been used for the analysis of the data. Statistical tools are expected to provide valuable information about the variation, standard deviation, correlation, growth rate etc. While analyzing financial performance, such analysis helps to draw conclusion which of the organization is better managed, if statistical tools indicate that there is some loose aspect, than it helps management to take corrective actions. The main statistical tools used in analyzing the data obtained are:

i) Arithmetic Mean

A mean is simply the average value or the sum of the entire observation divided by the number of observation and it is given by formula below.

$$\text{Arithmetic Mean } (\bar{X}) = \frac{\sum x}{n}$$

Where,

$\sum x$ = Mean of the values

N= Number of pairs of observations.

ii) Standard Deviation

The standard deviation measures the absolute dispersion. Dispersion means the measure of the scatteredness of the mass of figures in a series about an average. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series; a large standard deviation means low degree of uniformity. This is calculated as follows.

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

Where,

N= No. of observation,

X= individual value and

\bar{X} = Simple arithmetic mean / average.

iii) Coefficient of Variation (CV)

The standard deviation calculated in the above formulas gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion and compare two variables independently in terms of their variability. The coefficient of variation (C.V.) is given by the following formula and this gives the percentage.

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

Where,

σ = Standard deviation and \bar{X} = Mean or Average

When the relative dispersion is stated in terms of mean and standard deviation, the resulting percentage is known as the coefficient variation or coefficient of variability.

1. Correlation between risk and return

Another statistical tool, correlation coefficient (r) measures the relation between two variables. Two variables said to have correlation, when they are closely related that the change in any value of variable is accompanied by the change in the value of other. For eg. Increase in advertisement expenditure is accompanied by increase in sales. The measure of correlation called the correlation coefficient. One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Pearson's correlation coefficient.

It is denoted by (r) and is defined. The value of r lies between (-1) to (+1).

$$\text{Correlation coefficient (r)} = \frac{N\Sigma XY - \Sigma X.\Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

When $r = 1$, there is perfectly positive correlation and when $r = -1$, there is perfectly negative correlation. This kind of correlation is same now impossible to find. As the value of correlation coefficient reaches near to zero, it is said that there is no significant relationship between the variables.

Correlation between Loan and Advance and Interest Income, Loan and Advance and Net Profit and Investment in Securities and Net Profit.

CHAPTER-IV

PRESENTATION AND ANALYSIS THE DATA

In this chapter, the researcher has used the various financial and statistical tools systematically to present, analyze and measure the portfolio management practices of Nabil Bank Limited and Nepal Investment Bank Limited. So that the findings, summary, conclusions and recommendation of the study can be presented. The presentation and analysis of the various investment aspects of the bank is as follows:

4.1 Financial Tools

Financial ratios are useful tools that help companies and investors analyze and compare relationships between different pieces of financial information across an individual company's history, an industry, or an entire business sector. Financial ratios are created with the use of numerical values taken from financial statements to gain meaningful information about a company. The numbers found on a company's financial statements balance sheet, income statement, and cash flow statement are used to perform quantitative analysis and assess a company's liquidity, leverage, growth, margins, profitability, rates of return, valuation, and more. Financial analysis is the process of evaluating relationship between components of financial statements, i.e. balance sheet and profit and loss account to obtain a better understanding of portfolio management and performance analysis of the bank. Financial analysis finds out the portfolio management position of the bank. In this study, the following financial tools have been used to measure the strength and weakness of the portfolio management of the Nabil Bank Limited and Nepal Investment Bank Limited.

4.1.1 Liquidity Ratio

Liquidity ratios measure the firms' ability to meet its current obligation. The following ratios which measure the liquidity position of banks are calculated:

i) Current Ratio

One of the reliable methods to examine liquidity position of an enterprise is by means of current ratio; i.e. current Assets to current liabilities. The conventionally accepted current ratio. 2:1 is the standard ratio, which every company should maintain. However, depending upon the nature of the company, the development of capital

market and availability of long-term funds to finance current assets; the satisfactory ratio varies. If the current ratio is more than 2:1 the company may have an excess investment in current assets that reduces on return.

Table 4.1
Current Ratio

(Amount in Million)

FY	NABIL			NIBL		
	CA	CL	Ratio	CA	CL	Ratio
2072/73	10882.48	4679.51	2.33	28714.07	23532.13	1.22
2073/74	13226.43	2770.64	4.77	30513.52	10733.33	2.84
2074/75	25484.91	4910.96	5.19	28247.00	9186.96	3.07
2075/76	29750.26	5615.58	5.30	32880.36	7620.51	4.31
2076/77	35051.24	8217.83	4.27	29825.00	6238.61	4.78
	Average (x)		4.37			3.25
	Standard Deviations (σ)		1.21			1.40
	Coefficient of Variation (CV)		0.28			0.43

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.1 shows the current ratios of NABIL are 2.33, 4.77, 5.19, 5.30 and 4.27 for five years starting from FY 2072/73 till 2076/77 respectively with the mean ratio of 4.37 and S.D. 0.28. But in case of NIBL the ratios are 1.22, 2.84, 3.07, 4.31 and 4.78 of the same period with the mean of 3.25 and S.D. 1.40. In the study periods, the ratio is slightly fluctuated over the periods. Same as the NABIL and NIBL also maintained its current ratio and slightly fluctuated over the periods.

Figure 4.1
Current Ratio

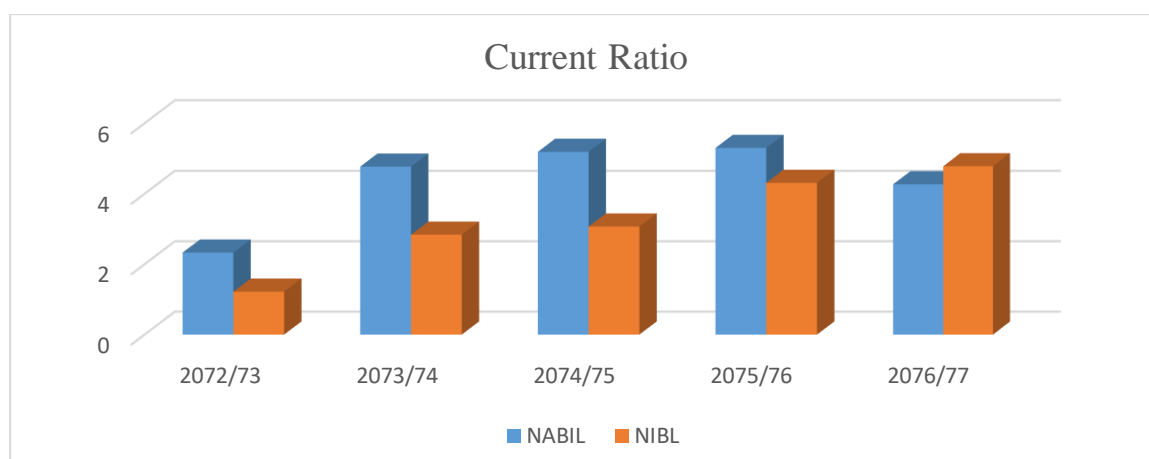


Figure 4.1 shows the current ratio of Nabil was increasing trend from FY 2072/73 to 2075/76 except 2076/77. Current ratio of NIBL was massively increasing trend. Nabil bank current ratio was highest in FY 2075/76 i.e 5.30 and NIBL was highest ratio in FY 2076/77 i.e 4.78.

ii) Cash to Current Assets

Cash to current assets ratio shows the bank's capacity on the basis of its liquid assets i.e. cash. This ratio reveals the ability of the bank to make the quick payment on its customer's deposits. High ratio indicated the bank sound ability to meet their daily cash requirement of the customer's deposit and vice versa. In this ratio both the high and lower ratio are not desirable. This ratio is calculated by dividing cash balance to current asset.

Table 4.2
Cash to Current Assets Ratio
(Amount in Million)

FY	NABIL			NIBL		
	Cash	CA	Ratio	Cash	CA	Ratio
2072/73	1640.63	10882.48	0.15	7442.65	28714.07	0.26
2073/74	1637.48	13226.43	0.12	11539.08	30513.52	0.38
2074/75	7952.35	25484.91	0.31	10610.89	28247.00	0.38
2075/76	12479.7	29750.26	0.42	13520.57	32880.36	0.41
2076/77	4799.63	35051.24	0.14	7538.03	29825.00	0.25
	Average (x)		0.23			0.34
	Standard Deviations (σ)		0.13			0.07
	Coefficient of Variation (CV)		0.57			0.22

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.2 shows the cash to current assets ratio of NABIL is: 0.15, 0.12, 0.31, 0.42 and 0.14 in the subsequent years starting from the FY 2072/73 to 2076/77 with the mean ratio of 0.23 and S.D. 0.13 and C.V is 0.57. And the ratio of NIBL is: 0.26, 0.38, 0.38, 0.41 and 0.25 in the same order as in NABIL has been presented with the mean ratio of 0.34, S.D. 0.07 and C.V of 0.22. Here, this ratio of both the bank is fluctuated over the periods which are not good as it has been highly fluctuated.

Figure 4.2
Cash to Current Assets Ratio

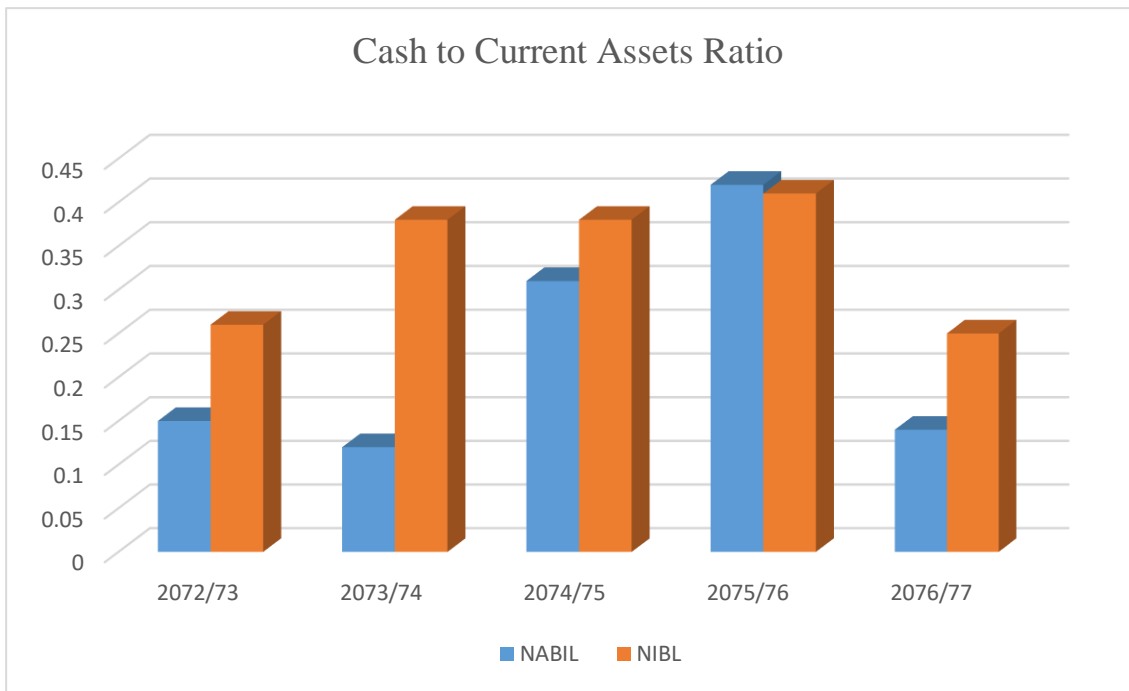


Figure 4.2 shows the cash and bank balance to current ratio of Nabil was fluctuating trend in FY 2075/76 the higher proportion of cash and bank balance to current ratio as compared to other fiscal year. NIBL cash and bank balance to current ratio also fluctuating trend in FY 2075/76 the highest proportion of cash and current ratio.

iii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. Higher ratio shows the bank’s ability to meet its demand for cash. This ratio can be regarded as the combination of the CRR and LRR. CRR means the Cash Reserve Ratio and LRR means the Liquidity Reserve Ratio. CRR is the amount that is deposited in NRB and LRR is the cash with the bank in its vault. Currently, the CRR fixed by the NRB is 5% of the total deposit.

Table 4.3
Cash and Bank Balance to Total Deposit Ratio

(Amount in Million)

FY	NABIL			NIBL		
	Cash and Bank	Total Deposit	Ratio	Cash and Bank	Total Deposit	Ratio
2072/73	10492.46	110210.93	0.10	28714.07	99353.33	0.29
2073/74	13226.43	118684.42	0.11	30513.52	118921.05	0.26
2074/75	25484.91	134810.67	0.19	28247.00	136585.58	0.21
2075/76	29750.26	162954.00	0.18	32880.36	149392.28	0.22
2076/77	35051.24	190806.47	0.18	29825.00	166362.13	0.18
	Average (x)		0.15			0.23
	Standard Deviations (σ)		0.05			0.04
	Coefficient of Variation (CV)		0.30			0.19

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.3 shows the Cash and Bank Balance to Total Deposit Ratio of NABIL is: 0.10, 0.11, 0.19, 0.18 and 0.18 respectively in the years starting from FY 2072/73 till 2076/77 respectively with the mean ratio of 0.15, S.D. 0.05 and C.V of 0.30. But in case of NIBL the ratio is: 0.29, 0.26, 0.21, 0.22 and 0.18 respectively with the mean ratio of 0.23, S.D. 0.04 and C.V is 0.19. The NIBL has succeeded to manage the adequate ratio than NABIL set by the NRB. The higher ratio implies the ability of bank to cover sudden deposit outflow from the cash and bank balance, however the very higher cash and bank balance to total deposit ratio is not good.

Figure 4.3
Cash and Bank Balance to Total Deposit Ratio

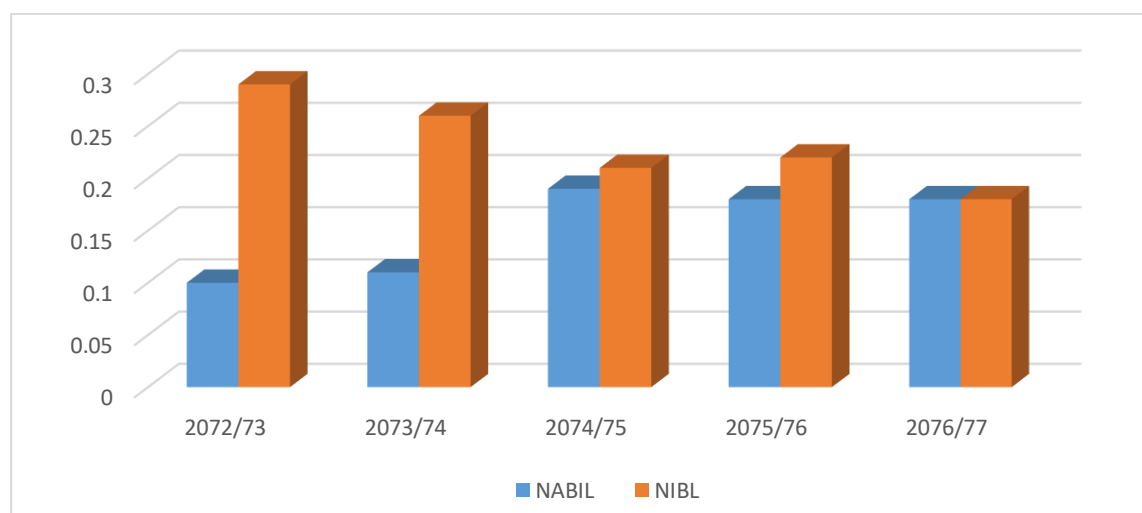


Figure 4.3 shows the cash and bank balance to total deposit of Nabil and NIBL. Nabil cash and bank balance to total deposit was increasing trend expect FY 2075/76 and 2076/77. NIBL ratio are fluctuating trend. Cash and bank balance to total deposit ratio of NIBL banks ratio better than Nabil bank.

iv) Investment in securities to Current Assets Ratio:

The bank also made investment in their fund in various non-financial instrument as well like investment in associate company, investment in hydro project, loan investment and others. The main objective of the investment in securities to current assets ratio is to examine the portion of investment current assets.

Table 4.4
Investment in Securities to Total Current Assets Ratio:

(Amount in Million)

FY	NABIL			NIBL		
	Investment in Securities	CA	Ratio	Investment in Securities	CA	Ratio
2072/73	9818.8	10882.48	0.90	15767.78	28714.07	0.55
2073/74	10961.78	13226.43	0.83	14477.69	30513.52	0.47
2074/75	18388.08	25484.91	0.72	17154.38	28247.00	0.61
2075/76	25303.07	29750.26	0.85	16973.47	32880.36	0.52
2076/77	33633.4	35051.24	0.96	26078.44	29825.00	0.87
	Average (x)		0.85			0.60
	Standard Deviations (σ)		0.09			0.16
	Coefficient of Variation (CV)		0.10			0.26

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.4 shows the Investment in Securities to Current Assets Ratio of NABIL is: 0.90, 0.83, 0.72, 0.85 and 0.96 in the years starting from FY 2072/73 to 2076/77 respectively with the mean ratio of 0.85, S.D. 0.09 and C.V is 0.10. And the ratio of NIBL is: 0.55, 0.47, 0.61, 0.52 and 0.87 in respectively during the study period. The mean ratio, S.D and C.V of the NIBL is 0.60, 0.16 and 0.26 respectively. From the mean point of view NIBL made more investment in securities than NIBL.

Figure 4.4
Investment in Securities to Total Current Assets Ratio:

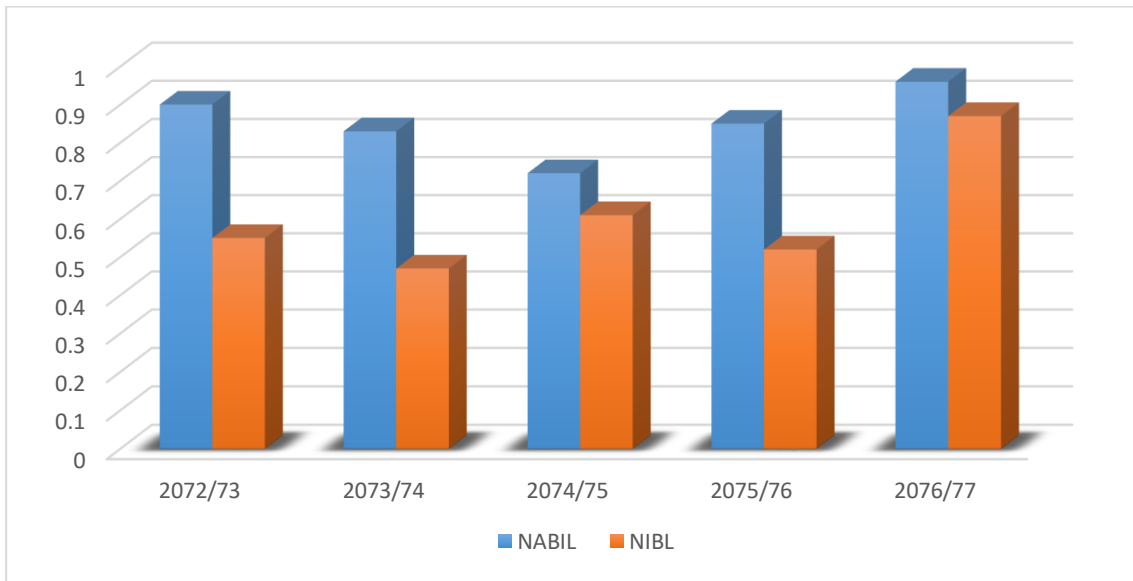


Figure 4.4 shows the investment in securities to total current assets ratio of Nabil was fluctuating trend in FY 2076/77 was higher proportion in other study period but NIBL ratio also fluctuating trend in FY 2076/77. The ratio shows the NIBL has better Investment securities than Nabil.

4.1.2 Assets Management Ratio

The assets management ratio is used to measure the efficiency of asset utilization of a bank. A commercial bank should be able to manage its assets to gain a sustainable profit so that it can survive in the competitive environment. It is used to measure the banks' efficiency towards its fund mobilization. Following ratios are used to measure the assets management efficiency.

i) Loan and Advance to Total Deposit Ratio

This ratio measures the efficiency of the bank in mobilizing its deposits on loans and advances to generate the profit of the bank. A high ratio indicates the better the performance of the bank and vice - versa. But the every bank should manage capital adequacy for which the bank should balance between the loans and advances and total deposit. The ratio should be less than or equal to 90% as set by the NRB. Loan and advance ratio can be define in a percentage or the fraction.

Table 4.5
Loan and Advance to Total Deposit Ratio

(Amount in Million)

FY	NABIL			NIBL		
	Loan and Advance	Total Deposit	Ratio	Loan and Advance	Total Deposit	Ratio
2072/73	76106.02	110210.93	0.691	86105.75	99353.33	0.867
2073/74	89877.13	118684.42	0.757	105576.51	118921.05	0.888
2074/75	113625.15	134810.67	0.843	120825.5	136585.58	0.885
2075/76	133558.73	162954.00	0.820	127140.97	149392.28	0.851
2076/77	153890.43	190806.47	0.807	140002.16	166362.13	0.842
	Average (x)		0.783			0.866
	Standard Deviations (σ)		0.061			0.020
	Coefficient of Variation (CV)		0.077			0.023

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.5 shows the Loan and Advance to Total Deposit Ratio of NABIL is: 0.691, 0.757, 0.843, 0.820 and 0.807 respectively in the years starting from FY 2072/73 till 2076/77 respectively with the mean ratio of 0.783, S.D 0.061 and C.V. 0.077 during the study period. But in case of NIBL the ratio is: 0.867, 0.888, 0.885, 0.851 and 0.842 respectively with the mean ratio of 0.866, S.D 0.020 and C.V. 0.023. This seems to be good enough as the ratio is duly maintained by both the bank. In addition to that NIBL has utilized the available funds in better way. Both NIBL and NABIL has not more than standard ratio of 90%. If the ratio is higher than 90% then the bank is considerably weak to manage sudden and short deposit outflow.

Figure 4.5
Loan and Advance to Total Deposit Ratio

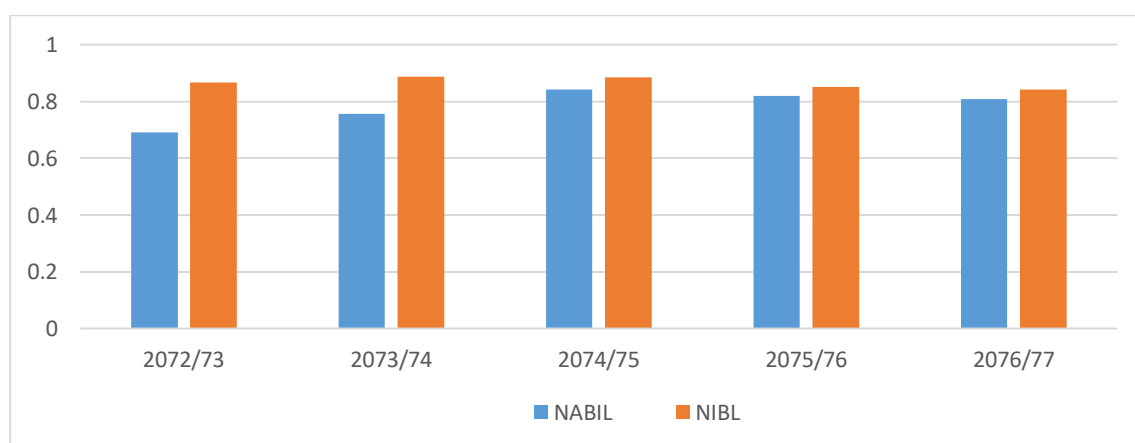


Figure 4.5 shows the loan and advance to total deposit ratio of Nabil for five years in FY 2074/75 has made highest ratio and FY 2072/73 has made lowest ratio. Also, NIBL has made highest ratio in FY 2072/73 and lowest in FY 2076/77 as compare the ratio of both bank the NIBL bank performance better than Nabil.

ii) Total Investment to Total Deposit Ratio

A commercial bank mobilize its deposits by investing its fund in different securities issued by the government and other financial and non -financial institutions. Now the efforts have been made to measure the efficiency of bank in mobilizing its deposits to its investing activities.

Table 4.6
Total Investment to Total Deposit Ratio

(Amount in Million)

FY	NABIL			NIBL		
	Total Investment	Total Deposit	Ratio	Total Investment	Total Deposit	Ratio
2072/73	36539.26	110210.93	0.33	15931.5	99353.33	0.16
2073/74	32729.36	118684.42	0.28	14766.77	118921.05	0.12
2074/75	18554.3	134810.67	0.14	17442.39	136585.58	0.13
2075/76	25469.29	162954	0.16	17441.42	149392.28	0.12
2076/77	33799.62	190806.47	0.18	26598.28	166362.13	0.16
	Average (x)		0.22			0.14
	Standard Deviations (σ)		0.08			0.02
	Coefficient of Variation (CV)		0.39			0.15

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.6 shows the total investment, total deposit and investment to deposit ratio is shown and well presented. The total investment to total deposit ratio of NABIL is: 0.33, 0.28, 0.14, 0.16 and 0.18 in the years starting from FY 2072/73 to 2076/77 respectively with the mean ratio of 0.22, S.D. 0.08 and C.V is 0.39. Likewise the ratio of NIBL is 0.16, 0.12, 0.13, 0.12 and 0.16 respectively with the mean ratio of 0.14, S.D. 0.02 and C.V 0.15. According to the mean value NABIL bank is able to invest greater portion of their deposit collection than NIBL but the risk and the C.V of the NABIL bank is higher than NIBL.

Figure 4.6
Total Investment to Total Deposit Ratio

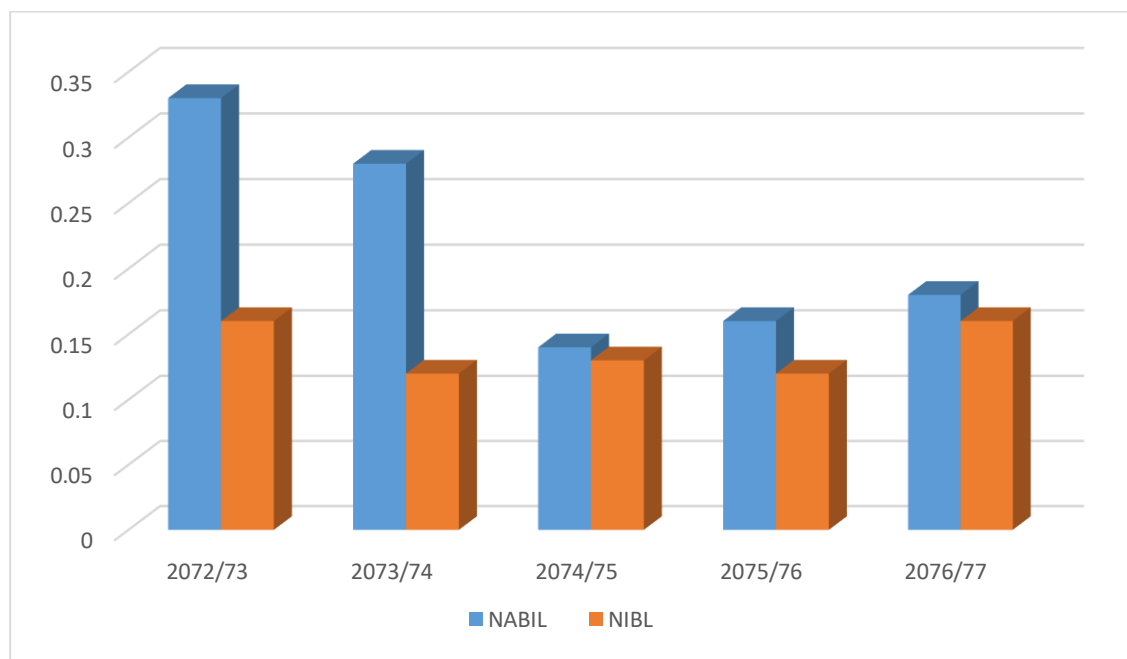


Figure 4.6 shows the total investment to total deposit ratio of both Nabil and NIBL was fluctuating trend. Nabil bank highest ratio was in FY 2076/77 and FY 2072/73 was higher ratio of NIBL.

4.1.3 Profitability Ratio

Each and every business organization is established to earn profit. The main objective of commercial banks is to earn profit by providing different types of banking services to its customers. Profitability ratios are helpful to measure the overall efficiency of a bank. The profit of the bank is affected by the various activities of the bank such as: liquidity activity, assets management activity, and leverage activity. Therefore, profit is the major indicator of the efficiency of the operation of the bank. Higher profit ability ratio shows the better efficiency of the bank and vice-versa. The following ratios are calculated to measure the profitability ratios which are presented below:

i) Interest Income to Total Income Ratio

Interest income is the major source of the banks' total income. It measures the proportion of interest income in total income of the bank. This ratio also indicates how well the bank is able to mobilize its fund in interest generating activity.

Table 4.7
Interest Income to Total Income Ratio

(Amount in Million)

FY	NABIL			NIBL		
	Interest Income	Total Income	Ratio	Interest Income	Total Income	Ratio
2072/73	6170.46	11987.56	0.51	6776.75	12140.57	0.56
2073/74	8116.51	15361.00	0.53	9440.73	16333.03	0.58
2074/75	11349.87	19569.72	0.58	13574.10	21504.89	0.63
2075/76	15243.78	24572.59	0.62	14975.21	23323.02	0.64
2076/77	16462.91	25791.72	0.64	15201.33	23278.16	0.65
	Average (x)		0.58			0.61
	Standard Deviations (σ)		0.05			0.04
	Coefficient of Variation (CV)		0.09			0.07

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.7 shows the interest income to total income ratio of the bank, this ratio of NABIL is: 0.51, 0.53, 0.58, 0.62 and 0.64 in the years starting from FY 2072/73 to 2076/77 respectively with the mean ratio of 0.58, S.D 0.05 and the C.V 0.09. But in case of NIBL the ratio is: 0.56, 0.58, 0.63, 0.64 and 0.65 respectively with the mean ratio of 0.61, S.D. 0.04 and C.V 0.07. The mean ratio suggest that NIBL is more successful to generate interest income than NABIL. NABIL has also higher S.D and C.V because of the variation in the interest income to total income ratio. This ratio can be graphically present in following figure:

Figure 4.7
Interest Income to Total Income Ratio

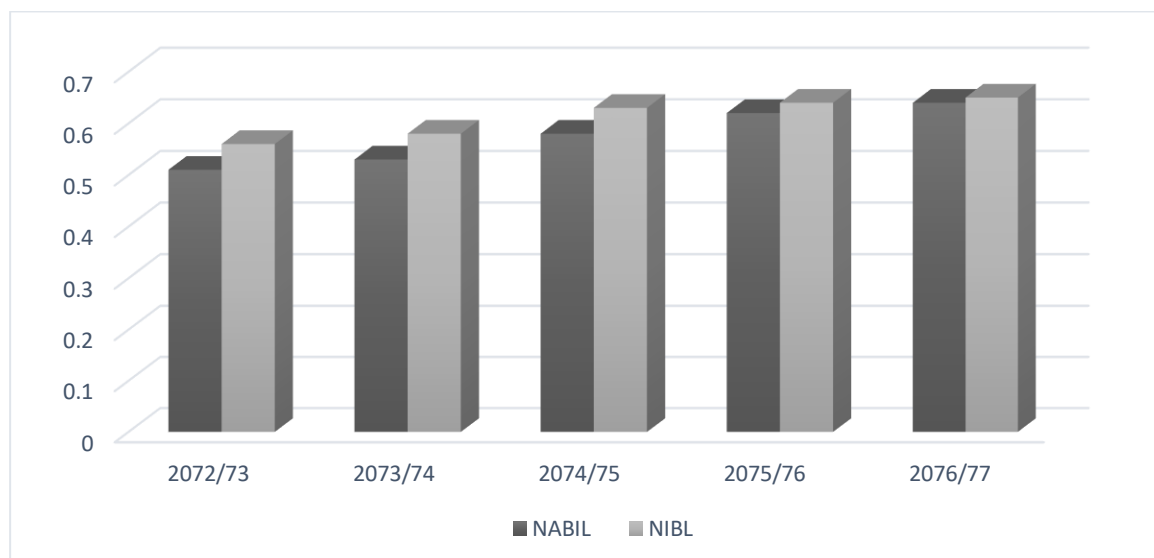


Figure 4.7 shows the interest income to total income ratio of both banks was increasing trend. Nabil and NIBL bank highest ratio was in FY 2076/77. The NIBL bank was made best interest income. So, NIBL bank was best performance than Nabil.

ii) Total Interest Earned to Total outside Assets Ratio

The outside assets include loan & advances and investment of commercial banks. It is the sources of interest income of the bank. The ratio reflects the extent to which the bank is successful to earn interest as major income from the outside assets. A high ratio indicates high earning power of total outside assets and vice-versa.

Table 4.8
Total Interest Earned to Total outside Assets Ratio

FY	NABIL			NIBL		
	Total Interest Earned	Total Outside Assets	Ratio	Total Interest Earned	Total Outside Assets	Ratio
2072/73	6170.46	112645.28	0.055	6776.75	102037.25	0.066
2073/74	8116.51	122606.49	0.066	9440.73	120343.28	0.078
2074/75	11349.87	132179.45	0.086	13574.1	138267.89	0.098
2075/76	15243.78	159028.02	0.096	14975.21	144582.39	0.104
2076/77	16462.91	187690.05	0.088	15201.33	166600.44	0.091
	Average (x)		0.078			0.088
	Standard Deviations (σ)		0.017			0.015
	Coefficient of Variation (CV)		0.217			0.173

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.8 shows the interest to total outside assets ratio, this ratio of NABIL is: 0.055, 0.066, 0.086, 0.096 and 0.088 in the years starting from FY 2072/73 to 2076/77 respectively with the mean ratio of 0.078, S.D 0.017 and C.V of 0.217. The ratio of NABIL is higher than average ratio in the FY 2074/75 to 2076/77. But in case of NIBL the ratio is: 0.066, 0.078, 0.098, 0.104 and 0.091 respectively during the study period with the mean ratio of 0.088. S.D 0.015 and C.V of 0.173. The ratio of NIBL is higher than average ratio in the FY 2074/75 to 2076/77. The ratio of both bank is consistently increases up to FY 2075/76 and declined in 2076/77. From the mean point of view we can conclude that the interest income of NIBL cover the greater portion of total outside assets than NABIL. Due to the consistency in interest income

and total outside asset's growth the S.D and the C.V of the NIBL is lower than NABIL. The lower S.D and C.V implies the lower risky condition of the bank. The ratio of the both can be present graphically from following figure:

Figure 4.8

Total Interest Earned to Total Outside Assets Ratio

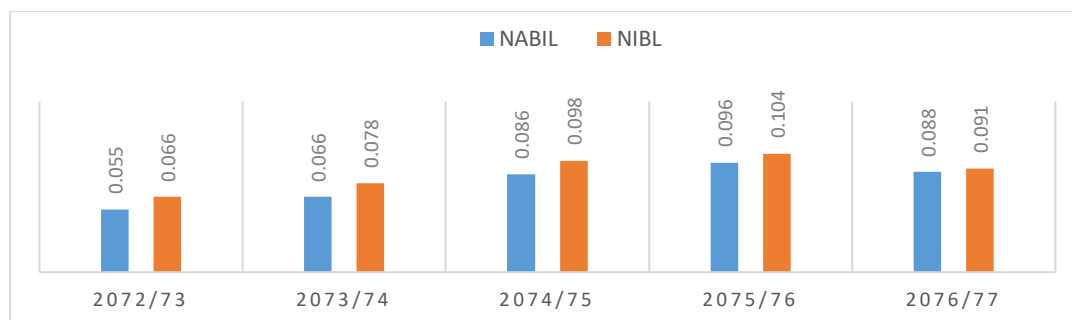


Figure 4.8 shows the total interest earned to total outside assets ratio of both banks was highly increasing trend. Both bank ratio was consistently increase. As compare the total interest earned of both bank the NIBL bank was higher total interest earned than Nabil so, NIBL has made better performance than Nabil.

iii) Interest Expenses to Total Expenses Ratio

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and low ratio indicate the high operational expenses. The ratio also indicates the costly sources of funds.

Table 4.9

Interest Expenses to Total Expenses Ratio

(Amount in Million)

FY	NABIL			NIBL		
	Interest Expenses	Total Expenses	Ratio	Interest Expenses	Total Expenses	Ratio
2072/73	1829.49	4501.05	0.41	5192.86	5192.86	0.55
2073/74	2586.87	5781.90	0.45	7665.62	7665.62	0.58
2074/75	5087.81	9256.80	0.55	11552.07	11552.07	0.67
2075/76	8084.53	12858.48	0.63	12870.41	12870.41	0.68
2076/77	9479.25	14207.19	0.67	13081.36	13081.36	0.72
	Average (x)		0.54			0.64
	Standard Deviations (σ)		0.11			0.07
	Coefficient of Variation (CV)		0.21			0.11

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.9 shows the interest expenses to total expenses ratio, this ratio of NABIL is: 0.41, 0.45, 0.55, 0.63 and 0.67 in the years starting from FY 2072/73 to 2076/77 respectively with the mean ratio 0.54, S.D 0.11 and C.V of 0.21. The ratio from FY 2074/75 to 2076/77 is found as higher than the average ratio. But in case of NIBL the ratio is: 0.55, 0.58, 0.67, 0.68 and 0.72 respectively with the mean ratio of 0.64, S.D 0.07 and C.V 0.11. The ratio from FY 2074/75 to 2076/77 is found as higher than the average ratio. The average ratio of the NIBL is higher than NABIL it indicates that the operational risk of the NABIL is higher than NIBL. The ratio of the both bank is presented as the following figure in a graphical way:

Figure 4.9
Interest Expenses to Total Expenses Ratio

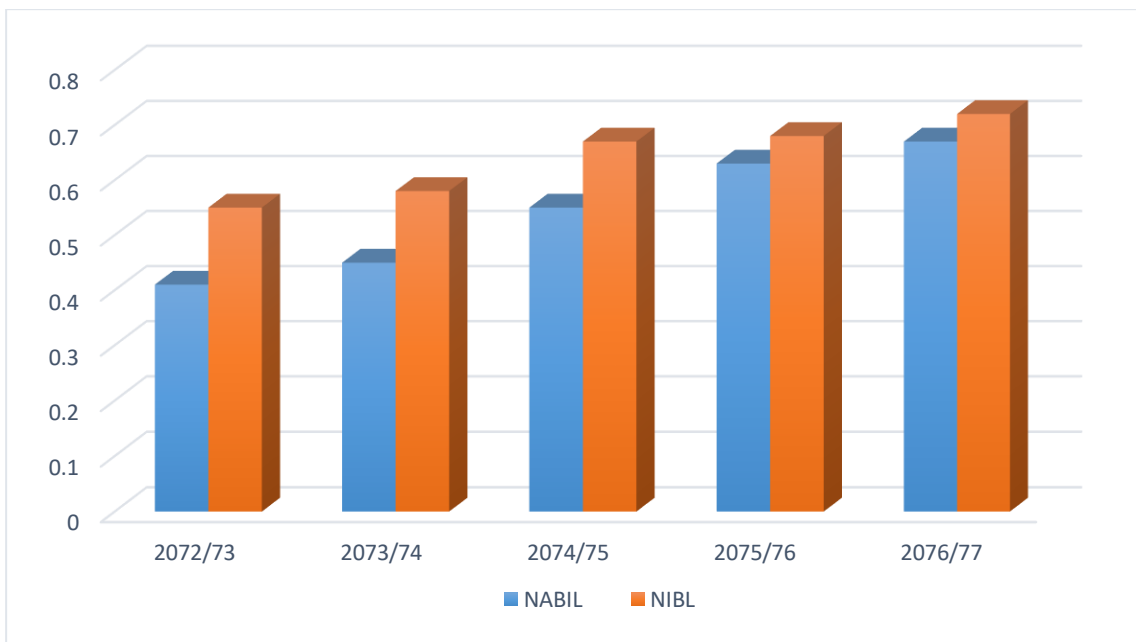


Figure 4.9 shows the interest expenses to total expenses ratio of both Nabil and NIBL was consistently increasing trend both banks highest ratio was in FY 2076/77. The ratio shows the Nabil banks has made best performance than NIBL.

iv) Return on Equity (ROE)

Return on equity shows the proportion of net profit of the bank to its shareholders equity. It measures the efficiency of equity in generating the net profit of the bank. The ratio is calculated by dividing the net profit of the bank by its shareholders equity.

Table 4.10
Return on Equity (ROE)

(Amount in Million)

FY	NABIL			NIBL		
	Net Income	Shareholder's Equity	Ratio	Net Income	Shareholder's Equity	Ratio
2072/73	2823.46	11639.19	0.243	2550.88	21081.51	0.121
2073/74	3645.28	14173.41	0.257	3992.34	24156.97	0.165
2074/75	3981.89	20586.36	0.193	3659.32	24871.02	0.147
2075/76	4238.85	23188.61	0.183	3324.11	25579.20	0.130
2076/77	3463.24	25855.66	0.134	2423.19	27173.16	0.089
	Average (x)		0.202			0.131
	Standard Deviations (σ)		0.049			0.029
	Coefficient of Variation (CV)		0.245			0.220

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.10 shows the return on equity during the study period, this ratio of NABIL is: 0.243, 0.257, 0.193, 0.183 and 0.134 in the years starting from FY 2072/73 to 2076/77 respectively with the mean ratio of 0.202, S.D 0.049 and C.V 0.245. But in case of NIBL the ratio is: 0.121, 0.165, 0.145, 0.130 and 0.089 respectively with the mean ratio of 0.131, S.D 0.029 and C.V 0.220. The ROE of the bank is in fluctuating trend during the years. From the mean ratio we can conclude that NABIL provide the higher return to its shareholder. The ROE of the bank can be graphically presented in following figure:

Figure 4.10
Return on Equity (ROE)

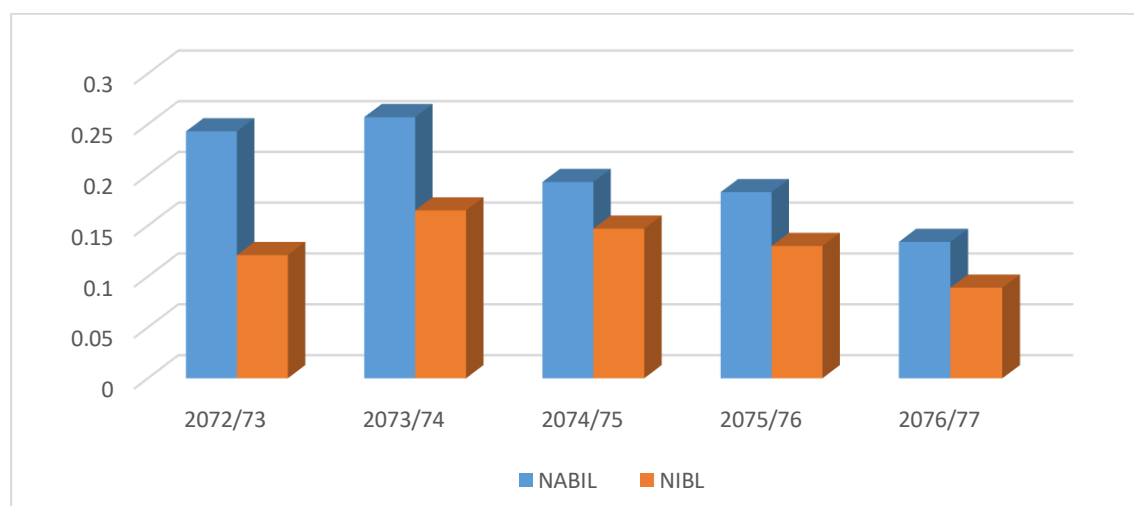


Figure 4.10 shows the return on Equity of Nabil bank was decreasing trend except 2073/74. The highest ratio was in FY 2073/74 and lowest in FY 2076/77. NIBL ratio was fluctuating tend the lowest ratio was in 2076/77 i.e 0.089 and higher ratio was in FY 2072/73 i.e 0.165.

v) Return on Assets (ROA)

Return on Assets (ROA) is an indicator of how well a company utilizes its assets, by determining how profitable a company is relative to its total assets. ROA is best used when comparing similar companies or comparing a company to its previous performance. ROA takes into account a company's debt, unlike other metrics, such as Return on Equity (ROE). ROA can be written as both percentage and fraction form. The ROA of The NNABIL and NIBL is presented in following table:

Table 4.11
Return on Assets

(Amount in Million)

FY	NABIL			NIBL		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2072/73	2823.46	127619.36	0.022	2550.88	134516.97	0.019
2073/74	3645.28	140697.26	0.026	3992.34	155361.35	0.026
2074/75	3981.89	169076.1	0.024	3659.32	171893.55	0.021
2075/76	4238.85	201138.82	0.021	3324.11	185841.99	0.018
2076/77	3463.24	237680.03	0.015	2423.19	203023.9	0.012
	Average (x)		0.021			0.019
	Standard Deviations (σ)		0.004			0.005
	Coefficient of Variation (CV)		0.198			0.262

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.11 shows the ROA of the NABIL and NIBL during the FY 2072/73 to 2076/77. The ROA of the NABIL is 0.022, 0.26, 0.024, 0.021 and 0.015 with the mean ratio of 0.021, S.D 0.004 and C.V of 0.198 likewise the ROA of the NIBL is 0.019, 0.026, 0.021, 0.018 and 0.012 with the mean ratio of 0.019, S.D 0.005 and C.V of 0.0262.

Figure 4.11
Return on Assets

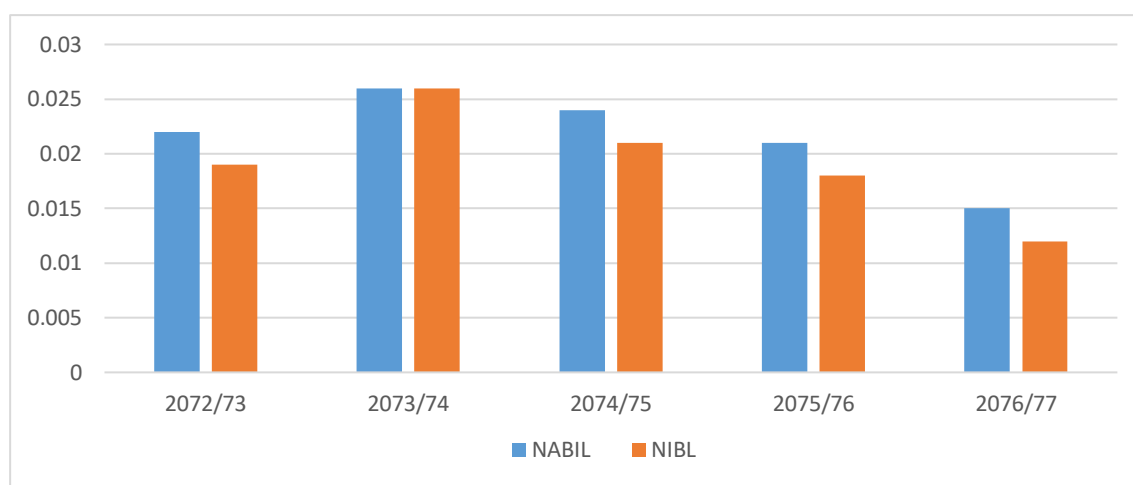


Figure 4.11 shows the return of assets of both banks was in fluctuating tend. Nabil bank has made higher ratio was in FY 2073/74 and lower was in FY 2076/77. NIBL higher ratio was in FY 2072/73 and lower ratio was in 2076/77 i.e 0.012.

vi) Earning Per Share (EPS)

EPS is calculated by dividing the total net earnings of the by total number of shares. It shows the net profit per share. Higher the ratio indicates the higher the efficiency of the bank and vice-versa. It represents the overall efficiency of the bank.

Table 4.12

Earnings Per Share (EPS)

FY	NABIL			NIBL		
	Net Profit	No. of Shares	EPS	Net Profit	No. of Shares	EPS
2072/73	2823.46	47.57	59.35	2550.88	72.55	35.16
2073/74	3645.28	61.86	58.93	3992.34	84.48	47.26
2074/75	3981.89	76.81	51.84	3659.32	102.62	35.66
2075/76	4238.85	83.82	50.57	3324.11	125.77	26.43
2076/77	3463.24	95.78	36.16	2423.19	142.29	17.03
	Average (x)		51.37			32.31
	Standard Deviations (σ)		9.40			11.30
	Coefficient of Variation (CV)		0.18			0.35

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.12 shows the EPS of the both sample bank, the EPS of NABIL is 59.35, 58.93, 51.84, 50.57 and 36.16 in the years starting from FY 2072/73 to 2076/77 respectively with the mean EPS of 51.37, S.D 9.40 and C.V 0.18. But in case of NIBL the ratio is: 35.16, 47.26, 35.66, 26.43 and 17.03 respectively with the mean EPS of 32.31, S.D 11.30 and C.V of 0.35. The EPS of the NABIL is seems as a decreasing trend whereas the EPS of NIBL is seems as fluctuating trend. From the overall analysis the EPS of the NABIL is attractive than NIBL. The S.D and C.V of EPS distribution of NIBL is higher as compared to NABIL bank due to the variation of the EPS during the study period. This Data can also be presented in a graphical form from the following figure:

Figure 4.12
Earnings Per Share (EPS)

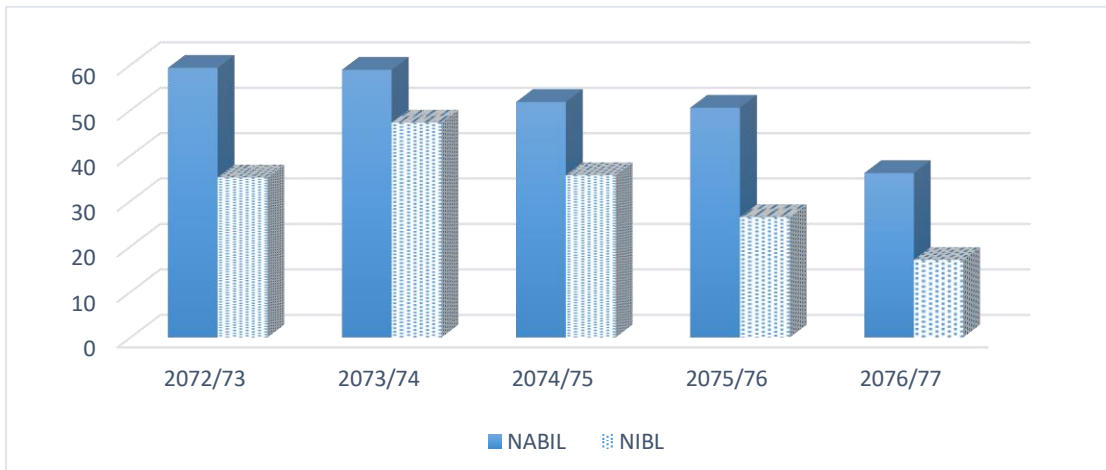


Figure 4.12 shows the earning per share was decreasing trend except 2073/74. The higher ratio was in 2072/73 i.e 59.35 in five year study period. NIBL bank ratio was decreasing trend. The higher ratio in FY 2073/74 i.e 47.26 and lowest in FY 2076/77 i.e 17.03. The ratio of Nabil bank was attractive than NIBL so, Nabil has better performance than NIBL.

vii) Return on Investment Ratio

Return on investment ratio shows how efficiently the organization is investing it fund in different sector for generating profit. The higher the ratio the better the organization profit. The ROI ratio measures how efficiently the organization can earn on its investment. It is a kind of technique that measures the profitability position of the organization.

Table 4.13
Return on Investment Ratio

(Amount in Million)

FY	NABIL			NIBL		
	Net Profit	Investment	Ratio	Net Profit	Investment	Ratio
2072/73	2823.46	36539.26	0.077	2550.88	15931.5	0.160
2073/74	3645.28	32729.36	0.111	3992.34	14766.77	0.270
2074/75	3981.89	18554.3	0.215	3659.32	17442.39	0.210
2075/76	4238.85	25469.29	0.166	3324.11	17441.42	0.191
2076/77	3463.24	33799.62	0.102	2423.19	26598.28	0.091
	Average (x)		0.134			0.184
	Standard Deviations (σ)		0.055			0.066
	Coefficient of Variation (CV)		0.412			0.357

(Source: Annual Report of NABIL and NIBL, 2072-73 to 2076-77)

Table 4.13 show the Return on Investment of both NABIL and NIBL. The return on NABIL is 0.077, 0.111, 0.215, 0.166 and 0.102 during the period of 2072/73 to 2076/77 with the mean ratio 0.134, S.D 0.055 and C.V of 0.412. Likewise the ratio of NIBL is 0.160, 0.270, 0.210, 0.191 and 0.091 with the mean ratio 0.184, S.D 0.066 and C.V of 0.187 during the period. From the above data presented in table and figure we can conclude that the NIBL is able to generate higher return from the investment than NABIL.

Figure 4.13
Return on Investment Ratio

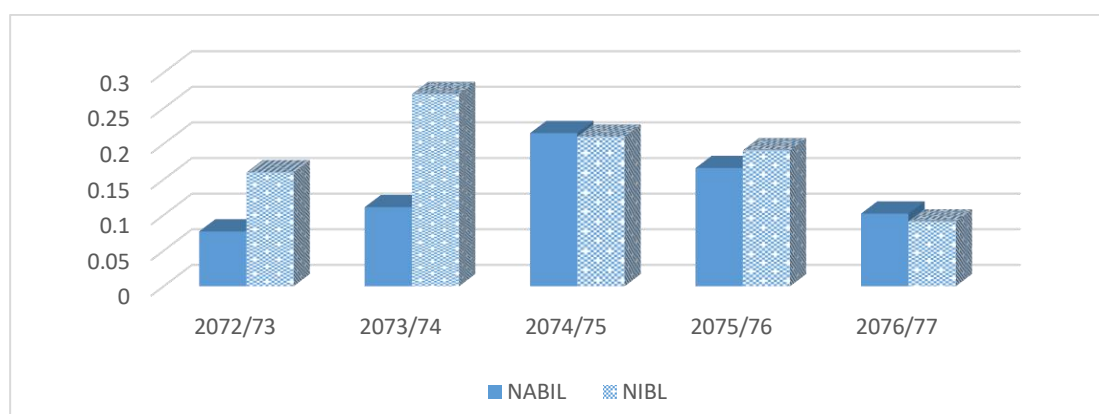


Figure 4.13 shows the return on investment of Nabil bank ratio was fluctuating trend. The lowest in FY 2072/73 i.e 0.077 and highest is 0.215 in FY 2074/75. NIBL bank ratio was decreasing trend except 2073/74 and 2074/75. The highest ratio was in FY 2073/74 i.e 0.270 and lowest in in FY 2076/77 i.e 0.091.

4.1.4 Correlation Analysis

Correlation, in the finance and investment industries, is a statistic that measures the degree to which two securities move in relation to each other. Correlations are used in advanced portfolio management, computed as the correlation coefficient, which has a value that must fall between -1.0 and +1.0.

i) Correlation Analysis of Loan and Advance and Interest Income

This section analysis the relationship between the loan and advance and interest income of the sample bank. The loan and advance is independent variable whereas interest income is the dependent variable.

Table 4.14

Correlation between Loan and Advance and Interest Income

Bank	Correlation Coefficient	Remarks
NABIL	0.991	Highly Positive
NIBL	0.971	Highly Positive

Table 4.14 shows the correlation analysis between loan and advance and interest income. The correlation coefficient of NABIL and NIBL is 0.991 and 0.971 respectively. The correlation coefficient is highly positive. This refers to the positive relationship between the variable. As the unit of loan and advance is increase the interest income is also increases.

ii) Correlation Analysis of Loan and Advance and Net Profit

Loan and advance is the major sources to utilize the deposit and earn the interest income. The investment in loan and advance also influence the net profit of the bank. This section is conducted to check the relationship between loan and advance and net profit of the sample bank.

Table 4.15

Correlation between Loan and Advance and Net Profit

Bank	Correlation Coefficient	Remarks
NABIL	0.516	Positive
NIBL	-0.069	Negative

Table 4.15 shows the correlation analysis between loan and advance and net profit. The correlation coefficient of NABIL and NIBL is 0.516 and -0.069 respectively. The correlation coefficient of NABIL is found as positive however the correlation of NIBL is found as negative. This refers that if the loan and advance increases the profit of the NABIL is also increases however the increment in profit doesn't increase the profit of NIBL. Declining in profit even after increment in loan and advance is the serious issues in banking sector. To overcome from the threat bank should properly manage their portfolio by diversifying the investment in order to generate the profitability position.

iii) Correlation Analysis of Investment in Securities and Net Profit

Investment in securities is also major sources to utilize the deposit and earn income. The investment in securities also influence the net profit of the bank. This section is conducted to check the relationship between investment in securities and net profit of the sample bank.

Table 4.16
Correlation between Investment in Securities and Net Profit

Bank	Correlation Coefficient	Remarks
NABIL	0.390	Positive
NIBL	-0.646	Negative

Table 4.16 shows the correlation coefficient between investment in securities and net profit of the sample bank during the study period starting from 2072/73 to 2076/77. The correlation coefficient of NABIL is 0.390 which indicated the positive relationship. If the NABIL bank enhance the investment amount in securities then the net profit also increase moderately. Likewise the correlations coefficient of NIBL is -0.640 which shows negative relationship. The negative correlation of NIBL refers even the investment in securities is increases the profit will gradually decreases. Thus the NIBL should manage its portfolio efficiently.

4.2 Major Finding

The major finding of the study during the study period are as follows:

- i. The highest current ratio of NABIL is 5.30 in FY 2075/76 with the mean ratio of 4.37, the higher Current Ratio of the NIBL is 4.78 in FY 2076/77 with the mean ratio of 3.25 during the study period.
- ii. The average cash to current assets ratio of the NABIL is 0.23 with S.D 0.13 and C.V of 0.57 where the average ratio of the NIBL is found as a 0.34 with S.D 0.07 and C.V is 0.22.
- iii. The mean cash bank to total assets ratio of the NABIL is 0.15 with S.D of 0.05 and C.V of 0.30 likewise the mean ratio of NIBL is 0.23, S. D is 0.04 and C.V is 0.19. Higher ratio of NIBL indicates the high ability to meet demand of cash.
- iv. The investment in security to current assets indicates the portion of the current assets invest in securities. The average investment in security to total assets ratio of the NABIL is 0.85 whereas the 0.60 of NIBL. The higher ratio of the NABIL shows the higher investment in securities from current assets.
- v. The loan and advance to total deposit ratio of the NABIL and NIBL is found as an average of 0.783 0.846 during the study period. The S.D and C.V of the NABIL 0.061 and 0.077 likewise the S.D and C.V of the NIBL is 0.020 and 0.023.
- vi. The average ratio of the total investment to total deposit ratio of the NABIL is 0.22 with S.D and C.V of 0.08 and 0.39 respectively. The average ratio of the NIBL is 0.14 with the S.D and C.V of 0.02 and 0.15 respectively.
- vii. The average interest income to total income ratio of the NABIL is 0.58 with the S.D and C.V 0.05 and 0.09 respectively. Likewise average ratio of the NIBL is 0.61 with S.D and C.V 0.04 and 0.07 respectively.
- viii. The total interest earned to total outside assets ratio of the NABIL and NIBL is found 0.078 and 0.088 respectively. The outside assets include loan & advances and investment of commercial banks. It is the sources of interest income of the bank.
- ix. The mean value of interest expenses to total expenses ratio of the NABIL and NIBL is 0.54 and 0.64 respectively. Higher ratio of the NIBL implies the higher operating cost of NIBL than NABIL. The S.D and the C.V of the NABIL and NIBL is 0.11, 0.07 and 0.21, 0.11 respectively.
- x. The average ROE of the NABIL and NIBL is 0.202 and 0.131 respectively. The S.D and C.V of the NABIL is 0.049 and 0.245. The S.D and C.V of the NIBL is 0.029 and 0.220 respectively.

- xi. The average ROA of the NABIL and NIBL is 0.021 and 0.019 respectively. The higher ROA of NABIL indicates the bank's ability to generate the profit from utilization of total assets. The S.D of the NABIL and NIBL is 0.004 and 0.005 whereas the C.V is 0.198 and 0.262 respectively.
- xii. The EPS of the NABIL and NIBL is 51.37 and 32.31 respectively during the study period. Higher EPS is the major attractive factor for their shareholder as well as clients. From the comparison of mean EPS, NABIL bank is more efficient than NIBL. The S.D of the NABIL and NIBL is 9.40 and 11.30 and the C.V of the bank is 0.18 and 0.35 respectively.
- xiii. The mean value of return on investment of NABIL bank is 0.134 whereas the average ratio of the NIBL is 0.184, It implies that the NIBL is able to generate higher return from the total investment, It also explain about the ability of NIBL to well management of portfolio.
- xiv. The correlation coefficient between loan and advance and interest income of the NABIL and NIBL is 0.991 and 0.971 respectively which is highly correlated. It implies that if the loan and advance increases correspondingly interest income also increases.
- xv. The correlation between the loan and advance and net profit of NABIL and NIBL is 0.516 and -0.069 respectively. The positive correlation refers as the loan and advance increases the net profit also increases but the negative correlation refers even the loan and advance of the bank is increase the net profit of the company doesn't increases as it declining.
- xvi. The correlation coefficient between investment in securities and net profit of the NABIL and NIBL is 0.390 and 0.646 respectively. The positive correlation of the NABIL refers if the investment in securities increases correspondingly net profit also increases. Likewise the negative correlation of the NIBL refers that any increment in investment in securities doesn't increase the profitability of the bank.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter consist of two major aspect. The first aspect focuses on the summary and conclusion of the study while second aspect focuses on the suggestion and recommendation to the sample bank to improve the portfolio management system.

5.1 Summary

There are 27 commercial bank currently operated in Nepal. The main motto of the every commercial bank is to collect deposit from the general public and made investment in various profitable sector. So, the bank is always on the shadow of the risk occurred from their investment. To overcome these risk bank should manage the efficient portfolio. Portfolio is the art of diversification of investment on various assets so the loss from one can be cover by next one. Nepal is developing country and suffer from political instability. Political instability creates the policy instability. So the leading commercial bank need to diversify the investment by managing the efficient portfolio. This study focuses on the way and efficiency in portfolio management of commercial bank in Nepal.

The main objectives of the study is to analyze the portfolio management in terms of deposit and investment pattern of the commercial bank, to examine the liquidity position of the bank and to examine the risk and return of the bank. To fulfill the objectives of the study we selected Nepal Investment Bank Limited (NIBL) and Nabil Bank Limited (NABIL) as a sample out of 27 commercial bank. To get the direction for the study we study the various unpublished thesis, international journal and article. This study completely based on the secondary data with descriptive and analytical research design. Descriptive research design describes the general pattern of the Nepalese investor and probable problem on portfolio management. Analytical research design implies the weakness and the relative strength from the annual report of the sample bank. Different financial tools like financial ratio analysis and statistical tools like Mean, Standard Deviation (C.V) and Coefficient of Variation (C.V) are used to analysis the collect the data. The fourth chapter incorporated with analysis of data in tabular and graphical form with the some key major finding of the study. The finding of the study shows that, both sample bank is more conscious to maintain

liquidity position as their current ratio and cash and balance to current assets ratio is strong. Both sample banks earn more interest income than they paid the interest to deposit holder and debt holder. Thus both banks are able to manage their portfolio efficiently.

5.2 Conclusion

This research paper is conducted to analyze the financial performance of the bank in terms of financial ratio and some specific statistical tools like mean, standard deviation, coefficient of variation and coefficient of correlation bring the certain logical conclusion as per the objectives of the study are as follows:

- i. It is concluded that the cash and bank cover more than 20 percent in current assets which conclude that the commercial banks have enough liquidity to meet the short term obligation and to meet the daily cash requirement like deposit outflow and other transaction.
- ii. It is concluded that the sample bank currently invest more than 80 percent of total deposit collection in form of loan and advance. Likewise, the sample bank currently earn more than 60 percent interest income out of total income. It shows the credit investment power of the bank, higher ratio always indicate the higher financial performance however it also bring the credit risk. The study also bring the conclusion of operational efficiency of Nepalese commercial bank.
- iii. It is concluded that the profitability of the commercial bank is strong enough. The return on assets of the sample bank is more than two percent, which concludes that Nepalese commercial banks ability to manage the assets (Management Efficiency) for return creation. The return on equity and the higher EPS of the sample bank conclude that they have sound financial performance.
- iv. The study concluded that there is positive relation between loan and advance to interest income, loan and advance and net profit, investment and securities and net profit. The positive relation conclude the increment in dependent variable due to independent variable.

5.3 Recommendation

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the portfolio management practices of NABIL and NIBL effective and efficient.

- i. The current ratios of both the banks are more than 2:1, it is good as it can meet the short -term obligations. The cash and bank balance to total current assets and total assets ratio NABIL and NIBL is higher than 20% and 15% respectively. So, the bank is conscious to maintain its CRR and bank should be maintain in future to meet deposit outflow and other cash requirement.
- ii. NIBL invest 78.3% of total deposit inform of loan whereas NABIL invest 84.6% loan from its loan. Both bank invest on loan more than 75% of total deposit so it is suggestion for both bank to invest rationally in other assets like stock, bond and preferred stock.
- iii. Interest and total expenses ratio of the NIBL is higher than NABIL which increase the operating expenses that significantly reduce the profit. So the NIBL should reduce the operating expenses to increase the profit.
- iv. The Mean value of Return on Investment of NABIL bank is 0.134 whereas the average ratio of the NIBL is 0.184, so the NABIL bank should manage their portfolio properly to generate higher return from investment.
- v. The return on assets of the NIBL is lower than NABIL, thus the NIBL should efficiently utilizes the assets to generate the higher profit.

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