CHAPTER - I

INTRODUCTION

1.1 Nepal a Short Profile

Nepal is one of the least developed, agricultural, mountainous and landlocked Hindu Kingdom with a very unique physical setting lies between India and China. It is an independent Kingdom never colonized by a foreign power. It is made up of an assortment of races and tribes living in different language and dialects. Nepal can be divided into four main regions with wide variations in altitude and climate, such as Himalayan region and inner Himalayas, Sub – Himalayas or the Mountain region, Valley basin or inner Terai and the Terai region. For administrative purpose, Nepal is divided into five development region, 14 zones and 75 districts. Each district has been further divided into different administrative units, which consists 58 municipalities and 3912 village development committee. The country has open economy with easy access to its neighbor country India. With a total area of 1, 47,181 square kilometer, Nepal is known as one of the most beautiful country of the world endowed with both natural scenic beauty and rich heritage.

1.1.1 Banking and Financial System in Nepal

The modern Nepalese financial system began in 1937. Nepal Bank Limited (NBL) was established as the first commercial bank of Nepal in November 1937. It was established under the Nepal Bank Act, 1937. The establishment of NBL started the modern financial system in the country. Prior to the establishment of NBL, the Tejarath Adda, which was establishment in 1880, used to disburse credit to the people. It used to provide loans against the collateral securities of gold and silver. It rendered commercial banking services such as the acceptance of deposits, delivery of credit facilities and other commercial banking services to its customers/clients.

NBL remained as the only financial institution until Nepal Rastra Bank (NRB), the central bank of Nepal, was established in 1956; there were only 12 branches of NBL providing commercial banking services in few urban centers of the kingdom.

In the last 68 years of the development of the modern financial system, the country has experienced with several types of financial institutions. There are all types of financial institutions in the country and they have been providing different types of financial services. These financial institutions can be categorized in two broad sub-headings.

i. Banking Financial Institutions, and
ii. Non - Banking Financial Institutions

i. Banking Financial Institutions (BFI's)

By banking financial institutions, we mean commercial banks. Commercial banks are the major players in the financial markets of the country. They dominate in the financial markets with various types of deposit and loan products. They represented about 80.0% of the total deposits and 70% of the total loans and advances of the Nepalese financial markets at mid-July 2008. There are altogether 26 commercial banks in operation licensed by NRB. After the establishment of NBL in 1937, the Rastriya Banijay Bank (RBB) was establishment as the second commercial bank of the country in 1966. It was established under the Rastriya Banijya Bank Act, 1966. The establishment of RBB greatly helped in the expansion of commercial banking services in the country.

The RBB is still fully government-owned commercial bank of Nepal. But the majority share of NBL i.e. 59% is owned by the private sector and 41% is still owned by the government. Out of 51% of the shares of NBL, the government sold 10% shares to the general public.

The Nepal Arab Bank Limited (NABIL) was established in 1984 as the first joint-venture commercial bank of Nepal with 50.0% equity participation of foreign bank. After the establishment of NABIL, many joint-venture commercial banks and fully Nepalese private sector owned commercial banks were established and they have been providing banking services to their customers/clients.

ii. Non - Banking Financial Institutions (NBFL's)

There are four types of non-bank financial institutions licensed by NRB for financial operations. They are: (a) development banks, (b) finance companies, (c) financial co-operative societies, and (d) financial intermediary NGOs. In addition to these non-bank financial institutions, there are various types of other non-bank financial institutions such as insurance companies/corporations, insurance board, employee's provident fund citizen trust fund, deposit insurance and credit guarantee corporation, stock exchange, security board, and post office saving banks.

HMG/N implemented the First year plan during 1956 to 1961. During this plan period, it mainly emphasized non-bank financial institutions in the country. To enable the rural populace of the country get institutional rural credit services, the government registered rural co-operative societies since 1956. It registered 17 such co-operative societies in the first year. The government established the industrial Development Bank in 1957 to provide industrial credit. It was later converted into the Nepal Industrial Development Corporation in 1959 under the Nepal Industrial Development Corporation Act, 1959. The Employees provident fund was also established in 1962 to mobilize long-term financial resources.

The government has established the co-operatives bank to provide agricultural credit to farm and co-operators. The government also established the Land Reform and savings Corporation (LRSC) in 1966. But the establishment of the co-operative bank and LRSC could not provide the required agricultural credits to farms. So the government established the Agricultural Development Bank in 1968. The co-operative bank was set up in 1964 under the co-operative bank Act, 1964. The National insurance corporation was established in 1967 and the Nepal Insurance Corporation in 1968 to provide insurance services to the Nepalese people. The Co-operative bank and the Land reform savings corporation were later merged with the agricultural Development Bank (ADB/N) in 1968 and 1973 respectively.

The credit Guarantee Corporation was established in 1974 to provide credit guarantee services to small credit and later priority sector credits extended by NBL and RBB. The Securities Marketing Center, which was established in 1977, was converted into the securities exchange center in 1984. It was also later converted into the Nepal Stock Exchange Limited (NEPSE) in 1992 to develop capital market in Nepal.

NRB, since mid-eighties has adopted financial liberalization policy. NRB has played a crucial role in the establishment and development of several commercial banks both foreign joint ventures and private commercial banks. This policy further led to the amendment of the commercial Bank act in 1974, the enactment of the finance company act1985 and the development Bank act, 1972. The amendment and enactment of these Acts has given a required legal framework in the establishment of several commercial banks, finance companies and development banks. As of mid-July 2008 the number of commercial banks in the country reached to 26 and there were 62 finance companies, 30 development banks and several other NBFLs which have listed with Nepal Stock Exchange.

1.1.2 Role of Banking / Financial Institution in Nepal

Nepal, being a developing country, is trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy. Even though the process of economic development depends upon various factors, however economists are convinced that capital formation and its proper utilization plays a vital role. The network of a well organized financial system of the country has a great bearing in this regard. It collects scattered financial resources from the masses and inverts them among than engaged in commercial and economic activities of the country. In this way, the financial intuitions provide saver highly liquid divisible assets at lower rate while the investors receive a large pool of resources. Integrated and speedy development of the country is possible only when competitive service reaches hooks and corners of the country. It has been well established that the economic activities of any country can hardly be carried forward without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development.

It is true that the proper development and functioning of financial institutions, that is the commercial banks and non-banks financial institutions have their profound effect on the economy. The commercial bank deals with the activities of trade, commerce, industry and agriculture. The establishment of financial institutions depends upon the level of economic activities and monetary transactions. Because of growing financial and business activities with in the nation and institutional progress in the neighbouring countries, had forced Nepal to think of new establishment of financial institutions. Consequently, Nepal bank act 1936 having elementary functions of a commercial bank. Later, in 1956, the first central bank named as the "Nepal Rastra Bank" was set up with an objectives. Another commercial bank fully owned by the government named as “Rastriya Banijya Bank” was established in 1966A.D. to spread banking services to both rural and urban areas. In 1963, a cooperative bank was established that was converted later into agricultural Development Bank in 1967. The pace of financial sector, development enhanced rapidly after the financial liberalizations policy introduced by government in 1984 A.D. Since then, various financial institution i.e. JVB is domestic commercial banks, development banks, finance companies, cooperative banks, credit guarantee corporation, employee provident fund, national insurance corporation, Nepal stock exchange has come into existence to cater the financial needs of the country there by assisting financial development of the country. So commercial banks are the heart of our financial system. They hold the deposit of millions of persons, government and business units. “They make fund available through their investing and lending activities to borrow individual business units and government” (Wetal, 1978:1-9).

They facilitate to flow the gods and services from the producers to consumers and other financial activities to government. They provide information related to finance and trade which affected monetary policy of overall nation.

They collect the deposit from the public and flow them or mobilized them to different kind of sector like commercial and industrial sector, agricultural sector, deprive sector and other productive sector due to wich the overall development of nation goes on success.

The facts show that the commercial banking system of the nation is important to the functioning of our economy. The ability of the commercial bank system to perform its tasks efficiently and in harmony with national needs and economic goals depends on large measures on efficient management. The management of bank is not only involved with personal management, material management, but also its primary functions are the management of money. The management influence the capital, assets structure of a bank. The management of money is bank is the main function that makes a bank profit and maximum utilization of national resource.

In short, banks are extremely necessary for the healthy and prompt progress of a country, its citizens and the societies it has. By creating and mobilizing the capital and rendering various financial services, banks are contributing to establishment and development of so many small and large scale industries and domestic as well as international trade and commerce. “Banks provide an effective payments and credit system, which facilitates the channelling of funds from the surplus spending units (savers) to the deficit spending units (investors) in the economy” (Garhal,1993: 25).

By accepting deposits, the banks promote the habit of thrift and saving among the people. These savings are the people later result in capital formation, which is the basis of economic progress in the country. Moreover, banks also encourage industrial innovations and business expansions through the funds provided by them to the entrepreneur. Bank exercises considerable influence on the level of economic activity through their ability to create money in the economy. Banks performs and indispensable task to intermediating between the deficit spending individuals or institutions in order to raise funds and then loaning those funds to deficit spending individuals. In addition, another contribution banks make is their willingness to accept risky ventures such as loans from borrowers while issuing low risk securities to their depositors. The various utility functions performed by banks are of great economic significance for the economy, which can influence the course and direction of economic activity within the economy. They pool together the savings of the community and arrange for their production use by providing short as well as long term loans in different forms necessary for the trade and commerce. “They discharge various functions on behalf of their customers and in turn they are paid for their services”.

1.1.3 Investment Policy of Commercial Bank

Having given a short background information of the economy origin and history, growth of banking and also highlighting the development of financial sector, its importance and performance the study concentrates the whole energy and efforts to commercial banks regarding how they perform with specific forces on investment policy.

Commercial banks are major financial institutions, which occupy quite important place in the frame work of every economy because they provide capital for the development of industry, trade and business and other resources sectors by investing collected deposits. Thus, they contribute to economic growth of nation. Besides this, commercial banks render numerous services to their customers in view of facilitating their economic and social life. All the economic activities of each country are greatly influenced by the commercial banking business in that country. In this way, commercial banks have become heart of financial system.

"Commercial banks bring into being the most important ingredient of the money supply demand deposit, through the creation of credit in the form of loan and investment" (Crosse,1980:110).

Commercial bank also provides the flexibility and mobility to the customers because the payment can be mostly speedily and efficiently carried out. "The commercial bank permitted to accept demands deposit" (Hanks and Suki, 1980:159).

The role of commercial banks in economy is obviously prime requisite in the formulating of banks policy. A key factor in the development in the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effectively commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial bank maximize quality achieve the own objective of profit maximization and social welfare.

Investment operation of commercial banks is very risky one. For this, commercial banks pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one facet of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily up on its investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The loan which is provided by commercial bank is guided by several principles such a length of time, their purpose, profitability, safety etc. Mainly all commercial bank must take a security like land and building (immovable properties) and share, plant and machinery, Bank guaranty (Movable properties) to minimizing the risk factor while financing. The NRB has segregated the investment area like deprive sector, agricultural sector, industrial sector (Manufacturing and Trading), and other sector where all commercial bank can invest. On the other hand NRB has just regulated all banks to not finance over 25% of total portfolio to real state and that portion will down to 15 % of total portfolio on FY 2067/068. According to NRB this regulation has issued to minimize the risk of liquidity position of financial position, from which all financial institution are affected. These fundamental principles of investment are fully considered by all commercial bank while making investment policy.

The investment policy should be carefully analyzed. So, commercial bank should be careful while performing credit creation function. Investment policy should ensure minimum risk and maximum profit from lending. Commercial banks have to consider government and Nepal Rastra Bank's instructions and upliftment of the national economy can be solved through formation of sound investment policy. Sound investment policy can be minimize interest rate of deposit and ensure maximum amount of investment to all sectors with proper utilization with effective rate of interest.

1.2 Focus of the Study

The major focus of the study is on the investment operation including deposit mobilization of two joint venture banks of Nepal that is NABIL and Nepal SBI. The detail profile of these two banks is in appendix.

1.3 Statement of the Problem

Investment means using money, time and investment them in something to earn interest or bring profit or to generate venture. The term investment, with question of 'who invest?' and 'where to invest?' clarify that, not only public makes investment but the bank also makes investment like investment to people in purchasing shares of banks or the other manufacturing company or the social institution and the banks itself invest in the share of other banks.

Investment of commercial banks, when we analyzed individually was observed that Nepalese domestic banks invest in government securities, national saving board, debenture and corporate shares as well as that security issued by NRB time to time with a handsome interest rate. The leading policies of commercial banks are based on the profit maximization of the institution as well as the economic enhancement of the country. Effective mobilization of available funds is one of the important activities of any commercial bank. Commercial banks set certain criteria for investment purpose according to which the banks under commercial bank should act and it is one of the major decisions for the entire bank.

This study will try to answer the following questions:

- Do the investment of commercial bank on securities and loans verify the objectives of maximization of the profit?
- Do the investments of commercial banks mobilize its available funds effectively?
- Whether the investment of commercial banks is contributing to the performance of the commercial banks?

1.4 Objectives of the Study

The main objectives of the study are to evaluate the investment policy of NABIL and NSBL. The specific objectives of the study are as follows:

a. To Study the leading policies and deposit and investment trends of the sample bank (NABIL and NSBL)
b. To study the impact of loan and advances and deposit mobilization in total investment of NABIL and NSBL.
c. To swot the investment decisions of NABIL and NSBL in the context of existing regulation.

1.5 Need and Importance of the Study

The needs and importance of this study has been felt for some important reasons. First, the economic development of any country depends upon the effective mobilization of the available funds which are collected from reliable sources. Investment is a backbone of economic development. Functioning of a bank should be measured in various terms to know the contribution to the economy. The NABIL and Nepal SBI bank needs to the national economy are highly influenced by the investment policy of the bank. The study of investment policy helps to improve the situation and correction can be made accordingly.

Secondly, the study has theoretical significance as it helps to add the existing literature of the Nepalese financial management, particularly to the literature of investment policy management in the Nepalese context.

Thirdly, the study has also practical significance. The findings and conclusion of the study can be used by management of bank as guide in the financial and investment policy management of the bank, the government for making policies regarding joint venture banks and used by teachers and students as reading materials.

In case of investment alternatives and portfolio management, there are so many alternatives like commericial and industrial sector, agricultural sector, deprive sector, manufacturing and trading sector and other productive sector under the regulation of NRB. Form this study commercial bank com to know, how to cope their portfolio so that the risk can be minimize and return can be maximized.

1.6 Assumption and the Limitation of the Study

Since this study deals merely with NABIL and Nepal SBI bank limited, the confusion derived from the study may or not be applicable to other commercial bank. This Study will be based on secondary data. It is apparent that the secondary data are crucial for the study. Even the financial statement of Nepalese commercial banks published by them will not sufficient for this study because they publish only summary of their financial statement, they treats as confidential of its details. Though it will try to provide completeness to the study as far as possible, some limitation appeared there by different causes. This study has been carried out within certain assumptions and limitation which are as follows.

a. The study is based especially on secondary data like annual reports of the bank under review, journals, unpublished as well as published thesis works and other published articles and reports.
b. The balance sheet, profit and loss account and accompanying notes have been basically considered as the subject matters of the study and they are assumed to be correct and true.
c. The study is covering Eight year period that is from Fiscal year 2000 to 2008.
d. The study is related to only joint venture banks namely Nepal SBI bank limited and NABIL bank limited.

e. The study will be focusing on comparative investment policy of NABIL and Nepal SBI bank.
f. Analysis will be mostly based on the tools developed in context of efficient market condition.
g. Due to time constraints all the concerned areas are not possible to conduct so only major ones are covered.
h. The investment policy of NRB varies time to time so that the study may not have a long time implication.
i. As a research student the studies will not be biased but resources and time period is limited.
i. J. Some important tools and technique has been used while analyzing the data, so the summary of the study and conclusion as well as recommendation based on the technique used.

1.7 Organization of the Study

This study has been divided into five chapters as introduction, review of literature, research methodology, presentation and analysis of data, comparative analysis of investment policy of NABIL and Nepal SBI bank and summary, conclusions and recommendations.

Chapter – I Introduction

In the first chapter introductory part is presented such as general background of commercial bank and banking system, focus the study including the introduction of sample bank (NABIL and NSBL), statement of the problem, objectives of the study, needs of the study hypothesis of the study, statement of research study including security approach, need oriented and person oriented approach and profit oriented approach and also relationship between the variables and the assumption and limitation of the study.

Chapter – II Review of Literature

Chapter two deal with review of literature relevant to the investment policy of commercial banks. it also deal with the structure of modern banking system, liquidity management, cash and marketable security management, overview of investment policy, portfolio overview etc. The conceptual framework from books, research papers, annual reports, articles have reviewed.

Chapter – III Research Methodology

Chapter three deals with research methodology including few lines of introduction of financial ratios, research design, population procedure, nature of data collection with method of data analysis.

Chapter – III Data Presentation and Analysis

Chapter four deal with presentation and analysis of data with investment policy of NABIL and NSBL bank through a use of research methodology. This chapter deals with different financial ratios, growth ratios, t-test and coefficient as correlation as statistical tools relevant to the investment and fund mobilization of two sample banks (NABIL and NSBL).

Chapter – V Summary, Conclusion and Recommendations

Finally, chapter five discuss the summary derived from the comparative analysis of NABIL and Nepal SBI bank, conclusion of the study and provide necessary recommendation for the further important of investment operation of NABIL and Nepal SBI bank regarding the findings of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction of Conceptual Review

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. It is also a way to avoid investigating problems that have already been definitely answered. For e.g. a social scientist is interested to study the impact of social mobilization program on poverty alleviation. From his knowledge and experience in the field, he knows that a body of knowledge exists about the methods and policies of social mobilization.

The Primary purpose of literature review is to learn, not to accumulate. It enables the researcher to know.

1. What research has been done in the subject
2. What others have written about the topic
3. What Theories have been advanced
4. The approach taken by other researchers.
5. Areas of agreement or disagreement.
6. Whether there are gaps that you can fill through proposed research.

The purpose of literature review is, thus, to find out what research studies have been conducted in the one's chosen field of study, and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing.

This section focuses on the review of literature of relevant to the investment policy of commercial banks the conceptual framework given by different authors, research scholars is received from the books, research papers and annual reports.

Banks are such types of institutions, which deal in money and substitute for money. The most essential and important thing for bank is its good circulation of credit fluctuation in the flow of credit and weak decision harms the whole economy and the bank as well. Thus to collect fund effectively and its well utilization is very challenging task for the bank. The decision of an investment of fund may be the questions of life and death for the bank.

"Commercial bank is the corporation which accept demand deposits subject to check and makes short-term loans to business enterprises regardless of the scope of its other sources" (American Institute of Banking, 1992: 345).

Commercial banks are designed primary to finance the production, distribution and sales of goods that is to lend short term funds. The built of deposit commercial bank consist of demand deposit, which are invested in short term loans. National and state banks are the best examples of commercial banks, although in most states trust. Companies are also permitted to engage in commercial banking private banks are usually commercial banks" (Woeltel,1999: 223).

"An organization which exchanges money, deposits money, accepts deposits, grand loans and performs commercial banking functions and which is not a bank meant for co-operative agriculture, industries or for such specific purpose" (Commercial Bank Act, 2031).

These facts show that the commercial banking system of the nation is important to the functioning of our economy. "The name commercial bank was first and to indicate that loans extended were short term loans to business, though loans later were extended to consumers, government and other non-business institutions as well. In general, the assets of commercial banks tend to be more liquid and carry less risk than the assets held by other financial intermediaries" (The New Encyclopaedia Britannia, 1991: 489).

The term full service banking has been promoted in recent years as a more description term because of the diversification of commercial banks into many operations other than commercial lending including consumer banking, mortgage banking, saving banking, commercial sales, financing and factoring, international banking and foreign exchange, underwriting and trading to us government and state, state and municipal obligations, travel service, travellers cheques, money order and so forth" (Woelfel, 1999: 223).

Commercial banking is different from investment banks, securities, firms and commercial financial services institutions. Government authorities closely regulate commercial banking operations to control deposit growth and to ensure the safely of customer deposits and the soundless of the bank. Government regulators require cash reserves against deposits; specify maximum interest rate bank can pay on deposits, set minimum capital requirements and place limits on the size of loans to borrowers. Federal banking law, further limits bank operations to activities closely related to banking. Commercial banks can be federally or state chartered. Commercial bank can be classified either as unit bank with all operating housed in a single office or branch banks with multiple offices. Bank holding companies or organization that own controlling interest in one or more commercial banks (Woelfel, 1999: 223).

Lending is difficult. Generally, it involves risk. To manage the risk, it is needed to acquire and process information, to draw up a contact with the borrower with due attention to the incentives, this creates and to monitor compliance liquidity too may be a problem.

Dr. Sunity Shrestha, in her book "Portfolio behaviour of commercial bank in Nepal", said-"The commercial banks fulfil the credit needs of various sectors. The lending policy of commercial banks is based on, the profit maximizing of the institution as well as the economic enhancement of the country" (Portfolio Behaviour of Commercial Banks in Nepal, 1995).

2.1.1 Banks and Banking

The main variety of modern industrial word is commercial banking and central banking. And commercial banker is a dealer in money in substitutes for money, such as cheques or bills of exchange. The banker also provides a variety of financial services. "The basis of the banking business is borrowing from individuals firms and occasionally governments, ie. Receiving "deposits" from them, with these resources and also with the banks own capital. The banker makes profit by borrowing at one rate of interest and lending at higher rate and by charging, commission for services rendered (The New Encyclopaedia Britannia, 1991: 221).

Bank is able to exceed the sums available only as long as the public believes the bank can and will honour its obligations, which are then accepted at face value and circulate as money, so long as they remain outstanding, these promises as obligation constitute claims that bank and can be transferred by means of cheques or other negotiable instruments from one party to another.

In the past, banks used to be just an intermediary between the servers and user of found. In other words they use to collect deposit and grant loans. However, banks have today emerged as an integral part of the society. No individuals can escape from the magnetic are of the bank. Let alone business houses, they mainly offer following services and verify of functions.

I. Acceptance of Deposit

The bank accepts various types of deposits from the public or the customers. Depending upon the nature of deposit, interest rate is determined. Even in the deposits where interest is not offered, bank keeps them safely and repays on demand.

Fixed Deposit

Money in this account is accepted for a fixed period and can not be withdrawn before the expiring of that period.

Current Deposit

The depositor can withdraw money form this account whenever he requires it. So, it is known as demand deposit. Generally, the bank grants no interest on its account on the contrary it can charge a small amount on the customers for the service rendered by it.

Saving Deposit

Some restrictions are imposed on the depositor under this account. For example he can withdraw only a specific sum of money in a week.

Recurring Deposit

The purpose of this account is to encourage regular savings by the public, particularly by the fixed income group. Generally, money in these accounts is deposited in monthly instalment for a fixed period and is repaid to the depositors along with interest on maturity.

Call Deposit

It incorporates the characteristics of current and saving deposit. Current in the sense, deposit is with drawn at call and saving in sense the deposit earns interest. It's a hybrid type of account. Interest rate on call deposit is negotiable between the bank and the depositors and hence it is normally not announce in public.

II. Advancing of loans

Banks give loans to the needy customers for productive purpose. Loans are given to the business customers to meet their working capital and long term requirement, personal customers takes loan against their fixed deposit and for customer's credit. Small loan for productive purpose is also given to personal customers. Banks are now offering various types of customers' loans to personal customer home loan, auto loan etc. The various types of loans and advances are as follows:

Cash Credit

Under this account, the bank gives loans to the borrower against securities to meet their working capital for their business enhancement.

Overdraft

The bank allows its respectable and reliable customers to overdraw their accounts through cheques. The customers, however, pay interest to the bank on the account overdrawn by them or EMI basic or the method determined by the bank.

Discounting of Bills of Exchange

If the holder of an exchange bills need money immediately, he can get it discounted by the bank. After deducting its commission, the bank pays the present price of the bill to the holders. When the bill matures the bank can secure its payment from the party, which had accepted the bill.

Money at call and short notice

Such loans are very short period loans and can be called by the bank at very short notice of one day to 14 days. These loans are generally made to another banks and financial institutions.

III. Agency Functions of Bank

The various agency services rendered by the bank are as follows:

Transfer Funds

The bank helps its customers in transferring funds from one place to another through an instrument known as bank draft.

Collecting Customer's Fund

The bank collects the funds of its customers from banks and credits them to their accounts.

Purchase and Sales of Share and Securities for the Customers

The bank buys and sells stocks and shares of private companies as well as government securities on behalf of its customers.

Collecting Dividends on the Shares of the Customers

The bank collects dividends as well as interest on the shares and debentures of the customers and credits them to their account.

Payment of Insurance Premium

The bank pays premium of the insurance company on behalf of its customers.

Trustee and Executor

The bank preserves the wills of the customers and executes them after their death.

- Modern bank allows customers to deposit and draw money through their account through ATM.
- Acts as correspondent: The bank may also act as a correspondent agent or a representative of its customers.

IV. Purchase and Sale of Foreign Exchange

The bank also carries on the business of buying and selling foreign currencies. In developed countries, it is done by exchange bank but in our country it is done by commercial banks.

V. Creation of Credit

Creation of credit by the bank means when the bank grants loans to its customers, it creates a deposit or a liability against it self. Since the deposit of the bank circulates as money, the creation of such deposit leads to net increases in the money stock of the economy. This is known as creation of credit by bank (Welshans & Melicher, 1980:44).

VI. Miscellaneous Function of Bank

The modern bank provides facilities to its customers for which it charges them an annual rental. The customers keep their valuable documents and ornaments in bank. For this bank provides safe locker services.

- Issuing of travellers cheque
- Bank can pass on reliable information about their credit worthiness to other parties at other place.
- The banks accept exchange bills on behalf of their trusted customers. It becomes rending discountable in the money market.
- Bank gives to tender useful advice to its customers of financial matters.
- Modern banks allow customers to deposit and draw money from their account through ATM.

The American institutes of Banking has concluded the four function of commercial banks as "receiving and handling of payments of money (payment function) and creation of money by extending credit (money function) (American Institute of Banking, 1972).

Commercial bank Act 2031 B.S. of Nepal ahs laid emphasis on the function of commercial banks, which provide short-term debts necessary for the trade and commerce. They take deposit to provide short term loans in different forms. They purchase and discount bill of exchange, promissory notes and exchange foreign currency. They discharges various function on the behalf of their customers and in exchange they are paid for their services (Vaish, 1989: 680).

2.1.2 The Structure of Modern Banking System

"The banking systems of the world have many similarities, but they also differ, sometimes in quite material respect. The principle differences are in the details of organization and technique. The differences are gradually becoming less pronounced because of the growing efficiency of international communications and the tendency in each country to emulate practices that have been successful elsewhere" (Vaish,, 1989: 680). Banking system may be classified in terms of their structure or unit banking, branch banking or hybrid of the two, e.g. France, West Germany and India, where banks that are national scope are supplemented by regional or local banks. Some of they have hybrid system are changing slowly with their character, they becoming fewer in number and individually larger, with a large number of branches.
In Nepal, There Exist a Branch Banking System;"The branch banking system is by for the most important commercial banking system. In this system, a single bank operates in the country through a country wide network of branches. While in smaller banks may restrict their operation to a certain region of the country, the large sized banks have their vast country wide network of branches" (Vaish, 1980: 267).

Another writer opinion about branch banking is that, "Branch banks are those banking office that is controlled by a single parent bank. One board of directors and one group of stock holders control the home office and the branches" (Vaish, 1989: 267).

In addition to the matter of safety, a system of branch banks may provide more adequate banking service to the local community than the independently owned unit bank, of course, may have access to larger banks for assistance when requests are made for loans beyond the capacity of the bank.

Although branch banking does result in some degree of concentration of control competition remains intense in branch banking areas. With respect to delays in loans approvals, most branch bank managers have the authority to approve practically all loan applications coming to them and can facilitate approval of most of the remaining applications by telephone. Since branch managers establish a successful record of operation through co-operation with and service to the communities which they serve, it is doubtful that lack of interest in local affairs would exist. Finally, the flow of funds from rural areas to the cities in country, the normal expectations, typically the higher interest rates prevailing in rural result in a flow of funds from the cities to these areas.

Like all financial intermediaries, the commercial bank acquires funds from one group of surplus spending units and makes these funds available to other deficit units. In essence bank raise funds by accepting deposits, borrowing funds and issuing equity in the banking firm. The bank uses these funds to buy securities and to make loans to other individuals and corporations. In the process, commercial banks provide benefits for society such as risk reduction.

2.1.3 Liquidity Management

The concept of liquidity refers to the case with which is an assets can be converted into cash specially, a liquid asset must meet the dual requirement of being easy to sell on short notice and of selling of a price that is very close to its market value. There should not be undue transactions costs from selling liquid assets with in a very short period of time. Thus money market instruments are extremely liquid because they can be converted into cash very quickly, often with in minutes, at a fair market price. By contrast, real estate investments are not normally very liquid since their convertibility into cash usually takes fairly long period of time" (Koch & Ricardo, 1996: 365).

Thus it is very easy to sell a real assets, or any other asset almost immediately with illiquid assets, however, this can usually only be done by offering a heavy discounts relative to their fair market value. Liquidity needs of commercial bank are unique because in no other types of business there will be such a large proportions of deposits payable of demand. Inadequate liquidity does damage credit-standing of those organizations but it banks fails to repay the deposit on demand, the bank loses the trust of the public this lead to "runs in the bank and probably bankruptcy there of".

For commercial banks, liquidity management is of all most importance because many of banks liability owners can demand their convertibility into cash on very short notice, sometimes on demand. Thus, commercial bank must hold sufficient liquid assets to meet an uncertain demand for cash. If a bank is facing an unexpected liquidity crunch, it has access to the discount window at Federal Reserve. Many banks, especially large ones also have access to the money market where they can quickly obtain the amount of funds needed to save their liquidity crises.

Of course, converting non cash assets into cash requires transaction costs. These transaction costs include clerical and managerial time and broker's fees. In addition, if an asset sold for cash is not very liquid, the transaction costs include the price discount from the assets market value. In addition, to transaction costs holding liquid assets usually entails the opportunity cost of forgone interest, since liquid investment. The most oblivious example is cash itself, which has a zero rate of return to the bank. Thus banks must sacrifice some profitability in order to maintain liquidity.

In general, short term assets are more liquid than long term assets. Vault cash in the most liquid of assets. Reserve held at the fed and deposits at correspondent banks are also extremely liquid. Treasury bill held by the bank is less liquid to some extent, as well as other some short term securities in the bank's portfolio. Loans made by the bank are even less liquid but more profitable than the more liquid assets.

2.1.3.1 Demand for Bank Liquidity

Liquidity is the life line of the bank, so demand for bank, so demand for bank's liquidity arises for following purposes.

a. Deposit Withdrawal or Repayment Of Borrowing

Banks takes various types of deposits from the customers in different currencies. Same way deposits are repayable on demand with interest at fixed maturity. If cheques are presented over the counter, cash in the vault is required. If the cheques are presented through clearing house, balance should be maintained in the account with clearing house (bank balance). Similarly, liquidity is required to pay off maturing borrowing form other financial institutions.

b. Disbursement of Loans and Advances

Banks earn profit by giving loans and advances. Some loans are disbursed at once while some loans are withdrawn by the customer as per requirement. Banks need to maintain liquidity to the approval limit so that commitment made can be honoured.

c. Off Balance Sheet Liabilities

Banks carryout of balance sheet activities like letter of credit, acceptances guarantee, forward exchange control etc.

Payment under letter of credit is to be made when stipulated and complaint documents are presented. Payment under guarantee is to be made in case of invocation due to non-performance or default by the customer. And banks make forward exchange contract to deliver specified sum of money on fixed future date. Similarly, banks accept bills of exchange and are liable to pay the proceeds of such instrument on due date.

d. Other Contingencies

Demand for liquidity arises to meet unexpected liabilities like penalties, fine etc in case of cash reserve ratio shortfall banks are penalized. Banks are also required to invest certain percentage of their credit to priority and derived sector.

e. Miscellaneous Liabilities

Banks purchase various assets of short term and long term nature so, payments have to be made to the vendors and salary and allowances are also paid to the staff. Out off profit, statutory tax is to be paid to the government, bonus to the staff and dividends to shareholders. Banks transfer fund from one place to another. The receiving bank executes fund transfer instruction only when there is sufficient balance in the account.

f. Regulatory Requirement

Central banks, the world over make banks maintain a certain level of liquidity to total deposit liabilities in the form of cash and bank balance (primary reserve) and treasury bills of government or central bank bonds (secondary reserves.) Such liquidity requirement is also called statutory liquidity ratio (SLR) requirement primary reserve is also known as cash requirement. Primary reserve is also known as cash requirement. Banks have to meet SLR requirement even it their transactional liquidity requirement is less. In case of shortfall, they are penalized.

2.1.3.2 Supply of the Bank Liquidity

Bank liquidity is supplied to be met their demands on various ways.

a. Receipt of Primary Deposit

Whenever banks receive deposit from the customers in the form of cash or cheques and remittance from the other banks. It deposit of customers increase by way of purchase of cheques, negotiations of documents and disbursement of loans, the liquidity is not supplied because they are derived deposits. Liquidity will be supplied to the bank only after their realization.

b. Capital

Liquidity is supplied to the bank by issuing ordinary and preference shares to the public. Out of net profit a certain percentage is transferred to reserve and retained percentage is transferred to reserve and retained earnings. Similarly, banks are required to put a side a certain amount for possible losses. They all strengthen banks liquidity.

c. Borrowing

Liquidity is supplied to the bank through borrowings from the market (Inter-bank taking) form the correspondent banks (lines of credit) and from central bank (refinance). They all are normally for the short term.

d. Repayment of Loan

Loans are payable on demand an they earn interest as well. Banks receive liquidity when interest on loan is paid, when instalment (interest + Principal) is received and when loan is liquidate or settled.

e. Miscellaneous

Banks render various types of services like collection of cheques, fund transfer, insurance of letter of credit, guarantee etc. They take some commission against rendering those services. Banks receive cash by selling assets. They are also the sources of bank liquidity.

In this way, banks supplied their demand of liquidity arises in the short period of time.

2.1.4 Cash Management

Vault cash is the most liquid of bank assets. Even though cash does not earn interest, all banks must keep some cash in their vaults since customers have the right to withdraw their demand deposit at will of course, in the normal operation of a bank, most customers will not entire there at the same time. Therefore, the banks must hold sufficient cash to accommodate their customer's normal cash needs, without holding excessively high cash levels. In this way banks pay an important role in assisting many businesses in managing their cash bitter. So, non banking enterprises must consider some important financial advantages just as early collection of cash, or slow payment of cash etc. (Koch & Rodriguez, 1990:115).

2.1.4.1 Cash and Marketable Securities Management

The management of the firm's liquidity position are involved by several issues. One is to develop efficient system for the management of cash inflows and cash outflows. Efficient cash gathering and disbursal has become a major area of managerial finance. Cash and marketable securities are related together because marketable securities can be quickly converted into cash with only small transaction costs and hence can be regarded as a form of back-up cash business firms, like individuals, now hold their 'cash' mostly in the form of some kind of an account that earns interest in a financial institution.

Since, investments in cash and marketable securities represent assets with less risk than product or project investment; they may be expected to have returns less than the weighted average returns on all of the assets of a firm. Investments in marketable securities to cover their proportionate cost of capital in relation to the liquidity function that they perform for the firm. In general, the highly competition and efficient nature of the financial markets, It would not expect that investments, it is the investment in projects that hopefully will earn positive NPV's and their by increase the value of the firm. Business and individuals have four primary motive for holding cash and cash-back-up in the form of marketable securities.

1. The transaction motive
2. The precautionary motive
3. To meet future needs
4. To satisfy compensating balance requirements

The most two techniques for identify the optional amount of vault cash for bank to hold. Both models recognize that holding too much cash represents an opportunity cost to the bank, whereas holding to little cash requires too many transactions and this too is costly. Consequently, there must be an optional amount of vault cash to hold.

a. The Baumol Model

The baumol model assumes that the bank uses cash at a known constant rate. The banks incur holding costs by keeping cash in its vault since it is forgoing interest income. Since these costs increase with the level of cash in the bank, focusing on this factor alone would lead the bank to hold the least amount of cash possible.

b. The Millier –Orr model

The Millier Orr model explicitly incorporates the randomness feature of actual cash flow usage. This technique is also known as the "control limit method." The essential idea of the Millier Orr model is that the cash level is allowed to fluctuate freely with in an upper bound u and a lower bound l. Whenever the cash level reaches the upper bound u, the banks management reduces the cash level down to a predetermined target level z, by investing the excess cash, usually in short term securities that are highly liquid. If the cash level reaches the lower bound l, then the bank increases the cash level back to target level z. normally, this will be done by selling marketable securities. In this way the cash flow will always fluctuate between the upper and lower bounds u and l, respectively.

2.1.5 Portfolio Management

A portfolio management, it is defined as a combination of assets. Portfolio theory deals with the selection of optional portfolio that is portfolios that provide the highest possible return for any specified degree of risk or the lowest possible risk for any specified rate of return. Since, portfolio theory has been developed most thoroughly for financial assets, stock and bonds. (Weston & Copland, 2000: 366).

A fundamental aspect of portfolio theory is the idea that the riskiness inherent in any single assets held in a portfolio is different from the riskiness of that assets held in isolation (Weston J.F. & Copland, 2001: 367).

It one holds the position that it is impossible to forecast interest rates, portfolio management has little appeal. The portfolio management know hat how to alter a portfolio to take advantage of an expected shift in interest rates (Rodriguez, 1996: 425).

Portfolio managers use various multifactor models of security returns. So far our analytical framework for portfolio management sums to rest on the validity of the index model (Marcus, 2002: 931).

The macro economic forecast for the portfolio is used to determine the optimal risky portfolio, which will be a combination of the passive and active portfolio (Kane, Marcus & Trippi, 1996: 423).

2.1.6 Introduction to the Investment

The word "investment" brings forth vision of profit, risk speculation and wealth, for the uniformed investing may result in disaster. For the knowledge able, the investment process can be financially rewarding and exciting investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved i.e. time & risk. The sacrifice takes place in the present and is certain. The reward comes the later, it at all, and the magnitude is generally uncertain, In some cases the element of time predominates as a government bonds. In other cases risk is the dominant attribute as call options on common stocks. In yet others, both time and risk are important, for example, share of common stock. Like individuals, financial institutions, find it desirable to choose banks, life insurance companies and savings and loan associations need investments which are almost exclusively payable in dollars. They must also have items which are very safe and free from excessive market price fluctuation because their obligation customarily total between 90 and 95 percent of their total assets and relatively small shrink age in asset values would end anger their solvency. Banks and savings banks and to a lesser degree the life insurance companies must also consider the ready marketability of a portion of their investments, since their customers have the right to demand the prompt return of the money in their custody and it is important that such demands be met without the necessity of selling securities or property at a less. Other institutions, such as endowed hospitals and colleges and trust companies administering the funds the funds of others for a fee are under less pressure to secure price stability but usually feed bound to obtain long-rain security and in an age of continual price inflation a sufficient long term rise in income and capital values to offset a depreciating dollar.

The investment policies of most financial institutions are regulated to some extent by public authority and custom and precedent also exert great influence. It must be concluded therefore that the investment policies of financial and endowed institutions are likely to very greatly with the type of business conducted, the legal restrictions imposed, and the customers of the business as well as with the preferences of their management (Christy & Clendemin, 1974: 19).

2.1.7 Investment Objectives

The investment objectives are to increase systematically the individual's wealth defined as assets minus liabilities. Investing requires that an individual invest money in assets that will generate the desired wealth when it is needed for retirement, children's education or other financial goals. Consequently, most investments are undertaken to provide on increase in wealth.

The higher level of desired wealth the higher return that must be received. An investor seeking higher returns must be willing to face higher level of risk, however while wealth maximization may remain an investor's investment objective over a lifetime, age or family circumstances will necessarily force the investors to change his or her investment approach. Twenty five years ago, when they were first married and had to children, their investment objective should logically have been wealth maximization just as it is today. In their earlier year however they would have been willing to face high level of risk to achieve this objective.

Consider further the example of bill and Martha Stanton. Most investors do not necessarily have a single investment objective at any point in time. In the case of Stanton's, they have at least two simultaneous investment objectives. College education for their children and retirement, these two objectives will help dictate the composition of their investment portfolio. As to the first objective, the Stanton must be certain that the funds will be available when students need them for college. The Stanton may consider bonds that have maturities matching these needs a portion of their investment portfolio. A third investment objective the Stanton should consider is the establishment of an emergency fund equal to some proportion of their annual living expenses. Thus investment objective would dictate that a portion of their investment portfolio be invested in very safe (Christy & Clendemin, 1974: 19).

In the board and customary sense of term, an investment is any assets or property right acquired or held for the purpose of conserving capital or earning an income. This comprehensive definition does not distinguished between safe and hazardous investments tangible and intangible investments or between directly owned assets and institutionally managed ones, such as saving accounts and life insurance. It simply recognizes that saving account bonds, mortgages, life insurance, corporation stocks, real estate, business equities and other earning assets. All fulfil the save basic function that of employing their owners funds. Further more, this definition doesn't limit. The term investment to property intended to return on cash income or cash profit. Indeed, the most satisfactory investments held by many people are their homes, which field their returns in family satisfaction and in exemption from sent payments.

The merit of this broad definition of investment will become clear when the problem of investment programming or portfolio planning is discussed. This discussion will show that the proper balancing of any investor's resources among various types of assets is a completely unified problem. Different kinds of investment serve different purpose. A saving account or a saving bond, for example, assures the owners of the ready money for emergencies, while common stocks or real estate are better protection against inflation. Thus, in meeting the investor's full range of needs, sound policy will probably overall balance (Christy & Clendenin, 1974: 19).

2.1.8 The Evolution of the Investment Environment

2.1.8.1 Securities

When someone borrows money form a pawn broker, he or she must leave some item of value as security. Failure to repay the loan (plus interest) means that the pawn brokers can sell the pawned item to recover the amount of the loan (plus interest) and perhaps make a profit. The terms of the agreement are recoded via pawn tickets.

In general, only a piece of paper represents the investor rights to certain prospects or property and the conditions under which he or she may exercise those rights, is called a security. It may be transferred to other investors and with; it will go all its rights and conditions. For example, treasury bills long term bonds and common stocks are securities (Francis, 1998: 2).

2.1.8.2 Security Markets

Security market exist in order to bring together buyer's and sellers of securities, meaning that they are mechanisms created to facilitate the exchange of financial assets there are many ways in which security markets can be distinguished. One way has already been mentioned-primary and secondary markets.

Another way of distinguishing between security markets considers the life span of financial assets. Money markets typically involve financial assets that have life spans of more than one year. Thus, treasury bills are traded in a money market, and treasury bonds are traded in a capital market (Francis, 1998: 9).

2.1.8.3 Financial Intermediaries

Financial intermediaries, also known as financial claim against themselves (meaning that they sell financial assets representing claims on themselves in return for cash) and use the proceeds from this issuance to purchase primarily the financial assets of others. Since, financial claims simply represent the right hand side of the balance sheet for a by organization, the key distinction between financial intermediaries and other types of organization involves what is on the left hand of the balance sheet (Francis, 1998: 19).

2.1.9. The Investment Process

As mentioned previously, the investment process described how an investor should go about making decisions with regard to marketable securities to invest in how extensive the investment should be and when the investment should be made. A positive-step procedure for making these decisions forms the basis of the investment process.

1. Set investment policy
2. Perform Security Analysis
3. Construct a portfolio
4. Revise the portfolio
5. Evaluate the performance of the portfolio

The initial step, setting investment policy, involves determining the investors' objectives and the amount of his/her invest able wealth. Because there is a positive relationship between risk and return for sensible investment strategies. It is not appropriate for an investor to say that his/her objective is to "make a lot of money" (Francis, 1998: 10).

2.1.9.1 Security Analysis

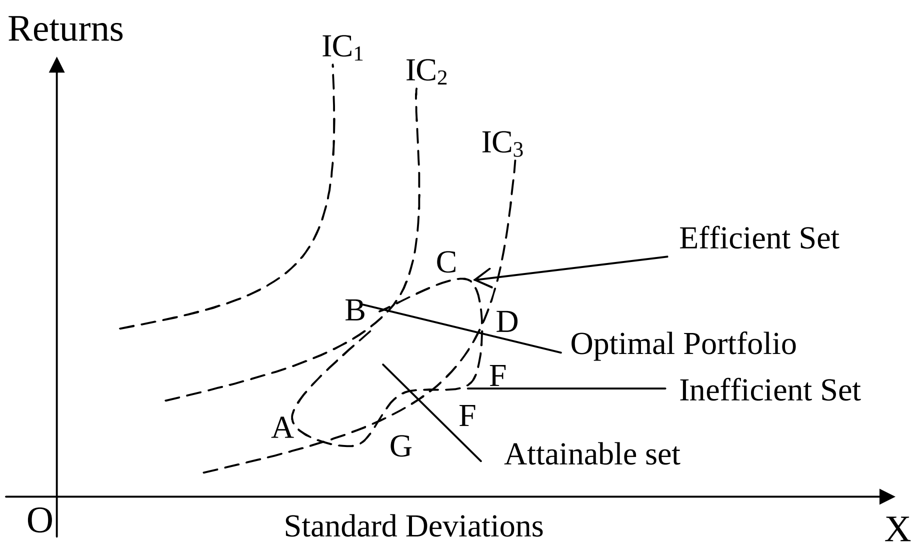
The second step in the investment process performing security analysis, involves examining a number of individual securities (as group of securities) with in the board categories of financial assets are preciously identified. One purpose for conducting such examinations is to identify, those securities that currently appear to be miss priced. Among many approaches to security analysis, the most of two classifications are first is known as technical analysis and second is known as fundamental analysis.

2.1.9.2 Portfolio Construction

The third step in the investment process, portfolio construction, involves identifying those specific assets in which to invest, as well as determining the properties of the investors wealth to put into each one, investors undertake the below mentioned figures to construct the portfolio to select optimal portfolio of risky securities .

Figure 2.1

Portfolio Construction



In the above figure, an investor selects security B at point B as optimal portfolio because the efficient frontier tangent at point B with indifference curves 2 (IC_2). He or she chooses at this point because the risk is minimized and the return is maximized than other sets. Curve IC_1 and IC_3 are not attainable; Curve IC_3 would not be selected because investors utility is higher for portfolio on indifferences curve and IC_3 is not selected because investors utility is lower. Therefore, at point B, investors attain higher level of satisfaction (Ghimire, 2062: 58).

2.1.9.3 Portfolio Revision

The forth step in the investment process, portfolio revision concerns the periodic repetition of the precious steps. That is, overtime the investor may change his investment objectives, which in turn means that the currently held portfolio may no longer be optimal investors should from a new portfolio by selling and purchasing certain securities that are currently hold or not. Thus, the investors may want to add the former to his or her portfolio, while simultaneously deleting the later.

2.1.9.4 Portfolio Performance Evaluation

The fifth step in the investment process, portfolio performance evaluation, involves determining periodically now the portfolio performed, in terms of not only the return earned, but also the risk experienced by the investors.

Some examples of the evaluation of the investment environment and process:

The 1950's and 1960's

During the 1950's and early 1960's the typical young adult got married, had children purchased whole life insurance, bought a home and perhaps purchased a few stocks or bonds for retirement when there was extra discretion of income. Most people planned to pay for their home with in 10 to 20 years and retire and live on their income from their few stocks and bonds as well as their social security benefits.

During 1960's individual life time consumption increased dramatically. Most money was needed for the children's education as the cost of a college education increased. Companies expanded their pension plans to include more employees and provide higher benefits. Now pension supplement most retires social security income, most individuals still saved some money to invest in a few growth stocks or bonds. (Cheney, & Mosex, 1992: 21).

"The 1970's"

The investment environment began to change significantly in the 1970's; the rate of inflation grew dramatically. The financial community, in particular, left the impact of rapidly increasing wages and prices, as well as the restructuring of the relationship between wages and prices. So, these changing patterns of return, risk and prices, individuals began to realize that certain assets, such as real estate might be a good investment in an inflationary environment. If other investment did not provide a sufficient return to offset inflation, the financial community would responded by creating a multiple of new investment products. Investment in money market alternatives such as certificates of deposits grew at a rapid rate during this period and sometimes yielded rates of return of 15 percent or more. Individual investors realized that the savings and loan association could not compete and shifted much of their money to the higher yielding money market instruments. Insurance policies also saw a drain on their whole life insurance policies at very low rate of interest and invested the proceeds in money market alternatives. Red state partnerships began to be formed. The traditional stock and bond investment alternatives did not appear to promise the some rate of return as the new exciting products (Cheney & Mosex, 1992: 21).

Interest rates on borrowed money also changed in response, the mortgage market invented adjustable rate mortgages, which had interest rates below those of fixed rate mortgages, but carried the risk of higher interest rates and thus higher monthly payments. The world struggled to invest new ways to deal with an inflationary environment not fully understood. Many nowadays individuals investors interested to move from the traditional stock and bond markets and into other markets such as precious metals, real estate and money market securities. This shift left institutional investors, like insurance companies and pension funds, dominant in the traditional financial market.

"The 1980's

Although the rate of inflation decreased significantly by the mid-1980's interest rates continued to fluctuate. Rate on money market securities declined significantly to reflect the lower rates of inflation.

Real estate prices did not rise as before and actually declined in some parts of the country. Before the inflationary period of 1970's, the world was more complex, that time the stock and bond markets were still dominated by large institutional investors. Once again, the financial community responded by creating new products with different patterns of return and risk. Mutual funds grew rapidly during this period, both in dollars size and number of funds. Insurance companies introduced new products such as universal life insurance with both insurance and investment features. By the tax reform act of 1986, investor had new tax consequences to consider. Technological developments also added to the complexities. Micro computers came into widespread use, speeding the flow of information and enabling it to be analyzed fasters and more thoroughly. Investment decision could now be made almost instantaneously with the arrival of new information.

The 1990's

Evan with many environmental changes, the individual investors still ahs the some basic objectives to save money from current income so that more money can be spent in later years. These investors still wants the highest level of return possible for the risk that he or she assume. The differences are that the investment choice set has grown substantially. In addition to a number of new, domestic investment choices the investors are becoming more aware of the potential portfolio advantages of diversifying internationally. These changes have created an investment environment in the 1990,s that is more complex and challenging than ever before.

This new financial environment has been major catalyst in the creation of new industries as well as the reformation of some old industries. The financial planners help investors plan for their children's college education and or their retirement. While financial planners can help frequently tax accountant are also needed to sort through the complex tax consequences of these plans. Many investors also rely on a professional portfolio manager. These managers may be associated with a brokerage house or may manage the investor's mutual fund. He efficiently transfer of wealth from one generation to another may require, not only a lawyer but a tax planner, a financial planner and an insurance broker. The individual investors however cannot leave the decisions to the advisors. That is comparing the actual performance of the investment with the planned performance.

In order to undertake, these activities the investor must be knowledgeable about the fundamentals of investments. The investments environment of the 1990's offers a challenging but potentially rewarding opportunity for individual investors. This environment suggests a strategy of careful and informed investment decision making will be needed (Cheney, & Mosex, 1992: 23).

2.1.10 Specialization Versus Investment

In a narrow sense, the term investment is sometimes used to suggest a commitment that is relatively free from certain risks of loss. High quality bonds and stocks are said to be "of investment grade ". In this sense, the label investment would be restricted to situation promising dependable income relatively stable value a modest rate of return and relatively little chance for secular capital appreciation. People who seek high income fields or large capital gains are therefore said to forsake investment for speculation.

Speculation means the deliberate assumption of risks in ventures which offer the hope of commensurate gains.

There is nothing immoral or undesirable about reasonable speculation. The difference between investment and speculation is only a matter of degree of risk, and few personal investment programmes need be confined exclusive of ultra-safe items. Indeed, the nation would never have new industries or progress at all if speculation did not venture into untried projects. But sensible speculation does not gamble. They choose their venture with care they risk only what they can afford and it possible they diversity their speculation enough to prevent errors in selection from resulting in burden some losses. However every investment dealer knows that many people "Speculate" heavily on the strength of idle 'tips' or gossip or plunge into situations which they do not understand this is gambling, not speculation, even though the commitment is of reasonable speculative (Christy & Clendenin, 1974: 20).

2.1.11 Features of an Investment Programme

While it would be foolish to assume that the investment needs of different families and institutions conform to any standard pattern, it seems clear that all investors have tour tasks in common. First, they must determine clearly their investment objectives, including to combination of safety income and capital growth they are seeking. Second they must decide upon the types of investments to be used and the proportions of each to be acquired. Third, they must select specific investment of the desired types of making sure that quality, stability and other features are obtained as needed. Finally, they should study the long run values of suitable investments and time their purchases and sales with due regard for the price behaviour of characteristically unstable investment markets. The proper handling of this four told task is an assignment of no mean proportions. It demands technical knowledge, diligence and some experience, but it is the essence of successful investment management for either as individual or an institution.

In choosing specific investment the investor will need definite idea regarding a number of features which his portfolio should pass. These features should be consistent with his general adjectives and in addition should afford him all the incidental convenience and advantages which are possible in his circumstances. The following eight features are suggested us the ingredients from which many successful investors compound their selection policies. They are not offered in any order denoting importance, except that the first is clearly the most vital.

1. Safety of Principle

Although safety of principle does not necessarily require that the market prices of ones investments never shrink below their cost, it does require that the investor avoid unsound and profitless risks. It calls for careful review of economic and industry trends before choosing types of investment or the time to invest. It demands careful selection of the individual commitments. Finally, it recognizes that errors are unavoidable and required excessive diversification. Adequate diversification means assortment of investment commitment is five different ways, by industrially, geographically by management personal, by financially, that it between dollars receivable and equities and by maturities. If this is accomplished losses due to the decline of any company or industry, to disaster in any geographic region to error by any management group to change in the price level and all charges in interest rates would all be minimized. This desirable, even if it also diversities against for total gains and against for losses. It may justify a reasonable proportion of speculative stocks is the average portfolio or better yet. The inclusion of Investment Company stocks with a reasonable proportion of speculative commitments.

Diversification can be wasteful it carried to extremes too many securities and real estate and mortgage holding possibly over 20 for the average individual give him to many to watch unless he makes a profession of supervising are uneconomic because of excessive commission charges and other costs in transactions, securities commitments, except for items of bed-stock quality such as governments bonds should probably range between $ 500 minimum and half a year's family income as a maximum.

2. Adequate Liquidity and Collateral Values

Every investor requires a minimum quick resource fund available to meet emergencies. Further more a sound portfolio will look to the sure and quick availability of additional funds which may be needed for business opportunities, stock market opportunities or estate taxes, whether money raising is to be done by sale or borrowing it will be easier it the portfolio contains a planned proportion of high grade and readily suitable investments such as government or big corporation sounds.

2. Stability of Income

This factor is important in arranging an investment portfolio for an individual who depends closely on the income. It is less important for others. Though income stability helps greatly in stabilizing the prices of corporate stocks, it can be found to a high degree only in certain industries and insistence upon it therefore restricts the available choices. Probably, stable income payers also cost a trice more than other investment. Hence they should not be over emphasized by those who do not need them.

4. Adequacy of Income after Taxes

There are really two problems involved here one concerned with the amount of income paid by the investment and the other with the burden of income taxes upon that income. When the investor's income is small, he is often eager to obtain maximum cash returns on his investments and is prove to take excessive risks and to prefer immediate dividends go greater benefit at a later data. It is unfortunate to have to choose between adequate income and adequate security, but it is possible to same degree, to seek out good stocks which pay practically all their earnings in dividends and real estate which nets its owner both real earning and depreciation funds in cash.

The investor who is not pressed for cash income often finds that income taxes deplete certain types of investment incomes less than others thus affecting his choices, for e.g. neither the rental value of an owner occupied home nor the interest paid by a state or municipal bond is subject to federal income tax. Further more corporate earnings which are not paid in dividends are not taxable to the stockholders, even though, when used to add to the company's resources, they presumable enhance the value of the stock.

5. Purchasing Power Stability

The price level hazard needs no introduction to this generation of Americans. Suffice it to state the conclusion that the average personal or family portfolio is well balances in normal times when it consists of one-third of dollar sum holdings, such as bank deposits, life insurance and bonds and two-third of ownership equities, such as real estate and common stocks. Investment making this computation some investors would regard mortgage and other debt as negative dollars that is, as subtractions from the dollar sum investments.

From a purely theoretical viewpoint, it would appear that a portfolio consisting entirely of real estate and stocks would balance price level changes more perfectly than the one-third and two-third program choice in the average case. Obviously, such adequacy of insurance protection the stability of personal earnings, family and estate tax hazards could affect this ratio.

The indicated preference for as a one-third, two-third balance between dollars and equities would not apply to an institution such as a bank or an insurance company whose assets must be in dollars to offset obligations which are payable in dollars.

6. Possible Appreciation

It is not necessary and desirable in making investment to foreswear hope for market profits in a search for safety. Both real estate and stock markets are highly irregular and the individual who sticks closely to quality investments can still profit by choosing well, buying at the right time and switching wisely form overpriced to under priced items. Not many people will profit greatly by these devices, but reasonable acumen will be rewarded and some of the inevitable losses can be offset. Ventures into speculative commitments may be similarly approached, with the expectation of more and greater losses which may be balanced by more & larger gains, if the investor has the diligence and skill which successful speculation demands.

7. Freedom from Case

The existence of important risks in every class of investment makes it impossible to "buy good things and forget them" constant skilled supervision is necessary to avoid losses and to obtain good returns. But the pitfalls which await the uninitiated are much less dangerous in commitments of investment grade them in speculations. One who wishes to minimize the attention required by his investments should there fore make quality his watch word. Alternatively a professional investment counsellor or the investment management service of a trust company can be employed at a cost approximating half of one percentage per year on sums of reasonably substantial size.

8. Legality

Investment of trusts, estates, and children and in components must consist of types approved by trust instructions or by law. State laws and precedents very, but in all cases the plans must include complete compliance with requirements.

2.1.12 Investment Policy of Bank

A sound investment policy of a bank is such that its funds are distributed on different type of assets with good profitability on one hand and provides maximum safety and security to the depositors and banks on other hand. More over risk in banking tends to be concentrated in the loan portfolio. When a bank gents into serious financial trouble, its problem usually spring from significant amount of loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies or unexpected economic down turn. There fore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds.

A bank receives funds form retained earnings, bank borrowings, share capital, reserve funds, deposits and other liabilities. These funds are kept in the form of cash and bank balance and invested in assets like money at call and short notice, investment in government securities, bills purchase and discounted, loans and advances, fixed assets, different expenses and other assets.

M. Radha Swami and S. Vasudevan's opinion "The secret of successful banking is to distribute resources between the various forms of assets in such a way so as to get round balance between liquidity and profitability so that there is sufficient cash to meet every claims and at the same time enough income to its expenses and distribute profit among the shareholders" (Dahal, & Dahal, 1999: 19).

Basically principles of investment policy of commercial banks are as follows:

1. Liquidity

Liquidity means banks capacity to exchange cash for deposit. The bank should as for as possible keep its assets or investments in a liquid from. It the bank fails to repay customers money on the time of demands, there will be "runs" in the bank to withdraw money. In that case, even very strong bank collapse. Considering this fact, bank should use the liquidity requirement and should maintain enough liquidity to meet the demand of its customers. Banks are required to invest funds in liquid assets to extent instructed by NRB or Cash reserve ratio (CRR) and statutory liquidity ratio (SLR).

2. Profitability

Profitability is the measurement of return on equity. The bank should invest its funds in such was as to secure for it self an adequate and permanent in come. Bank needs sufficient income to meet interest expenses, personal expenses, operating/non operating expenses, reserves and provisions and to distribute dividend to shareholders. The objectives of bank is to earn maximum profit and to achieve this objective, bank should invest its funds in loans and advances and bills purchase and discounted because yield of these assets are high and helps the bank to meet aforesaid liabilities.
"The higher the liquid assets the less profitability and vice versa, Hence banks should strike right balance between liquidity and profitability" (Dahal & Dahal, 1999: 50).

3. Safety

Bank deals with others money which should be repaid when demanded. The loans granted by the bank should be full secured by adequate securities. The large number of banks and finance companies collapsed in south East Asia few years ago due to ban loans. So, safety of the assets should not be sacrificed at any cost. Therefore, resources should be mobilized in such a way that liability towards depositors and shareholders can be properly met.

4. Suitability

The suitability here means that loans and advances should be allowed not only to the carefully selected and suitability borrowers but also by keeping in view the over all national development plans chalked out by the concerned authorities. Before accommodating borrower, the bankers should ensure that the lending is for a purpose in conformity with current national credit policy laid down my central bank of the country.

5. Dispersal

As an investment policy, the dispersal of the amount of loans and advances should be broadly based on the fact that large number of customer gets benefit from banker's fund. Dispersal of loans and advances is very necessary from the point of security as well because it reduces risk of recovery when some thing goes wrong in one particular sector or in one yield. Therefore, the investment policy of a bank must be diversified in different sectors.

2.2 Review of Related Studies

2.2.1 Review of Articles

Article on 'monetary policy and deposit mobilization in Nepal" has concluded that mobilization of domestic savings is one of the prime adjectives of the monetary policy in Nepal and Commercial Banks and the more active financial intermediary generating resources in the form of deposit of private sector providing credit to the investor in different sector of the economy (Shrestha, 2002).

Similarly, article one "lending operation of commercial banks of Nepal and its impact on GDP" has presented with the objective to make an analysis of contribution of commercial banks lending to the GDP of Nepal. Sunity Shrestha has hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending such as agricultural, industrial, commercial, service and general and social sector as independent variables. A multiple regressions techniques have been applied to analyze the contribution.

The multiple analysis have been shown that all the variables except service sector lending have positive impact on GDP. Thus in conclusion she has accepted the hypothesis that is there has been positive impact on GDP. In conclusion she has accepted the hypothesis that is there has been positive impact by lending of commercial banks in various sector of economy, except services sector and investment sector (Shrestha, 2002: 42).

2.2.2 Review of Reports

A report on "A comparative financial performance appraisal of joint venture banks" has studied mainly three banks that is Nepal Arab Bank (NABIL), Nepal Grindlays Bank Limited (NGBL renamed Nepal Standard Chartered Bank) and Nepal Indosuez Bank Limited (NIBL). The main findings of this study is that both NGBL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL could not do as good as NABIL and NGBL. This study has recommended enhancing banking facilities in rural area by encouraging small entrepreneurs development programs to play merchant banking role, to mobilization the deposit funds in productive sectors and to grant more priority to the local man power" (Mandala,1998).

Similarly, a report "A comparative study of financial performance of NABIL and NIBL" concludes that NABIL pays more attention towards the attainment of national objective through participation in the task of economic development and being more responsive to the national priorities like branch expansion, more employment opportunities and more resources mobilization. So, from the view point of share holders and government, NABIL is performing much better than NIBL.

"This study has recommended the entire commercial banks to following ways." (Acharya, 1997).

1. Increase portion of equity capital in their capital structure.
2. Control Operating Cost.
3. Increase liquidity as per the new regulation NRB.
4. Meet Social responsibility.
5. Investment in production sectors.

Similarly, a report on "lending policy of commercial banks in Nepal" has made no effort to examine the lending policy of commercial banks. This study has concluded that efficient utilization of resource 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, this study has recommended that banks should give emphasis on efficient utilization of resources (Bhattarai, 1999).

2.2.3 Review of Related Thesis

Raja Ram Khadka (2000) conducted a study on "*A Study on the Investment Policy of NABIL Bank Ltd. in comparison to Other Joint Venture Banks of Nepal*" with the objective of:

a. To evaluate the liquidity, assets management efficiency and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other joint venture Banks.
b. To discuss fund mobilization and investment policy of NABIL Bank Ltd. in respect to its fee-based off-balance sheet transactions and fee-based balance sheet transactions in comparison to other JVBS.
c. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and total deposits and net profit of NABIL Bank Ltd. in comparison to other JVBS.
d. To find out the relationship between deposits and total investment, deposits and loan and advances, and net profit and outside assets of NABIL Bank Ltd. in comparison to other JVBS.

The study was conducted using secondary data. The research findings of the study are as follows:

a. The liquidity position of NABIL Bank Ltd. is comparatively worse than that of other JVBS. NABIL Bank has more portions of current assets as loans and advances but less portion as investment on government securities.
b. NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBS.
c. Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBS. The mean ratio of return on load and advances of NABIL Bank Ltd. has been found slightly lower than that of other JVBS and the return has

been found less homogeneous than that of other JVBS. Similarly the mean ratio of total interest earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBS.

d. Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBS (i.e.; Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.).

Prem Bahadur Shahi (2001) conducted a study on "*Investment policy of commercial banks in Nepal*" with the main objectives of:

a. To evaluate the liquidity, assets management efficiency and the profitability and risk position of Nepal bank limited to the joint venture banks.
b. To discuss fund mobilization and investment policy of Nepal bank limited in respect to its fee based off-balance sheet transaction and fund based on-balance sheet transaction in comparison to the joint venture banks.
c. To find out the empirical relationship between various important variables i.e.; deposits, loan and advances, investment, net profit, etc. and compare them with the Joint Venture banks.
d. To analyze the deposit utilization trend and its projection for next five years of the Nepal bank limited and compare it with that of Joint Venture banks.

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

a. The liquidity position of NBL is comparatively better than that of the JVs. Highly fluctuating liquidity position shows that the bank has not formulated any stable policy. It can also be conducted that NBL has more portions of current assets as loan and advances but less portion as investment on government securities.
b. The mean ratio of loan and advances to total deposit of NBL is slightly lower then that of the JVBs. Likewise NBL's ratios seem to be more variable than that of the JVBs. The mean ratio of total investment to total deposit of NBL is lower then that of the JVBs. The mean ratio of investment on government securities to total working find of NBL is slightly lower than that of the JVBs. The mean ratio of total off-balance sheet operation to loan and advances of NBL is found

significantly lower than that of JVBs. So it was concluded that NBL is comparatively less successful in on –balance sheet as well as off-balance sheet operations than that of the JVBs. It hasn't followed any definite policy with regard to the management of its assets.

c. Profitability position of NBL is comparatively not better than that of the JVBs. it indicates that NBL must maintain its high profit margin in future.
d. There is comparatively higher risk in NBL than that of the JVBs regarding various aspects of the banking function.
e. From the analysis of different growth ratios it can be concluded that NBL has not been more successful to increase its sources of funds, i.e. deposits and mobilization of it. i.e., loan and advances and total investment. Similarly it seems to have failed to maintain high growth rate of profit in comparison to that of other JBBs.
f. High portion of cash and bank balance in NBL shows its negligence and infancy in its best utilization. It has not considered the cost of fund and its opportunity costs. Higher percentage of loan ratios shows that NBL is weak in credit collection. There is absence of a sound credit collection policy. NBL has not followed innovative approach toward lending. Poor quality of loan due to lack of necessary skills of project appraisal, improper collateral evaluation, irregular supervision, etc. is a severe problem for the bank's success.

Manoj Bhandari (2004) has conducted a study on "*Investment policy of commercial banks with special reference to Nepal SBI Bank Ltd*." with the objectives of:

a. To evaluate the liquidity, asset management, efficiency, portfolio management and profitability position of the bank.
b. To analyze adopted utilization and its relationship with total investment and net profit of the bank.
c. To determine the growth rate of the bank in terms of deposit, loans, and advances, investment and probability of the bank.
d. To determine the proportion of loan-loss provision to total loans and advances and to evaluate the non-performing assets position of the bank.
e. To determine the proportion of the investment made by the bank in risky and risk-free assets and to evaluate the off-balance sheet operation of the bank.
f. To suggest measures to improve the investment policy of the bank.

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

a. Liquidity position of the bank is good enough to meet the short-term obligation but shows the lack of additional fund management to income generating assets.
b. Similarly the bank does not seem to have proper policy to increase the fee-based OBS transaction in comparison to loan and advances.
c. Bank should careful of Non-performing loans and adopting the appropriate policies to solve the problem although bank has been able to reduce this NPA proportion significantly to total loan advances forthcoming year after 2001.
d. Despite this Bank has been able to meet the NRB obligations it does not have accepted prioritized priority sector in loaning even it was in increasing trend.
e. Because of decreasing profitability scenario over the year's accounts investment policy adopted by the bank is not appropriate and it does impact in the growing process negatively. Despite the substantial increment to the amount of loans & advances, profitability has not increased enough shows the lack of overall investment policy in income generating sectors.

Dipak Pandit (2006) has conducted a research entitled "*Investment Policy Analysis of Joint Venture Bank*" with special references to NSBIL and EBL.

The objectives of the study are follows:

a. To evaluate the liquidity management, assets management, efficiency, profitability position, risk position and investment practices of NSBIL, BOKL and EBL.
b. To find out the relationship between deposit and total investment deposit and loan and total investments deposit and loan advances and net profit and outside assets.

In this study, major findings have been follows:

a. NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL and BOKL has not been satisfactory.

b. NSBL's loans and advance to total deposited ratio is lower thank EBL and BOKL. It doesn't seem to follow any definite policy regarding the management of its assets.
c. The profitability position of all the banks is not satisfactory the banks haven't adopted sound investment policy in utilizing their surplus funds.
d. BOKL and EBL are exposed to high credit risk and capital risk.
e. NSBIL and BOKL have not been successful to increase there sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit.
f. There is significant relationship between deposits and total investment of BOKL and EBC but the same is not significant of NSBIL.

Jyoti Joshi (2007) conducted a study on "*Investment Policy of Commercial Banks in Nepal, a comparative study of Everest Bank Ltd. With NABIL bank Ltd. and Bank of Katmandu"* with the objectives of:

a. To discuss fund mobilization and investment policy of EBL, NABIL and BOK ltd.
b. To evaluate the liquidity, efficiency and profitability and risk position.
c. To evaluate the growth ratios of loan & advance, total Investment with other financial variable.
d. To analyze the trend of deposit utilization towards total investment and loan & advances.
e. To conduct hypothetical test to find whether is significant difference between the various important ratios of EBL, NABIL and BOKL.

In this study, major findings are as follows:

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

to NABIL and BOKL. The total investment of EBL is in between in compared to other two banks.

c. In the study, loan & advances to total deposit is higher in BOKL. But the coefficient of Variation is higher in EBL.
d. In analysis of profitability, total investment earned to total outside assets of EBL is lowest at all. But overall analysis of profitability, EBL has average profitability ratio. EBL is average profitable in comparisons to other banks i.e. NABIL and BOKL. From the view point of risk ratio. EBL has higher capital risk ratio but average of credit risk ratio in compared of NABIL and BOKL.

Rajyalaxmi Maharjan (2008) conducted a research entitled with "*Investment Policy of Commercial Banks, A Case Study of NABIL Bank Ltd*." the objectives of the study is as follows:

a. To study the resource mobilization and investment policy of NABIL Bank Ltd.
b. To find out the relationship between deposit and investment trends of bank.
c. To evaluate profitability, risk, liquidity and asset management of the bank.
d. To find out the current and future investing strategy of NABIL bank.
e. To provide suggestion to improve investment policy and performance of NABIL bank based on the findings of the study.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Methodology is the research method used to test the hypothesis to achieve objectives and every research study, specified methods and techniques should be followed which is known as research methodology. Researcher has to collect the information which is required, evaluated and verify them to reach some conclusion.

Research methodology means methods, processes, tools and techniques which are used in any of the research or investigations till the purpose is accomplished and the aim is achieved.

"Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives is view" (Kothari, 1994:19).

"Research methodology is a vital and absolutely indispensable part of social scientific and educational research without methodological research, modern social scientific and educational research would still be in the dark age" (Kerlinejer, 1994:19).

Methodology research is controlled investigation of the theoretical and applied aspects of measurement, mathematics and statistics and ways of obtaining and analyzing data. Without methodology research, modern behavioural research would still be in dark ages.

This section focuses on the method of research used in this study. This chapter includes research design, nature and sources of data, population and sample, data collection techniques, data analysis tools and variables of the study. The main aim of the study is to evaluate and to analysis the financial strengths and weakness of NABIL and SBI banks.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigations conceived so as to obtain the answers of research questions" (Kerlinejer, 1994: 2).

Research design is the systematic planning structure and strategy for conducting a particular research work. It provides the frame work of the study. To achieve the objectives, the study has collected evaluated, verified and synthesized past financial information systematically and objectively to reach some conclusions. The procedure for assessing the investment policy of NABIL and SBI has been based on descriptive and comparative research design. The data has been adopted as a research design for the study.

3.3 Population and Sample

The term "population" or "universe" for research means all the members of any well defined class of people, events or objects (Pant, 1999: 75). Population refers to the totality of the observation, which is selected for study. Population is whole of universe where as sample is the number of representative which are going to be studied. A population in most studies usually consist of large group so; it is very difficult to collect information to over come this difficult, small unit is chosen from the total which represents the population. This sub-group is called sampling.

There are 26 commercial banks under operation, which are the population for the study.

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. NABIL Bank Limited
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Limited
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.

10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commerce Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Development Credit Bank Ltd.
25. NMB Bank Ltd.
26. Kist Bank Ltd.

The two commercial banks NABIL bank and SBI bank are being purposively selected as sample for the study because, to ensure the efficiency of joint ventures banks.

3.4 Nature and Sources of Data

This study is conducted on the basis of selected secondary data. The data relating to the investment, deposit, loan and advances and profit are directly obtained from the balance sheet, profit and loss account of concerned banks. Annual reports, supplementary data and information are collected from regulating authority, internet etc. Official records, reports on magazines are also used for this purpose. To support the secondary information informal queries and interview has been conducted with authorities of related institution.

3.5 Data Processing Procedure

The procedures that have been adopted for collection of data are:

1. The available literature on the subject matter is collected
2. The information on deposit, loans and advances are presented.

3. On the basis of the objectives of the study the data relating to this study are identified and collected from different sources.
4. Interview and personally administered questionnaire are used to gather the relevant information.
5. The data used are classified and tabulated in suitable manner.

All the secondary data are complied processed and tabulated in time series as per the need and objectives.

3.6 Method of Data Analysis

3.6.1 Financial Tools

To achieve the objective of the study, various financial and statistical tools have been used in this study; financial ratios, growth ratios and coefficient of correlation as an analysis tool have been used in this study. The various calculated results obtained through financial and statistical tools are tabulated under different headings and then compared with each other to interpret the results.

3.6.1.1 Ratio Analysis

Ratio analysis is the calculation and interpretation of financial ratios to assess the firm's performance and status. It is the relation ship between tow accounting figures expressed mathematically. Ratio analysis is the main tool of financial statement analysis. Ratio means the numerical or quantitative relationship between two variables. It can be expressed as percentage, fraction or stated comparison between numbers. Some ratios used in this study are defined as follows.

I. Liquidity Ratio

It measures the liquid position of company, firms and commercial banks ability to meet current obligations. It is used to evaluate a firm's ability to satisfy creditors in the immediate future. These ratios compare the assets available for meeting current obligations of the commercial banks. A very high degree of liquidity is also not good/sound because idle assets earn nothing rather they entail opportunity cost.

II. Current Ratio

It is calculated by dividing current assets by current liabilities. It measures the firms or banks short term solvency. A ratio greater than one means the bank has more current assets than current liabilities.

Mathematically,

$$\mathrm{CR} = \frac{\mathrm{CA}}{\mathrm{CL}}$$

Where,

CR=Current Ratio

CA= Current Assets

CL= Current Liabilities

II. Profitability Ratio

Profit is the difference between total revenue and total expenses and is the ultimate out of a bank. The bank therefore, should continuously evaluate the efficiency of its bank in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company. Following are profitability ratios related to this study are as follows.

a. Return on Loan and Advances Ratio

Return on Loan and advances ratio measures the earnings capacity of a commercial bank on its mobilized loan and advances.

It can be calculated as:

$$\text{Return on Loan and Advances} \quad X \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

b. Return on Total Assets Ratio

Return on total assets measures the profitability with respect to each financial resources investment of the bank assets. It can be calculated as:

$$\text{Return on Total Assets} \quad X \frac{\text{Net Profit}}{\text{Total Assets}}$$

c. Total Interest Earned to Total Outside Assets Ratio

This ratio reflects the extent to which banks are successful to earn interest as a major income on all outside assets. This ratio is calculated as:

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

d. Return on Equity Ratio

Equity capital is a bank's own capital the return on equity capital measures the extent to which a bank is successful to mobilize its equity. It measures the profitability of a bank.

This ratio is calculated as:

$$\text{Return on equity Ratio X} \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

3.6.1.2 Growth Ratio Analysis

Growth ratio is directly related to fund mobilization and investment management of a commercial bank. Growth ratio represent non will the commercial bank is maintaining its economic position.

These Growth Ratios are:

i. Growth ratios of total assets
ii. Growth ratio of loan and advances
iii. Growth ratio of total investment
iv. Growth ratio of net profit

3.6.2 Statistical Tools

Some of the statistical tools used in this study are as follows:

I. Arithmetic Mean $(\overline{X})$

Arithmetic means or simply a mean is the most popular and commonly used statistical average. It is ratio simply called "The average" Which is the sum of all the observations derived by the number of observations.

Symbolically,

$$\text{Mean} \quad (\overline{X})\ X\ \frac{X1\ \Gamma\ X2\ \ \Gamma\ X3........\quad ....X\quad 4}{N}$$

Or

$$\overline{X}\ X\ \frac{X}{N}$$

Where,

$\overline{X}$ X Arithmetic Mean

$X_1, X_2, Y_3\ \Gamma$ ....Xn X Values of a variable X

N X Total no. of observatio ns

X X Sum of the values of variables

II. Standard Deviation

The standard deviation is also popular and widely used measure of dispersion. It is the positive square root of the required deviations from the arithmetic mean. It is the least possible root mean returns.

Symbolically,

$$\delta\ X\ \frac{\sqrt{\quad X^2}}{\sqrt{N\ Z\,1}}$$

Where,

δ XStandard Deviation

X^2 XSum of mean squared deviation

N X Total number of observation

$\sqrt{\ }$ XSquare Root

III. Coefficient Variation

Coefficient of variation is the ratio of the standard deviation to the mean expressed in percentage. When there is different mean in the bank the decision may not be correct. In this case coefficient of variation is important. It is independent of unit it is the best means to compare the variability two distribution. Less the coefficient of variation more will be the uniformity, consistency etc and vice versa.

Symbolically,

$$CV = \frac{\delta}{\overline{X}}$$

Where,

δ = Standard Deviation

C.V. = Coefficient of Variation

$\overline{X}$ = Arithmetic Mean

IV. Coefficient of Correlation Analysis

This analysis identifies and interprets the relationship between two or more variables. In this case, the effect on one variable may have effect on other correlation variable. The relationship between two following variables has been studied.

a. Coefficient of correlation between total investment and total deposit.
b. Coefficient of correlation between total investment and loans & advances.

This analysis shows the combination the variables used in the study and focuses their relationship to each other. The value lies in between +1 and -1. +1 means the relation between the variables is perfectly positive and -1 means the relation between the variables is perfectly negative. Negative relation shows that there is no combination between the variables used or compared. When r=0, it means there is no relationship at all.

Symbolically,

$$r = \frac{N.\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

r = Karl Persons Coefficient of Correlation

N = Total Number of Observations

$\sum XY$ = Sum of the values of two variables

$\sum x$ = Sum of the variables of X.

$\sum Y$ = Sum of the variables of variable Y

X^2 XSum of the squared values of variable X

Y^2 XSum of the squared values of variable Y

V. Student t- Test

To test the validity of the assumptions, test is used when the sample size is less than thirty. Student's t - value is calculated first to compare with the table value of 't' at a certain level of significance for given degree of freedom.

Symbolically,

$$t \; X \; \frac{r\sqrt{n \; Z \; 2}}{\sqrt{1 \; Z \; r^2}}$$

Where,

t XStudent's t - value

r XCoefficient of Correlation

n XNumber of observations.

On testing, the null hypothesis will be rejected. If the calculated t- value is greater than the table value at 5% level of significance for n-2 degree of freedom. This employs that the value of r is significant at 5% level of significance or vice versa.

VI. Diagrams

Representation the numerical values in the form of various diagrams such as pie-chart, bar graph, trend lice etc is the easiest mean to study the effect of variables. These diagrams will show the relationship of variables in time series. One can easily understand the effect of variables by means of diagrams.

a. Graph

It means of presentation of data in the form of graph. It tries to judge the variability of one variable in relation to the variation of another variable under taken in the study; it shows the trend of ratios in respect to the time period.

b. Trend Line

It is the simple dotted line which is used to show the increasing or decreasing effect of the various ratios in respect to time period.

3.7 Limitations of the Research Methodology

This study has been conducted with the following limitations

i. This research is based on comparative study of NABIL and Nepal SBI Bank Limited.
ii. Due to time constraints all the concerned areas are not possible to conduct so only major ones are covered.
iii. Use of secondary data itself is a limiting factor.
iv. Other quantitative and qualitative variables which are not included in the study of investment policy of two banks.
v. The round up figures in the study may not bring out the accuracy in calculation.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter entitled "Presentation, Analysis and Interpretation of Data" is the crucial chapter as it utilizes. The processed data tools and techniques of working capital analysis, as described in research methodology go achieve the objectives of this study. Objectives of this study are to find out the solution of the problems identified. Joint venture bank are facing working capital management problems of current assets, fixed assets, long term & short term solvency, profitability and value of the firm. This study aim to determining the effect of working capital variable on the profitability and value of the firm and they are by generalizing the result.

For this purpose the collected and organized data should be analyzed through different tools and techniques and interpreted. The data constitute the financial information extracted from the financial statement, i.e. income statement and balance sheet period. The fiscal years of five years period form 2000 to 2005 are the sample year for this study. These data are presented in the tabular, diagram or the graphical form from the analysis through different statistical and financial tools. As per the tools used in this study, this chapter has been divided into sub-chapters such as ratio analysis trend analysis correlations analysis and hypothesis testing.

Analysis and Interpretation of data involves an attempt to determine the significance and meaning of financial data, so that a judgement on past activities can be made and a forecast may be due to the prospect for future earning ability to pay interest debt maturity both current as well as long term and profitability.

The analysis and interpretation of data requires a comprehensive and intelligent as well as the determining of relationship with other data to facilitate comparison.

Interpretation and analysis are closely connected because interpretation is impossible without analysis and lack of interpretation analysis is compilation of data, ranking data as per the relative significance, making data homogeneous and examines that the data using different device.

On the other hand, interpretation of data according to the analysis is necessary because more examination of the component does not lead to definite conclusion and statement has to be dissected into this constituent in order to measure the relative magnitudes of the various entities.

In this study presentation, interpretation and analysis of data has been conducted on the basis of research question and objectives of the study.

Therefore, in this chapter, data collected from various secondary sources, are presented and analyzed for the purpose, two types of analysis have been carried out, descriptive analysis and inferential analysis. This chapter has, therefore been divided into two section.

Descriptive Analysis

This section attempts to analyse and compare some variables as relevant ratios of investment policy during the period. The above analysis and interpretation have been presented with the help of table and figures where necessary.

4.1 Financial Ratios

Ratio analysis is one of the most powerful techniques of measuring the financial activities of business institutions and banks. Ratio analysis is defined as "the systematic use of ratio to interpret the financial statement". So that the strength and weakness of the bank as well as its historical performance current performance can be determined. Liquidity ratio measures the capacity of the firm to meet obligations of the bank. A commercial bank must maintain its satisfactory liquidity to meet the day-to-day transaction to pay activities in time and to convert non-cash assets to cash immediately without any loss to the banks. The liquidity position of the sample banks are studied through the following ratio:

A. Liquidity Ratio

a. Current Ratio

Current Ratio indicates the ability of the bank to meet the current obligations of the banks. It is calculated by dividing current assets by current liabilities.

Mathematically,

$$\text{Current Ratio (CR)}\ X \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 4.1

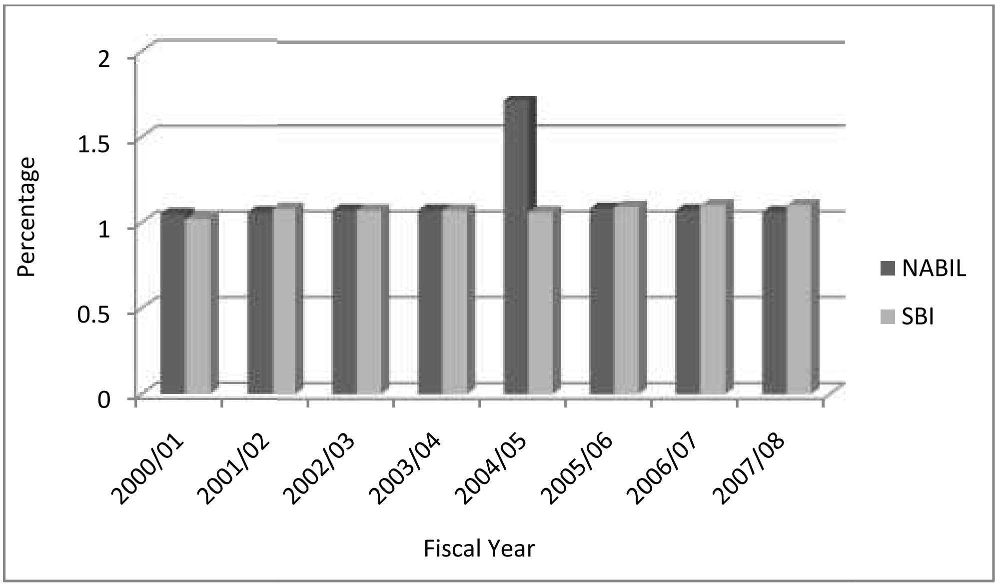
Current Ratio of NABIL and SBI

Banks	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
NABIL	1.05	1.06	1.07	1.07	1.71	1.08	1.07	1.06
SBI	1.02	1.08	1.07	1.07	1.06	1.09	1.10	1.10

Source: Appendix A

Figure 4.1

Current Ratio of NABIL and SBI



From the above table and figure, it is clear that the current ratio of NABIL bank is superior to Nepal SBI bank in the earlier years of the period but in the later period Nepal SBI bank has improved its liquidity position and over come the performance in comparison to NABIL bank. In the year of 04/05 NABIL had maintained large volume of liquidity but in later period it has gone slowly downward. Current ratios of NABIL and Nepal SBI bank have followed the decreasing trend on the basis of mean ratio.

b. Cash and Bank Balance to Current Assets Ratio

Current and Bank balance is the most liquidity from current Assets. This ratio measures the proportion of cash and bank balance held by NABIL and SBI bank out of total current assets.

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

Table 4.2

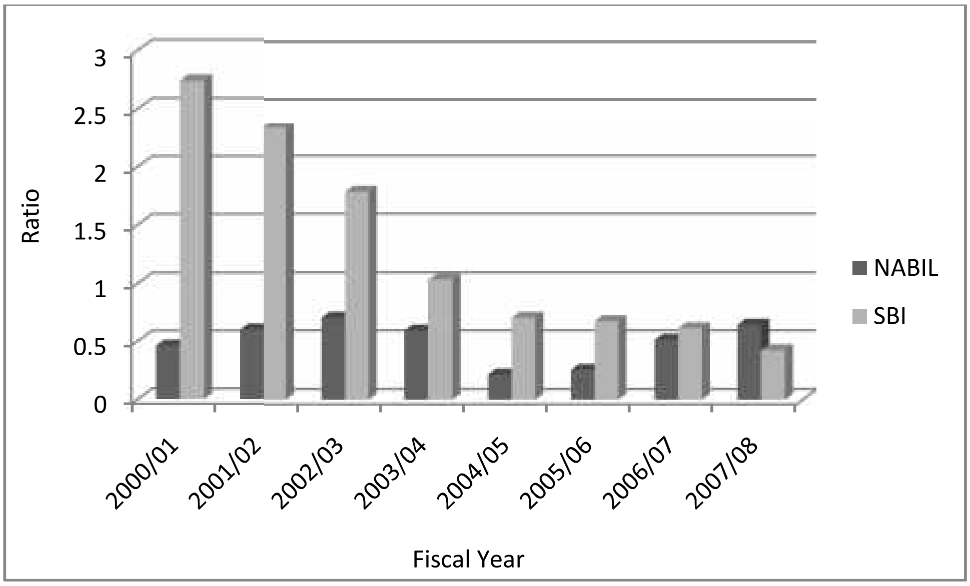
Cash and bank Balance to Current Assets Ratio (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	0.46	0.6	0.7	0.59	0.21	0.25	0.51	0.64	0.49	0.16	33.93
SBI	2.74	2.33	1.78	1.03	0.7	0.67	0.61	0.42	1.28	0.82	64.15

Source: Appendix B

Figure 4.2

Cash and Bank Balance to Current Assets Ratio (%)



From the table and figure, it reveals that cash and bank balance to current assets ratios of NABIL's banks are in fluctuating trend and the ratio of Nepal SBI bank's is in decreasing trend. Nepal SBI has followed down ward trend during the period. Similarly, their ratios are not satisfactory to the average. In case of average analysis, Nepal SBI has highest ratio. It has better position regarding the meeting of the demand. That means it operates in lower risk than that of NABIL. High coefficient of variation indicates its ability but very high ratio shows the inefficiency and more risk. To build up the strong position both the banks should undertake the defending strategy to avoid the risks involved and to hold the strong position.

c. Cash and Bank Balance to Total Deposit Ratio

Cash and Bank balance to total deposit ratio measures the availability of a banks immediate funds to meet its unanticipated calls on all types of deposits. A high ratio indicates the greater ability to meet their deposits and vice versa.

$$\text{Total Deposit Ratio (TDR)} \ X \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

The following table shows the cash and bank balance to total deposit ratio of NABIL and SBI.

Table-4.3

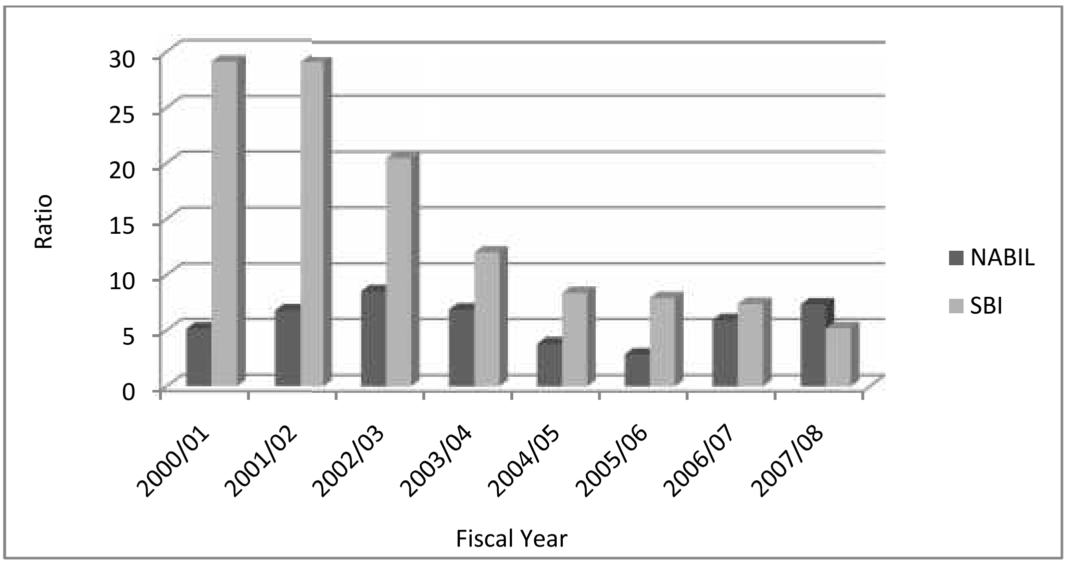
Cash and Bank Balance to Total Deposit (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	5.13	6.78	8.51	6.87	3.83	2.87	5.93	7.33	5.91	1.75	29.69
SBI	29.08	29.07	20.44	12.01	8.36	7.91	7.38	5.19	14.93	9.24	61.90

Source: Appendix C

Figure 4.3

Cash and Bank Balance to Total Deposit (%)



From the above table and figure, it reveals that the cash and bank balance to total deposit ratios of two banks are in fluctuating trend. NSBL has followed down up trend during the period and NABIL has followed mix trend during the period.

In case of average analysis, Nepal SBI banks has highest ratio than NABIL bank. It has better position regarding the demand of its customers on their deposit at any time. That means it operate in lower risks than that of NABIL. Though, high ratio indicates its ability but very high ratio shows the inefficiency. It has to pay more interest on deposit. Thus, Nepal SBI bank may invest in more productive sectors like short-term marketable security, treasury bills etc to build up a strong and efficient liquidity position and to improve the profitability.

d. Investment on Government Securities to Current Assets Ratio

The major objectives of this ratio are to examine that portion of commercial banks current assets, which is invested on various government securities issued by government. The government securities do not give more return to investors than other investment sectors. But they are fully secured investment. Commercial banks invest their excess fund on government securities for diversification of investment.

This Ratio Calculated as Follows:

Investment on Government Securities $X \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$

Table 4.4

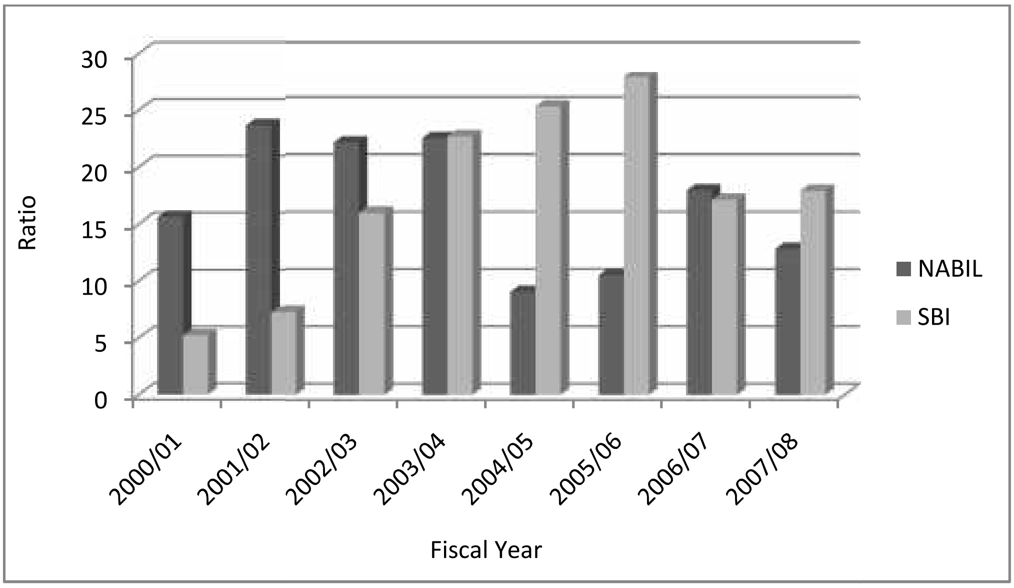
Investment on Government Securities Ratios (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	15.60	23.69	22.00	22.38	8.98	10.46	17.83	12.72	16.70	5.32	31.82
SBI	5.21	7.23	15.87	22.55	25.18	27.75	17	17.79	17.32	7.49	43.24

Source: Appendix D

Figure 4.4

Investment on Government Securities Ratios (%)



The above table shows that both the banks have invested their funds to government securities through out the periods. Both the banks followed fluctuating trend during the period. The investment in government securities of NABIL Bank shows that the funds of investment is not uniform, in the fiscal year 2001/002 has the highest ratio than other years but in case of Nepal SBI Bank, is fiscal 2005/006 has the highest ratio.

The comparative table listed above shows that the mean ratio of investment on government securities to current assets of NABIL is 16.70% and Nepal SBI is 17.32%. Similarly, Standard deviation and co-efficient of variation of NABIL is 5.32% and 31.82%, Standard deviation and coefficient of variation of Nepal SBI Bank are 7.49% and 43.32%.

In conclusion, the average ratio of Nepal SBI bank is higher than the average ratio of NABIL Bank. It reveals that NABIL bank has not invested its more portions of current assets on government securities. It is found that both the banks have not been adopting constant policy regarding this ratio.

e. Loan and Advances to Current Assets Ratio

A commercial bank should not keep its all collected funds as cash and bank balance. They should be invested as loan and advances to the customers make more profit by mobilizing its funds in the best way. It should pay interest on those utilized deposit funds and sometime may loose some earnings. If the bank can not be granted sufficient loan and advances but high loan and advances may also be harmful to keep the bank in the most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level.

This ratio is computed as:

$$\text{Loan and Advances to Current Assets Ratio} \; X \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

Table seven (4.5) shows loan and advances to current assets ratio to current assets ratio of NABIL and Nepal SBI Bank.

Table 4.5

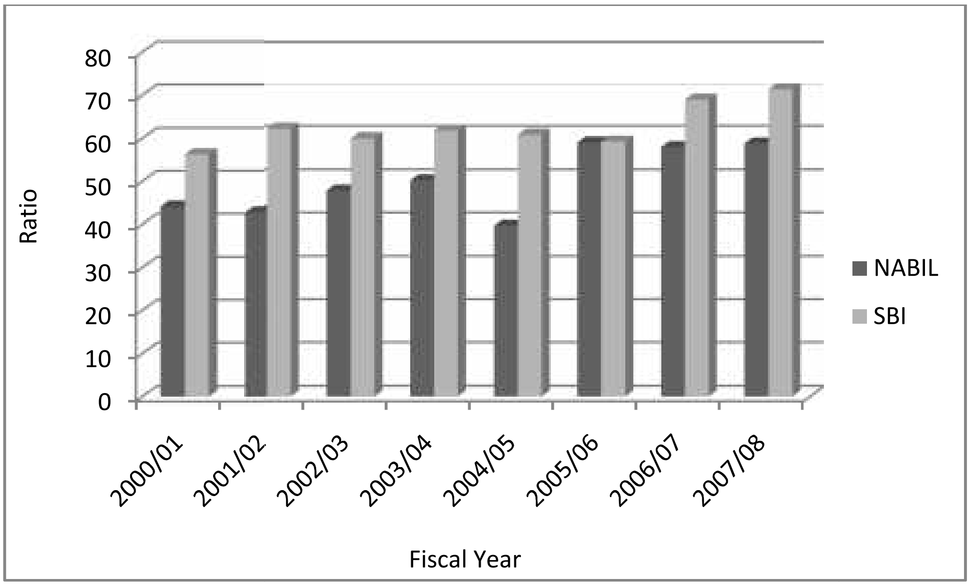
Loan and Advances to Current Assets Ratio (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	44.13	42.77	47.55	49.92	39.40	58.71	57.64	58.48	49.82	7.17	14.38
SBI	56.32	61.81	59.62	61.39	60.45	58.92	68.55	70.98	62.25	4.65	7.47

Sources: Appendix E

Figure 4.5

Loan and Advances to Current Assets Ratio (%)



From the above comparative table, it is cleared that both the banks have followed fluctuating trend on their loan and advances to current assets ratio. NABIL has highest ratio in Fiscal year 2005/2006, i.e. 58.71% and Nepal SBI has highest ratio in Fiscal Year 2007/2008, i.e. 70.98%. Nepal SBI has lower standard deviation and coefficient of variation than that of NABIL which indicates that high consistency of Nepal SBI banks ratio in comparison to NABIL. In general both the banks have not maintained their uniformity in their policy of loan and advances with respect to current assets. Beyond that we can say that the lending portion of Nepal SBI is higher than that of NABIL bank, even the riskiness of NABIL is higher than that of Nepal SBI Bank.

4.2 Assets Management Ratio

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. Commercial banks must manage its assets properly to make high profit. In order to earn sound profit, commercial banks should formulate effective policies. Effective policies and strategies related with management of assets result maximum profit for the banks. Therefore management of assets by the bank is crucial.

A. Loan and Advances to Total Deposit Ratio

Loan and advances to total deposit ratio measures the extent to which banks are successful to mobilize the total deposits on loan and advances for generating profit. A high ratio of loan and advances means better mobilization of collected deposit and vice versa. But it should be noted that too high ratio might not be better from its liquidity point of view.

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

The following table presents the ratio of loan and advances to total deposit of NABIL and SBI.

Table 4.6

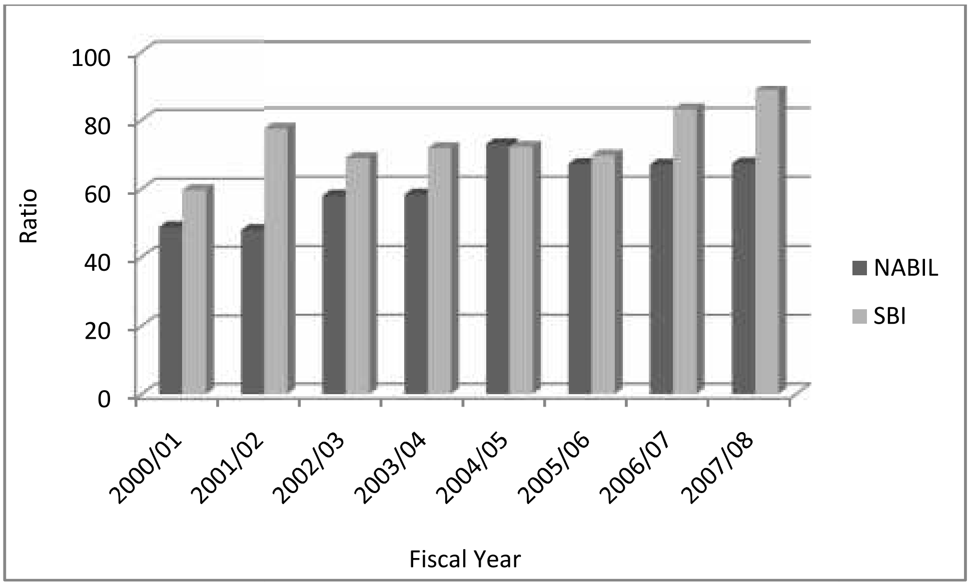
Loan and Advances to Total Deposit Ratio (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	48.82	47.97	57.68	58.01	72.57	66.79	66.6	66.94	60.67	8.45	13.93
SBI	59.67	77.15	68.51	71.46	71.8	69.32	82.66	88.32	73.61	8.35	11.34

Source: Appendix F

Figure 4.6

Loan and Advances to Total Deposit Ratio (%)



The above comparative table exhibits that the ratio of NABIL and SBI has followed fluctuating trend. NABIL has tried its best to increase in between the year of 2002/003 to 2004/005. but after that FY NABIL has maintain almost uniformity but Nepal SBI has followed near about uniformity in between the FY 2003/004 to 2005/006 but after that FY it has focused on higher portion in lending comparison to NABIL bank.

The average ratio of Nepal SBI is higher than that of NABIL. It shows that Nepal SBI bank has highly used its deposit in the areas of loan and advances comparing to NABIL. On the other hand the Standard deviation and coefficient of variance of Nepal SBI is lower than that of NABIL bank. Which indicates that, the NABIL bank is taking higher risk than Nepal SBI, even the lending rate to Nepal SBI is higher than NABIL bank. In conclusion, it shows that, the strengthen of Nepal SBI is higher than NABIL.

B. Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its funds in different securities issued by government and other financial and non-financial companies. This ratio measures the extent to which banks are able to mobilize their deposit on investment of various securities. A high ratio indicates the success in mobilizing deposit in securities and vice-versa.

This ratio is calculated as,

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

Table 4.7 shows total investment to total deposit ratio (%) of NABIL and SBI

Table 4.7

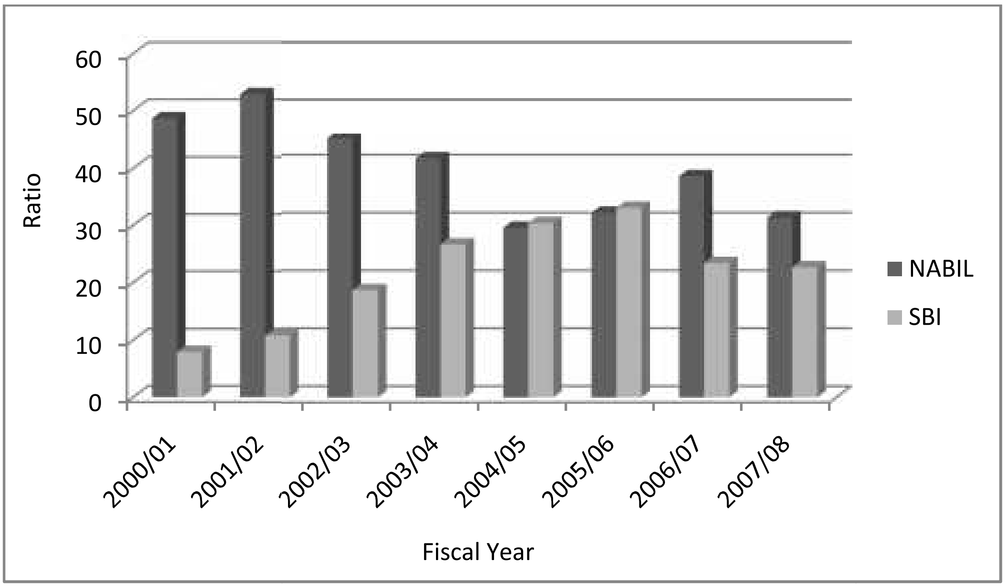
Total Investment to Total Deposit Ratio (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	48.64	52.88	44.85	41.33	29.31	31.93	38.32	31.14	39.80	8.11	20.37
SBI	7.91	10.75	18.51	26.5	30.13	32.82	23.24	22.52	21.55	8.22	38.16

Source: Appendix G

Figure 4.7

Total Investment to Total Deposit Ratio (%)



The above comparative table shows that the ratios of total investment to total deposit in case of both banks have followed up word to down ward trend during the period. The table and figure show that Nepal SBI bank has low portion investment of its deposit as compared to NABIL Bank. This indicates that Nepal SBI bank must formulate liberal policy on investment to avoid more liquidity.

On the basis of means ratios, it reveals that both banks have utilized or mobilized its deposit. In the context of Nepal SBI, its capacity to mobilize its fund on total deposit is slightly poor than that of NABIL. On the other hand, coefficient of variation reveals that these banks have highly in consistency involves more risk. NABIL is riskier than Nepal SBI bank on the basis of coefficient of variation during the period.

4.3 Profitability Ratio

Profit is the difference between revenues and operating and non-operating expenses of the banks over a period of time. Profit is the ultimate output of the business enterprises and it will have no future it. If fails to make sufficient profits. Banks are the service oriented business organization. Their primary objective is to earn maximum profit. Moreover, the private commercial banks are operated with the objective of earning maximum profit together with imparting banking services to the people. They must earn sufficient profit in order to meet the cost of operating the bank to maintain sound liquidity position to make payments to the customers. So, the primary objectives of all commercial banks is to earn sufficient profit. Profit is the indicator of efficient operation of a bank. Banks acquire profit by providing different services to its customers or by making investment of different kinds. Sufficient profit is must to have sound liquidity position of the banks. Profitability ratios measures the efficiency of a bank. Higher the ratio measures the efficiency of a bank. Higher the ratio higher will be the efficiency of a bank.

The profitability ratios related to this study are as follows.

a. Return on loan & advances ratio
b. Return on total assets ratio
c. Total interest earned to total outside assets ratio
d. Return on equity ratio

A. Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its mobilized loan advances. Higher the ratio greater will be the rerun.

This ratio is calculated as

$$\text{Return on Loan and Advances Ratio X}\frac{\text{Net Profit}}{\text{Loan and Advances}}$$

Table 4.8

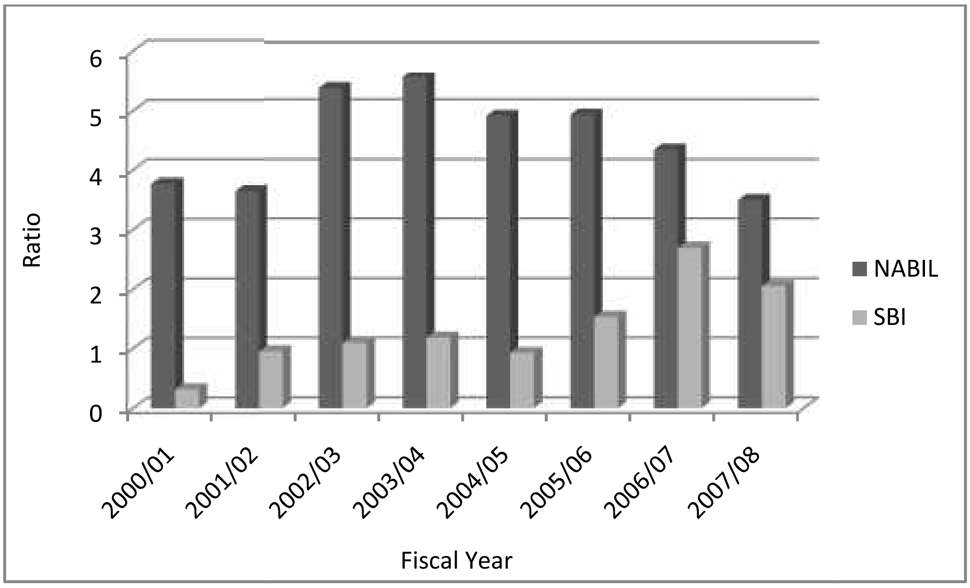
Return on loan and Advances Ratio (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	3.77	3.65	5.37	5.56	4.90	4.92	4.34	3.49	4.50	0.75	16.67
SBI	0.32	0.95	1.09	1.18	0.92	1.53	2.69	2.05	1.34	0.69	51.54

Source: Appendix H

Figure 4.8

Return on Loan and Advances Ratio (%)



From the above table it is clear that the ratio of NABIL is in downward trend where as Nepal SBI is in increasing trend. Nepal SBI bank has less fluctuating than NABIL. NABIL has highest ratio of 5.56% in fiscal year 2003/004. Similarly Nepal SBI has highest ratio of 2.69% in fiscal year 2006/007.

In average, Nepal SBI has lowest ratio of 1.34% against 4.50% of NABIL. The coefficient of variation of Nepal SBI bank is 51.54 that is comparatively lightly higher than that of NABIL that is 16.64%. It states the unstable and in consistency in return of Nepal SBI bank. Thus, it reveals that Nepal SBI is not able to earn high return on its loan and advances in comparison to NABIL bank.

B. Return on Total Assets

Return on total assets ratio measures the profitability with respect to each financial resources investment of the bank assets. If the bank's working fund is well managed and efficiently utilized, return on such assets will be higher and vice-versa.

This ratio is calculated as.

$$\text{Return on Total Assets Ratio } X \frac{\text{Net Profit}}{\text{Total Assets}}$$

Table shows the profitability position of NABIL and Nepal SBI bank.

Table 4.9

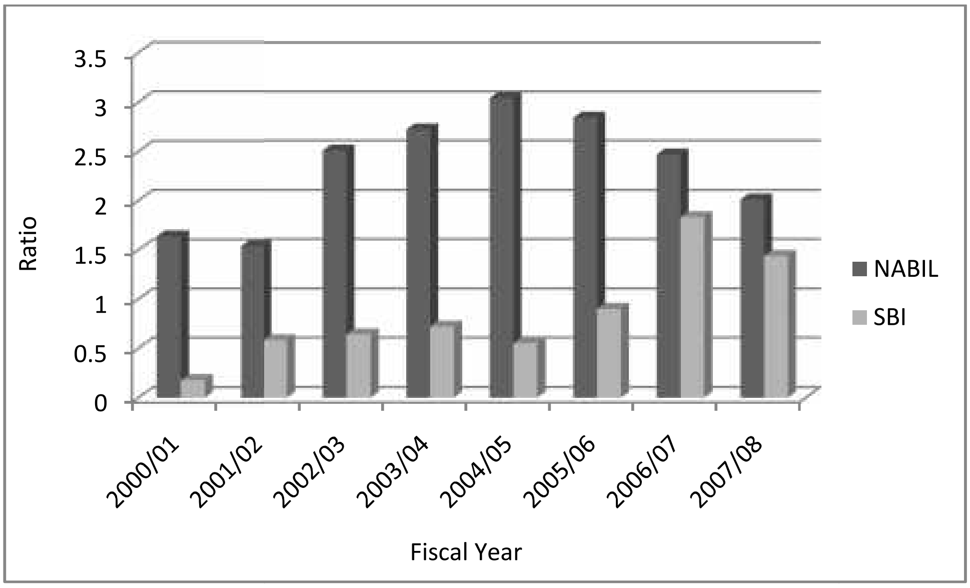
Return on Total Assets Ratio (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2002/003	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	1.64	1.54	2.51	2.72	3.04	2.84	2.47	2.01	2.35	0.52	22.20
SBI	0.18	0.58	0.64	0.72	0.55	0.9	1.83	1.44	0.86	0.50	58.25

Source: Appendix I

Figure 4.9

Return on Total Assets Ratio (%)



From the above comparative table, it is found that return on total assets ratio have fluctuating trend throughout the period of both bank. NABIL has maintained higher ratio in Fiscal Year 2004/005 i.e. 3.04%. Similarly, Nepal SBI has maintained highest ratio of 1.83% in Fiscal Year 2006/007. NABIL has highest mean ratio than Nepal SBI. From the above analysis, it reveals that both banks profit earning capacity by utilizing available resources is not satisfactory. Moreover, SBI's earning power on its sales and investment is quite poor and unstable comparison to NABIL. But on the other hand Nepal SBI is in increasing trend in the areas of return on total assets, mean while NABIL is in decreasing trend.

C. Return on Equity Ratio (ROE)

The ultimate goal of every bank is to maximize profit by mobilizing its equity capital. Equity capital refers bank's own capital. The return on equity capital measures the extent to which a bank is successful to mobilize its equity. It measures the profitability of a bank. This ratio is calculated as:

$$\text{Return on Equity Ratio } X \frac{\text{Net Profit}}{\text{Shareholde rs equity Capital}}$$

Table 4.10 shows the return on equity ratio of NABIL and Nepal SBI.

Table 4.10

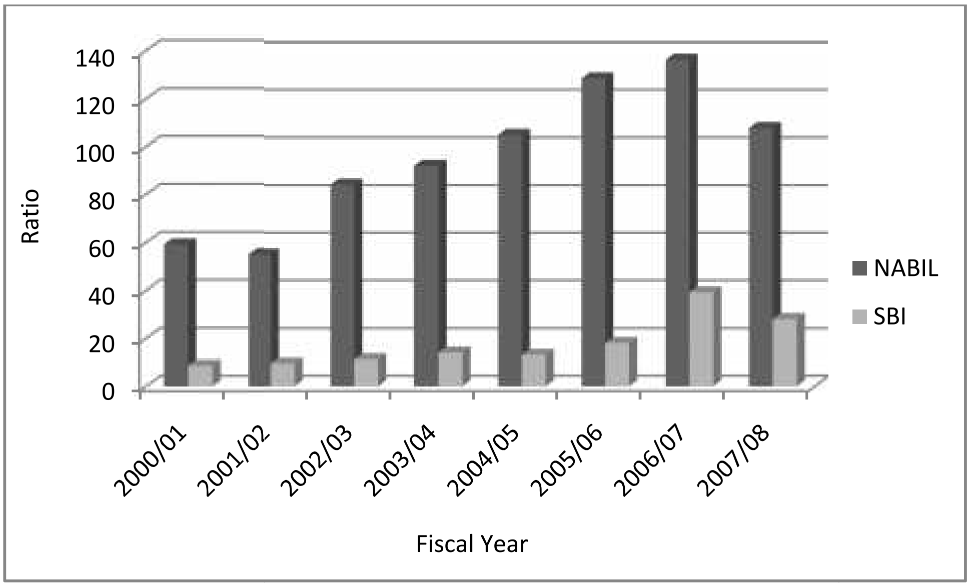
Return on Equity Ratio (%)

Banks	Fiscal Year								Mean	S.D.	C.V.
	2000/001	2001/002	2003/004	2003/004	2004/005	2005/006	2006/007	2007/008			
NABIL	59.27	55.25	84.66	92.61	105.49	129.21	137.08	108.31	96.48	27.79	28.81
SBI	8.68	9.61	11.47	14.25	13.29	18.27	39.35	28.33	17.91	9.99	55.80

Source: Appendix J

Figure 4.10

Return on Equity Ratio (%)



This analysis reveals that both banks have followed fluctuating trend during the period. The highest ratio of NABIL is 137.08 in fiscal year 2006/007 and that of Nepal SBI is 39.35 in Fiscal year 2006/007. On return point of view to shareholders capital NABIL is superior to Nepal SBI.

From the above comparative study, it shows that NABIL Bank has efficiently utilized its equity capital; hence return on equity is higher than Nepal SBI bank. NABIL bank seems to implement sound investment policy for mobilization of its equity capital. Mean while we can say that the volume to equity (paid up capital) is higher than that of NSBL, So that the portion of return on equity of NABIL seems higher than Nepal SBI. But from the view point of coefficient of variation, we can say that Nepal SBI is running in high risk than NABIL.

4.4 Growth Ratio

The growths ratios represent how the commercial banks will are maintaining their economic and financial position. The higher ratio is the better performance of the bank and vice-versa. Under this section, those growth ratios are analyzed and interpreted, which are directly related to found mobilization and investment management of commercial bank.

These ratios are:

a. Growth Ratio of Total Deposit

b. Growth Ratio of Loan and Advances

c. Growth Ratio of Total Investment

d. Growth Ratio of Net Profit

Table 4.11

Growth Ratio s of Total Deposit

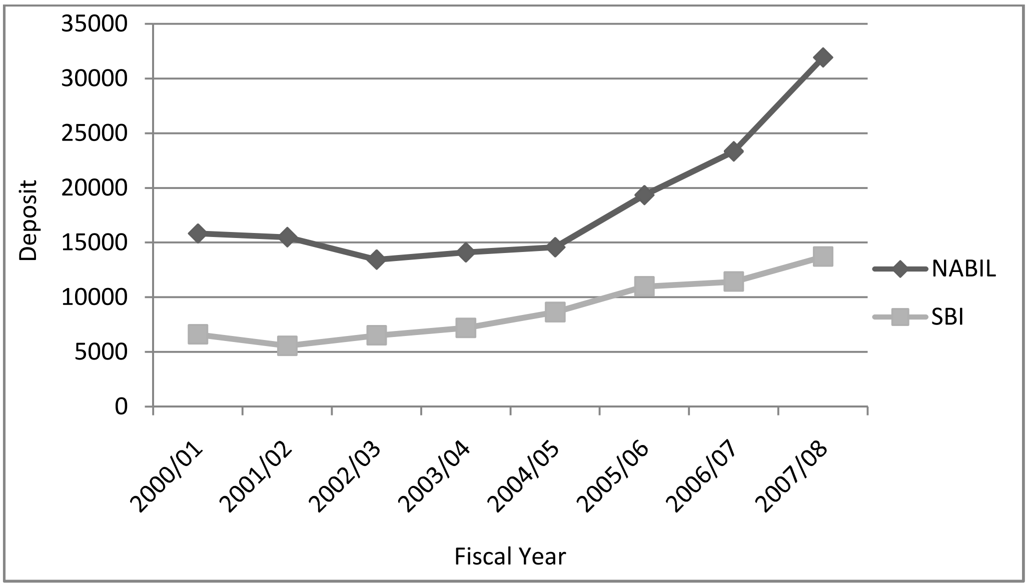
(in millions)

Banks	Fiscal Year								Growth
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Rate %
NABIL	15839.01	15506.43	13447.66	14119.03	14586.61	19347.40	23342.28	31915.05	9.15
SBI	6612.29	5572.47	6522.82	7198.33	8654.77	11002.04	11445.29	13715.4	9.55

Source: Appendix G

Figure 4.11

Trend Line of Total Deposit of NABIL & SBI Banks



From the above analysis, it reveals that growth rate of total deposit of NSBL is higher than NABIL bank. i.e. 9.55% > 9.15%. In this case we can say that the NSBL bank is quite good in deposit collection from public as well as corporate sector. Moreover the Nepal SBI bank is younger than NABIL bank due to which NABIL has got the opportunity to collect the deposit from the market.

Table 4.12

Growth Ratio (%) of Loan and Advances

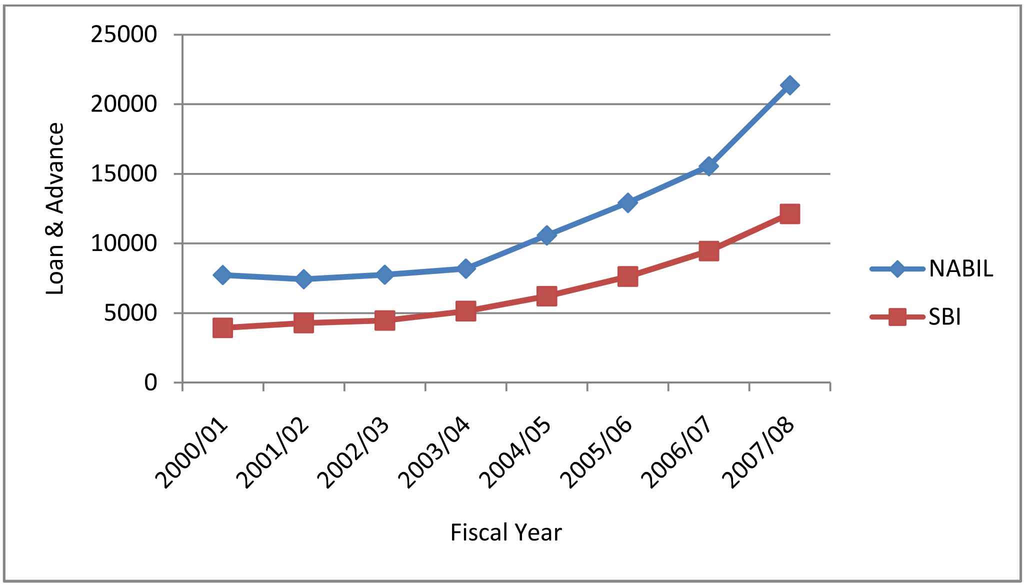
(Rs. in Millions)

Banks	Fiscal Year								Growth
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Rate %
NABIL	7732.64	7437.89	7755.95	8189.99	10586.17	12922.54	15545.78	21365.05	13.55
SBI	3945.56	4299.25	4468.72	5143.66	6213.88	7626.74	9460.45	12113.7	15.05

Source: Appendix E

Figure 4.12

Trend Line of Loan & Advances of NABIL and SBI Banks



The above table of figure exhibits that the growth rate of loan and advances of NSNL is higher than NABIL bank. from the above study NABIL bank has not maintain its upward lending policy and it's in fluctuating trends but in the context of Nepal SBI bank, it has always follow the upward lending policy so that the lending portion of NSBL is increasing so that the growth rate is also higher of NSBL in the comparison to NABIL.

Table 4.13

Growth Ratio (%) of Total Investment

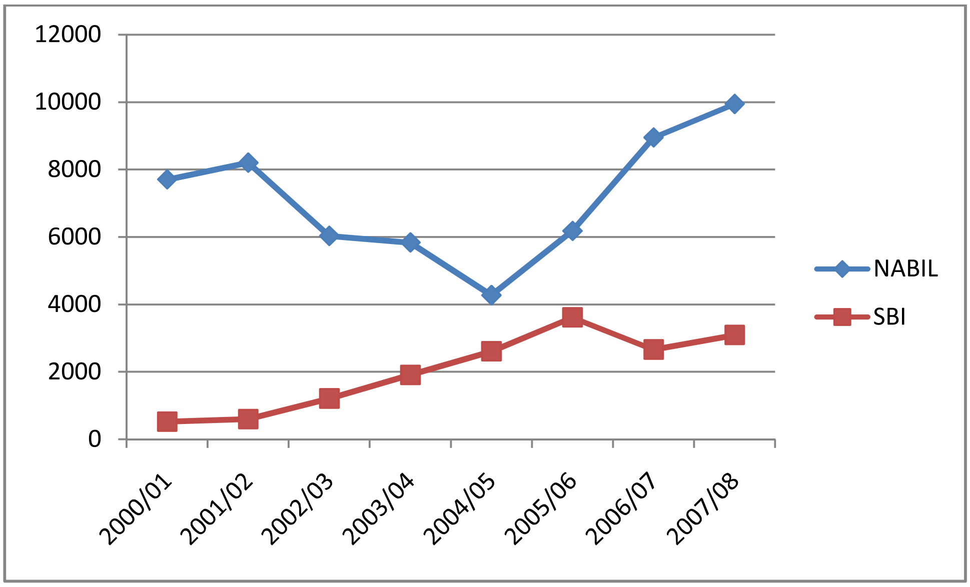
(Rs. in Million)

Banks	Fiscal Year								Growth Rate %
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
NABIL	7704.31	8199.51	6031.17	5835.95	4275.23	6178.53	8945.31	9939.77	3.23
SBI	522.93	599.05	1207.27	1907.52	2607.68	3610.78	2659.45	3088.89	24.85

Source: Appendix G

Figure 4.13

Growth Ratio of Total Investment



From the comparative table, it reveals that the investment growth rate of NSBL is very higher than NABIL, i.e. 24.85 > 3.23. It indicates that NSBL's investment growth rate is increasing. However the investment ration is fluctuating during the whole period as per the above table. On the other hand, NSBL has follow the upward investment policy but NABIL has followed down ward in early stage and again follow upward policy and we can say that NABIL has may maintained its liquidity position on its age of 2002 to 2005.

Table 4.14

Growth Ratio (%) of Net Profit

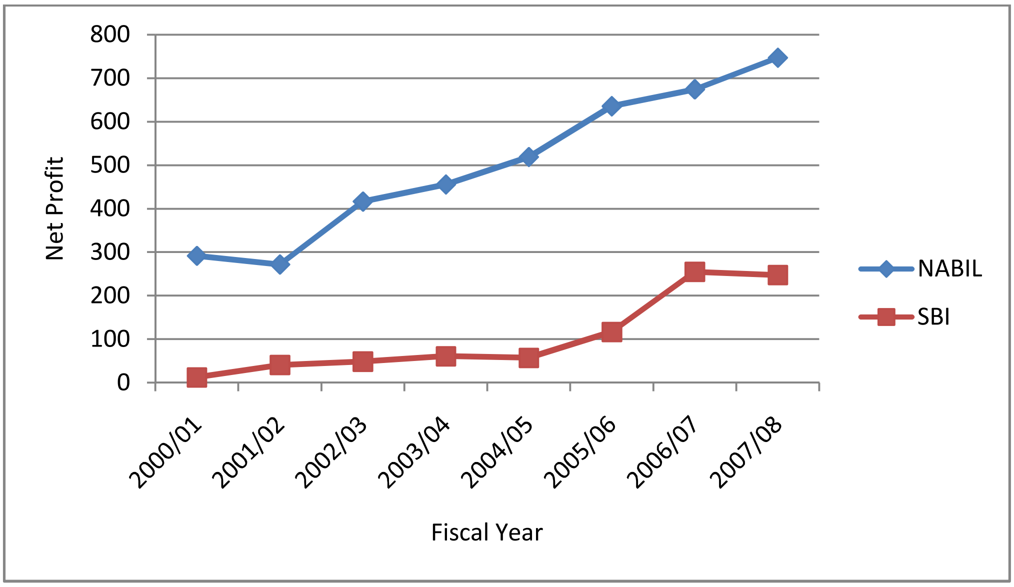
(Rs. in Million)

Banks	Fiscal Year								Growth
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Rate (%)
NABIL	291.38	271.64	416.23	455.31	518.64	635.26	673.96	746.47	12.48
SBI	12.49	40.84	48.75	60.85	57.39	117	254.91	247.77	45.27

Source: Appendix H

Figure 4.14

Growth Rate Ratio of Net Profit



From the above computation, Nepal SBI bank has satisfactory profit growth rate during the period then NABIL bank, i.e. 45.27% > 12.48%. However the Profit of the Nepal SBI bank is lower than then NABIL Bank Ltd during the entire year.

4.5 Correlation Analysis

The degree of relationship between the variables under consideration is measured through the correlation analysis. Correlation means the relationship between two or more variables where the changes in the value of one variable results the changes in the other variable. Correlation is also known as co-ordinator. It is a technique used in measuring the closeness of correlation between variables. To measure the correlation between total deposit and total investments, the total investment and loans and advances, total deposit and loan and advances in the study.

4.5.1 Correlation between Total Deposit and Total Investment

Total deposit of the bank refers to fixed deposit, saving, current and other various deposit retained at the time of issuance of letter of credit, bank guarantee and for other purposes and total investment of a bank comprises of loans, overdrafts, cash, credit, discounting bills of exchange, investment in government securities investment in shares and debenture of well establishing industrial concern and moderate call and short notice. The investment policy of banks is highly influenced by deposits collected by that bank. In this study correlation analysis between two variables that is total deposit and total investment has been carried out in order to measure, where dependent variable is total investment and independent variable is total deposit.

I. Computation Correlation between Total Deposit and Total Investment of NABIL

Correlation (r) =0.76

Coefficient of determination $(r)^2 = 0.58$

Here the value of correlation coefficient lies between +1 and -1. It means there is positive correlation between total deposit and total investment of NABIL bank. Both the banks maintain the relation of deposit ant investment positive but it is not satisfactory. Moreover we can say that if the level of deposit go higher, the level of investment also go up and vice versa. Because in higher level of deposit company can investment in short term security and bond to achieve more return in low risk (Appendix K).

II. Computation Correlation between Total Deposit and Total Investment of Nepal SBI

Correlation (r) = 0.86

Coefficient of determination $(r)^2 = 0.74$

Here the correlation coefficient between total deposit and total investment of Nepal SBI bank is nearly perfectly positive.

Total investment refers to sum of long term investment and short term investment i.e. landing of short term loans and bills purchase. The correlation coefficient of total investment and short term investment i.e. loan and advances. The investment policy of bank is highly influenced by short term investment of bank (Appendix L).

III. Computation of Correlation between Loan and Advance and Total Investment of NABIL

Correlation (r) = 0.59

Coefficient of determination $(r)^2 = 0.34$

Here, the value of correlation lies between +1 and -1, so the relation between loan and advances and total investment is positive of NABIL Bank. Total loan and advances represent the total loan and advance including short term and long term advances and the total investment include both short term and long term investment of the banks. So, that the level of loan and advances will be change according to level of investment (Appendix M).

IV. Computation of correlation between Loan and Advances and Total Investment of SBI

Correlation (r) = 0.78

Coefficient of determination $(r)^2 = 0.61$

Here, the value of correlation coefficient is positive. It means there is perfect relation between loan and advances and total investment of Nepal SBI bank (Appendix - N)

4.6 Student T-test

T-test is used when the sample size is less than thirty. Student t-value is calculated. This tool is used to judge this significance of the relation between the variables. First Compared with the table value of't' at a certain level of significance for given degree of freedom.

Symbolically,

$$t \; X \; \frac{r\sqrt{n \; Z \; 2}}{\sqrt{1 \; Z \; r^2}}$$

Where,

t = Student t- value

r = coefficient of correlation

n = number of observations

On the event of testing, the null hypothesis will be rejected. If the calculated t-value is greater than the table value at 5% level of significance for the n-2 degree of freedom. This implies that the value of r is significant at 5% level or vice-versa.

4.6.1 Relationship between Total Deposit and Total Investment of NABIL

Table 4.15

Coefficient of Correlation, Coefficient of Determination with their student's t-test of Total Deposit and Total Investment of NABIL

Ratio	r	r^2	t-value	d.f.	Result
Total deposit to total investment	0.76	0.58	2.87	7	Significant

Source: Appendix K

Testing at 5% level of significance and d.f. r of 7, the table value of t is 2.365. Since the calculated value of t is higher than table value. So, H0 is rejected. We conclude that Correlation coefficient of NABIL's total deposit and total investment is statistically significant. When the level of deposit goes up, the total investment also rise and vice versa.

4.6.2 Relation between Total Deposit and Total Investment of Nepal SBI Bank

Table 4.16

Coefficient of correlation, Correlation of Determination with their student's t-test of Total Deposit and Total Investment of Nepal SBI Bank

Ratio	r	r^2	t-value	d.f.	Result
Total deposit to total investment	0.86	0.74	4.11	7	Significant

Source: Appendix L

Testing at 5% and d.f. of 7, we found table value of t is 2.365. The calculated value is higher than table value. H0 is rejected, we conclude that correlation coefficient of Nepal SBI bank's total deposit and total investment is satisfactory significant.

When the level of deposit goes up, the total investment also rises and vice versa.

4.6.3 Relationship between Total Investment and Loan and Advances of NABIL

Table 4.17

Coefficient of Correlation, Coefficient of Determination with their student's t-test of Total Investment and Loan and Advances of NABIL

Ratio	r	r^2	t-value	d.f.	Result
Total Investment to Loan and Advances	0.59	0.34	1.77	7	Not Significant

Source: Appendix M

The calculated student's t-test is lower than the table value at 5% level of significant (2.365), which implies that the correlation between total investment and loan and advances are not statistically significant. Hence null hypothesis is accepted i.e. H0 is accepted. If the level of investment goes up, the level of loan and advances goes down and vice versa.

4.6.4 Relationship between Total Investment and Loan and Advances of Nepal SBI Bank

Table 4.18

Coefficient of correlation, coefficient of determination with their student's t-test of Total Investment and Loan and Advances of Nepal SBI Bank

Ratio	r	r^2	t-value	d.f.	Result
Total Investment to loan and advances	0.78	0.61	3.05	7	Significant

Source: Appendix N

Testing at 5% and 7 d.f. we found table value of t is 2.365, and calculated value is 3.05 which higher than table value. Therefore, null hypothesis (H0) is rejected, which concludes that correlation between total investment and loan and advances is statistically significant.

4.7 Major Findings of the Study

The major findings under descriptive analysis of the study are derived from the analysis of data of NABIL and Nepal SBI banks.

4.7.1 Financial Ratio

Liquidity Ratio

- The current ratio of NSBL is less variable than NABIL.
- The mean ratio of cash and bank balance to current assets of NABIL is lower than Nepal SBI. It exhibits that the liquidity position of NSBL is better in this regard.
- The mean ratio of cash and bank balance to total deposit of Nepal SBI is higher than NABIL. So, Nepal SBI bank may invest in more productive sectors and establish its better position in the market.
- The mean ratio of investment on government securities to current assets of Nepal SBI is greater than that of NABIL. Moreover, Nepal SBI seems to have more variable than NABIL.
- The mean ratio of loan and advances to current assets of Nepal SBI is greater than that of NABIL. The loan and advances to current assets ratio of Nepal SBI is more stable and consistent than that of NABIL.
- The above mentioned result indicate that the liquidity position of Nepal SBI is little better than that of NABIL bank.

4.7.2 Assets Management Ratio

The assets management ratio of NABIL and Nepal SBI reveals that,

- The mean ratio of loan & advances to total deposit of NABIL is lower than that of Nepal SBI. However, NABIL's ratio seems to more stable and consistent than that of SBI.
- Similarly, the mean ratio of total investment to total deposit of NABIL is higher than Nepal SBI. The variability of total investment to total deposit ratio of NABIL is stable and inconsistent than that of Nepal SBI. Beside that we can say that the NABIL has utilized its deposit by investing in different sector than Nepal SBI. But according to deposit volume of Nepal SBI, it has also maintained its best portfolio.

4.7.3 Profitability Ratio

The profitability ratios of NABIL and Nepal SBI reveal that

- The mean ratio of return on loan and advances of NSBL is higher than NABIL. The variability of ratios of NSBL is comparatively higher than that NABIL.
- The mean ratio of return on total assets of Nepal SBI is lower than that of NABIL and has been found highly in consistent than that of NABIL.
- The mean ratio of return of equity of NABIL is higher than Nepal SBI bank. It reveals that NABIL has efficiently utilized its equity capital to earn maximum return on investment. On the other hand the equity capital of Nepal SBI bank is higher than NABIL bank, due to which this result has been occurring. Moreover the NRB has circulated to increase the capita of the bank in current scenarios.

4.7.4. Growth Ratio

Growth Ratio indicates the level of increment in deposits, loan & advances, investments and on profit.

- The growth ratio of deposit of Nepal SBI is higher than NABIL, i.e. 9.55 > 9.15
- NSBL's growth rate of loan & advances is also higher than NABIL bank, i.e. 15.05 > 13.15
- In the areas of investment NABIL's growth rate of total investment has been found 3.23%, which comparatively highly lower than Nepal SBI, i.e. 24.85% (24.85 > 3.23%).
- The growth rate of net profit of Nepal SBI is higher than NABIL that is 45.27% > 12.48%.
- From the analysis of growth ratios of NABIL and Nepal SBI, it has found that NABIL has not been successful to increase their sources of funds. Nepal SBI has maintained very higher growth ratio rate of total investment. But NABIL has not been able to maintain its positive growth ratio to investment areas as well as loan advance. On the other hand Nepal SBI has increased its net profit ratio than NABIL by utilizing its fund in right way as well as by maintaining its operating expenses.

4.7.5 Coefficient of Correlation Analysis

Coefficient of correlation analysis between different variables of NABIL and Nepal SBI reveals that,

- It is found that there is significant relationship between total deposit and total investment of NABIL as well as Nepal SBI Bank. It indicates that the investment level of each bank is varying with their deposit volume. if the deposit level go up, the investment level will be higher and vice versa.
- However, Nepal SBI has the higher value of coefficient of correlation between investment and loan and advances which indicates the lower riskiness of Nepal SBI and is able to mobilizing its loan and advances efficiently.
- Coefficient of correlation between investment and loan and advances of NABIL is slightly lower than that of Nepal SBI.
- From the above results it is concluded that there is significant relationship between deposit and loan and advances of NABIL and Nepal SBI but there is not significant relationship between investment and loan and advances of NABIL but significant differences of the same of Nepal SBI bank.

4.8 Major Findings Under Inferential Analysis or Student's T-test Analysis

The major findings of the study derived from inferential analysis are as follows:

a. Correlation between Total Deposit and Total Investment of NABIL

The inferential analysis shows that null hypothesis (H0) has been rejected in respect of the correlation between total deposit and total investment as their calculated student's t-value is higher than the table value at 5% level of significance. From this result, it can be inferred that the correlation of total deposit and total investment is significantly correlated.

b. Correlation between Total Deposit and Total Investment of SBI

The inferential analysis reveals that total deposit have significant correlation with total investment. It reveals that there is sound relation between deposit and investment of Nepal SBI.

c. Correlation between Total Investment and Loan and Advances of NABIL

The inferential analysis shows that alternative hypothesis (H0) has been accepted in respect of the correlation between total investment and loan and advances is not significantly different.

d. Correlation between Total Investment and Loan and Advances of Nepal SBI Bank

The inferential analysis reveals that total investment has significant correlation with loan and advances.

In general analysis using various tools of presentation, it can be concluded that Nepal SBI is superior in mobilizing its fund in productive sectors. Its return is comparatively more than NABIL bank but weakness is found in the ratio of growth rates of net profit. But on the other areas like return of equity and return on assets of NABIL is superior in comparison to Nepal SBI bank, because the NABIL was introduces before then Nepal SBI. So, that the NABIL has grabbed higher area of business and include the many clients than Nepal SBI.

CHAPTER - V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This section highlights the summary, conclusion and recommendations derived from the data of NABIL and Nepal SBI bank.

5.1 Summary

The commercial banking system of the nation is important to the functioning of our economy. The management of money in bank is the main function that makes a profit and maximum utilization of national resources. NABIL is a modern commercial bank with modern facilities and proficient skills and lays paramount emphasis providing quality service to all its clients. The Nepal SBI bank is to carry out modern banking business in the country under the commercial act 1974, and provide loan on agriculture, commercial and industrial sectors. Bank is such types of institutions, which deal with money and substitute for money and its most essential thing is good circulation of credit. The decision of investment of fund may be the question of life and death for the bank. The bank mainly offers different services as functions i.e. acceptance of deposits, advancing of loans, agency function, purchase and sale of foreign exchange, creation of credit etc. The modern banking system follow the liquidity management, cash management and portfolio management with related to the investment policy of bank.

The term investment, in a narrower sense is sometimes used to suggest a commitment that is relatively free from certain risks of less and high quality bonds and stocks are said to be "of investment grade". So, the label of investment would be restricted to situation promising dependable income, relatively stable value a modest rate of return, and little chance for spectacular capital appreciation. When a bank gents into serious financial trouble, its problem usually spring from significant amounts of loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies or unexpected of loans, misguided lending policies or unexpected economic down turn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public's funds.

For forecasting investment policy of banks, there are different techniques viz, estimation of current assets and current liabilities, estimation of total deposit, loan and advances and total investment etc. This study aims at examining the size and growth of total deposit, loan and advances, total investment and net profit of NABIL and Nepal SBI banks. For this assessment, ratios of NABIL and Nepal SBI banks, this is related to investment policy of bank. So, its component are calculated and measured. Statistical tools like arithmetic mean, standard deviation, coefficient of variation and of correlation are also computed to evaluate and reach certain conclusions. Correlation coefficient of different ratios was tested with the help of student t-values which is helpful for accepting or rejecting null hypothesis.

5.2 Conclusion

Economic liberalization policy of the government has encouraged the establishment of growth of the banks in the country with in short period of time. In a situation when the existing financial institutions, especially governments commercial banks were unable to meet credit needs and perform other activities, the contribution of joint venture commercial banks have played pivotal role. However, the overall performance of JVBs is not satisfactory.

Strengthening and the institutionalization of commercial bank are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. The liquidity position of sample JVBs (NABIL and Nepal SBI) is satisfactory. Nepal SBI has higher liquidity position than that of NABIL. The coefficient of correlation of deposit lending and investment of Nepal SBI shows that it has better position than NABIL as NABIL has failed to maintain sufficient level coefficient of correlation. The commercial banks have to prove that they can really contribute to the national economy, are efficient and visible agencies for mobilization of saving and are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned. From the analysis of t-test NABIL has become in perfect correlation is significant. Here, correlation between deposit and investment are significances difference of both bank's student t-test.

5.3 Recommendations

On the basis of analysis and findings of the study, the following recommendations can be advanced to overcome the inefficiency and to improve the investment operating of NABIL and SBI.

1. The liquidity position of a bank is affected external and internal factors. The effecting factors may be interest rate, position of loans and advances and savings, investment situations, central banks directive, the lending policies, capability of management and so forth. As NABIL has maintained the ratios of cash and bank balance to total deposit considerably, lower than that of Nepal SBI Bank. So, NABIL is recommended to increase cash and bank balance to meet current obligations on loan demand.
2. To get success in competitive banking environment, depositor's money must be utilized as loan and advances. Negligence in administering these assets could be one of the main reasons of a bank failure. It has been found from the study that Nepal SBI has greater ratios of all because its large position of fund invested as loan and advances. NABIL has not properly used its existing fund as loan and advances. To overcome this situation NABIL is strongly recommended to follow liberal lending policy.
3. Commercial banks can not move away from their target that is profit and customers satisfaction. They should be careful in increasing profit to maintain the trust of shareholders, investors and customers. Nepal SBI profitability position is lower than that of NABIL. So, Nepal SBI bank is recommended to utilize risky assets and shareholders fund to gain highest profit margin.
4. Although the securities issued by government yields the lowest interest rates are considered to be risk free. From this study, it is found that Nepal SBI has maintained higher rate of investment in government security in comparison to NABIL. Therefore, it is recommended to NABIL that if it has idle funds it should invest them in government securities. It should always look from the 'something is better than nothing' view point.
5. From the analysis of mean ratio, fluctuating decision can be inferred. However, Nepal SBI tries to maintain the average ratios then NABIL bank bearing high risk. Therefore, NABIL is recommended to maintain the average ratios other statistical findings shows that NABIL is poor in maintaining the relations between the investment, loans and advances, deposits etc. Management of this

relation is crucial to formulate the sound investment policy. So, NABIL is recommended to maintain the sound relations between the above stated variables.

6. Cash and bank balance to current assets ratio are not satisfactory of both banks. Higher C.V. notice the higher riskiness, so to maintain the risk involved and to hold the strong position, both banks must undertake defending strategic.
7. To get the more return, both bank should invest its ideal money to short term govt security without avoiding liquidity position.
8. NABIL's lending growth rate is lower than NSBL; moreover the involved riskiness is higher than NSBL. So NABIL should cop its riskiness as per its lending ratio.
9. Return on loan and advance of NABIL is higher than NSBL, even the higher growth rate has observed on loan and advances of NSBL. So, Nepal SBI should follow the liberal policy of lending with higher rate of interest as well as it should spread out its lending area.
10. Both banks should increase its capital to fulfil the demand of the market and get internal strength in this competitive market.

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APPENDIX
COMPANY PROFILE

Joint Ventures Banks (JVBS)

By nature Nepalese commercial banks can be classified into two categories viz. Domestic commercial banks and commercial banks with collaboration. The commercial banks with foreign investment are called joint ventures banks. Joint venture bank is a general model for foreign direct investment. Joint venture means joining of forces between two and more enterprises for the purpose of carrying out a specific operation. Joint venture is the mode of trading through partnership among the nations and is also a form of negotiations between various groups of industries and traders. If one talks about joint venture, there must be at least two parties and concepts of complementary and synergy. Now a day, joint venture concept has become popular and more acceptable in the comparison of other concept. In common parlance, joint venture bank in Nepal refer to foreign joint venture banks in which foreign parent banks purchase certain percentage of share (not exceeding to 50%) apply their international management and network.

In Nepal, to encourage joint venture in banking sector three major reforms were carried out in 1980, the reforms include allowing the foreign banks to operate as joint venture, lifting of control on interest rate and introduction of the auctioning of government securities. “The government policy of allowing foreign joint venture to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their banking capacity through competition, efficiency, modernization, mechanization via computerization and prompt customer service” (Mainali, 2001: 10).

Joint venture banks registered in Nepal under company act 2021 B.S. and operated under the commercial Bank act 2031. They have joint venture between Nepalese investor and their parent banks. The domestic portion of investment has been shared by financial and non-financial institutions as well as private investors.

Among various joint venture banks in Nepal, the researcher has attempts to take only two i.e. NABIL and Nepal SBI Bank Ltd. for the purpose of the research study.

NABIL Bank Limited

Nepal Arab Bank Ltd. the first joint venture established in 1984 July 12. Initially 50% of its share was owned by Dubai Bank Limited, United Arab Emirates, 20% of its share by Nepalese financial institutions and 30% of its shares by public in Nepal.

It was established under commercial Bank 2031 Act, with a view to encourage efficient banking services, which is a pre-condition for the condition for the economic development, industrialization and growth of country. When the bank commenced its operation, National Bank Limited, Dhaka acquired 50% share of NABIL on Baisak 2051. Since, then it has consistently supported NABIL in all spheres of banking activities. This has enhanced the image of NABIL, both domestically and internationally. So, NABIL was established with a paid up capital of 30 million. Now, it has raised its paid up capital of 491 millions by capitalization of profit. Mr. D.C. Khana, executive director of NABIL attributes the close contracts with customers, treating the client as most important person able to build good image of the bank providing good services to customers are four main factors considered for the success of the bank, NABIL have Twenty Eight branch office including corporate office, in different cities and making a plan to entered in rural areas of Nepal as well as in the foreign country.

The Capital Structure of NABIL Bank Limited

Authorised Capital (16,000,000 Shares of Rs. 100 each)	1,600,000,000
Issued Capital (6,892,160 ordinary share of Rs. 100 each)	689,216,000
Paid up capital (6,892,160 ordinary share of Rs. 100 each)	689,216,000

Source: Annual Report as at 15th July 2008. (31 Ashad, 2065)

NABIL is a modern commercial bank with modern facilities and proficient skills. As a service industry, NABIL lays paramount emphasis quality service to its entire client. In order to maintain the competitive edge, NABIL has laid grater stress in improvement in technology, venturing into new areas of banking and in improving the quality and efficiency of manpower. The bank expanded its banking services towards different regions and part of the country establishing altogether nine branches in urban as well as rural areas of the country.

Besides banking facilities it provides other facilities too. They are given as

- Tele banking: It means customers may acquire information like balance, exchange rate and may instruct banks to do various jobs over the phone/tax.
- Credit Card facilities: An instrument of payment used to pay the price of goods and of services in lieu of cash items with the option of repayment of a fixed later data or over a period of time.
- ATM (Automated Teller Machine): An unattended computer terminal that performs basic teller functions, dispensing cash, accepting deposits, account enquires, transfer of funds across various accounts including utilities bills payments, and statement, enquiry, request for cheque book, recording stop payment instruction etc is an ATM.
- Safe deposit locker: Customers keep valuable (ornaments and documents) in the banks offer safe deposit locker service. These lockers can be unlocked only with the joint keys one of the bank and the other of the customers.
- International trade and bank guarantee: The international trade and bank of the country engaged in foreign trade of the country. It discounts the bills of exchange down by Nepalese exporters on the foreign importer and enables the exporters to receive money in the home currency and also accepts the bills down by the foreign exporters.
- Western union money transfer: It means money deposit in foreign country and immediately make payment in Nepal. This kind of facilities are providing by NABIL bank.
- SME Banking and Micro finance: To increase the capacity of small and medium enterprises and to make them competitive, NABIL has introduces SME scheme and to develop the rural areas NABIL has come with Micro finance. From this

product many small scale industry as well as the other rural group can enhance their business which may be a mile stone in the overall increment of Nepal.

Nepal SBI Bank Limited

Nepal SBI bank limited (NSBL) is the first Nepal-Indo joint venture bank in the country, sponsored by three institutional promoters, namely state bank of India, Karmachari Sanchaya Kosh (Employee Provident fund) and agriculture development bank through a memorandum of undertaking signed on the 17th july 1992. NSBL became operational on the 18th July, 1993. The department of Industry, NG under the company Act 2021 B.S. and commercial bank act 2031 B.S. The bank there after, received certificate of commencement of business on 30th June, 1993 and the license from Nepal Rastra Bank on the 6th July 1993. NSBL, having its formal inaugurating on the 17th July 1993, commenced its operation on 2050-03-24 (8th July 1993). The state Bank of India holds major portion of the total investment, excluding that Karmachari Sanchaya Kosh (EPF), Agricultural development Bank and general public of Nepal has holds the rest portion of the investment.

The Capital Structure of SBI Bank

Authorised Capital (10,000,000 Shares of Rs. 100 each)	1,000,000,000
Issued Capital (8,775,000 ordinary share of Rs. 100 each)	877,500,000
Paid up capital (8,745,278.4 ordinary share of Rs. 100 each)	874,527,840

Source: Annual Report as at 15th July 2008. (31 Ashad, 2065)

The main objectives of the bank are to carryout modern banking business in the country under the commercial act 1974 and to provide loan on agriculture, commercial and industrial sectors. Mainly the following facilities have been provided by SBI Bank.

- International trade and bank guarantee: The international trade and bank guarantee engaged in foreign trade of country. It discounts the bills of exchange drawn by Nepalese exporters on the foreign importer and enables the exporters to receive money in the home currency and also accepts the bills drawn by the foreign exporter.

- Any branch banking: Banks after account holder of the branch to avail some banking services from other branches which is called any where branch service. A customer of a branch becomes the customer of a whole bank.
- Remittance and so forth: Sending and receiving fund to/from various places is the need of the day. Remittance service of the bank has benefited both the business and personal customers. Fund transfer is made through various modes like demand draft, telegraph payment order, SWIFT (Society of World wide inter bank financial Tele communication) fax and mail payment order. Beside that Bank has introduce different product to enhance its business like: Saral Bachat Yojana, Dhanabridhi Bachat Yojana, Ujjwal Bhavisya Bachat Yojan, RTGS, Bharat Yatra Card, Locker facility, ATM facility etc.

Calculation Growth Ratio s of Total Deposit

Banks	Fiscal Year							
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
NABIL	15839.01	15506.43	13447.66	14119.03	14586.61	19347.40	23342.28	31915.05
SBI	6612.29	5572.47	6522.82	7198.33	8654.77	11002.04	11445.29	13715.4

Where,

$$\text{Growth Rate (g) X } \left(\frac{\text{Deposit of Fiscal Year 2007/008}}{\text{Deposit of Fiscal Year 2000/001}}\right)^{1/n} \text{Z} 1 \; | \; 100$$

For NABIL Bank

$$g \text{ X } \left(\frac{31915.05}{15839.01}\right)^{1/8} \text{Z} 1 \; | \; 100$$

$$\text{X } 9.15\,\%$$

n = Number of years during the period.

For SBI bank

$$g \text{ X } \left(\frac{13715.4}{6612.29}\right)^{1/8} \text{Z} 1 \; | \; 100$$

$$\text{X } 9.55\,\%$$

Appendix K

Computation of Correlation between Total Deposit and Total Investment of NABIL

Years	Total Deposit X(Rs)	Total Investment Y(Rs)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	X_2	Y_2	XY
2000/2001	15839.01	7704.31	-2673.92	565.59	7149868.2	319888.2	-1512336
2001/2002	15506.43	8199.51	-3006.50	1060.79	9039064.8	1125268	-3189259
2002/2003	13447.66	6031.17	-5065.27	-1107.55	25656998	1226674	5610061
2003/2004	14119.03	5835.95	-4393.90	-1302.77	19306390	1697218	5724260.
2004/2005	14586.61	4275.23	-3926.32	-2863.49	15416018	8199577	1124299
2005/2006	19347.40	6178.53	834.47	-960.19	696333.92	921965.6	-801246.
2006/2007	23342.28	8945.31	4829.35	1806.59	23322585	3263755	8724632.
2007/2008	31915.05	9939.77	13402.12	2801.05	179616720	7845868	3753996
	$\sum X =$ 148103.47	$\sum Y =$ 57109.787	$\sum x = 0$	$\sum y = 0$	$\sum x^2 =$ 280203979	$\sum y^2 =$ 24600215	$\sum xy =$ 6333906

Where

$$\bar{X} = \frac{\sum X}{n} = \frac{148103.47}{8} = 18512.93$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{57109.787}{8} = 7138.72$$

We know,

$$\text{Correlation (r)} = \frac{\sum XY}{\sqrt{\sum X^2} \cdot \sqrt{\sum Y^2}}$$

$$= \frac{63339069}{\sqrt{280203979}\sqrt{24600215}} = \frac{63339069}{16739.29 \times 4959.86}$$

$$= 0.76$$

$$\text{Coefficient of Determination } (r)^2 = (0.76)^2 = 0.58$$

Appendix L

Computation Correlation between Total Deposit and Total Investment of Nepal SBI

Years	Total Deposit X(Rs)	Total Investment Y(Rs)	X X X Z$\bar{X}$	Y X Y Z$\bar{Y}$	X2	Y2	XY
2000/2001	6612.29	522.93	-2228.14	-1502.52	4964591.1	2257552	3347809
2001/2002	5572.47	599.05	-3267.96	-1426.40	10679538	2034604	4661397.7
2002/2003	6522.82	1207.27	-2317.61	-818.18	5371298.7	669410.9	1896208.4
2003/2004	7198.33	1907.52	-1642.10	-117.93	2696480.1	13906.39	193644.82
2004/2005	8654.77	2607.68	-185.66	582.23	34468.243	338997.2	-108095.5
2005/2006	11002.04	3610.78	2161.61	1585.33	4672574	2513270	3426870.3
2006/2007	11445.29	2659.45	2604.86	634.01	6785315.2	401964.4	1651500.9
2007/2008	13715.40	3088.89	4874.97	1063.44	23765369	1130906	5184245.1
	X = 70723.41	Y =16203.563	X =0	Y =0	X^2 = 58969634	Y^2 = 9360611	XY = 20253581

Mean

$$\bar{X} \text{ X} \frac{X}{n} \text{ X} \frac{70723.41}{8} \text{X} 8840.43$$

$$\bar{Y} \text{ X} \frac{Y}{n} \text{ X} \frac{16203.56}{8} \text{ X} 2025.44$$

We know

$$\text{Correlation (r) X} \frac{\text{XY}}{\sqrt{\quad \text{X}^2} . \sqrt{\quad \text{Y}^2}}$$

$$\text{X} \frac{20253581}{\sqrt{58969634} . \sqrt{9360611}} \text{ X} \frac{20253581}{7679.17 \mid 3059.51}$$

$$\text{X} 0.86$$

$$\text{Coefficien t of Determinat ion (r)}^2 \text{ X} ∫0.86 Å$$

$$\text{X} 0.74$$

Appendix M

Computation of Correlation between Loan and Advance and Total Investment of NABIL

Years	Total Loan and Advance X(Rs)	Total Investment Y(Rs)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	X2	Y2	XY
2000/2001	7732.64	7704.31	-3709.36	565.59	13759352	319892	-2097977
2001/2002	7437.89	8199.51	-4004.11	1060.79	16032897	1125275	-4247520
2002/2003	7755.95	6031.17	-3686.05	-1107.55	13586965	1226667	4082484.7
2003/2004	8189.99	5835.95	-3252.01	-1302.77	10575569	1697210	4236621.1
2004/2005	10586.17	4275.23	-855.83	-2863.49	732444.99	8199558	2450658.1
2005/2006	12922.54	6178.53	1480.54	-960.19	2192007.6	921959.1	-1421598
2006/2007	15545.78	8945.31	4103.78	1806.59	16841010	3263767	7413847.9
2007/2008	21365.05	9939.77	9923.05	2801.05	98466921	7845887	27794969
	$\sum X =$ 91536.013	$\sum Y =$ 57109.787	$\sum x = 0$	$\sum y = 0$	$\sum x^2 =$ 172187166	$\sum y^2 =$ 24600215	$\sum xy =$ 38211486

Mean

$$\bar{X} = \frac{\sum X}{n} = \frac{91536.013}{8} = 11442$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{57109.787}{8} = 7138.72$$

We know

$$\text{Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \cdot \sqrt{\sum y^2}}$$

$$= \frac{38211486}{\sqrt{172187166} \cdot \sqrt{24600215}} = \frac{38211486}{13122.01 \times 4959.86}$$

$$= 0.59$$

$$\text{Coefficient of Determination (r)}^2 = (0.59)^2 = 0.34$$

Appendix N

Computation of correlation between Loan and Advances and Total Investment of SBI

Years	Total Loan and Advance X(Rs)	Total Investment Y(Rs)	X X X Z$\bar{X}$	Y X Y Z$\bar{Y}$	X2	Y2	XY
2000/2001	3945.56	522.93	-2713.44	-1502.52	7362729.5	2257552	4076977.8
2001/2002	4299.25	599.05	-2359.75	-1426.40	5568396.5	2034604	3365929.4
2002/2003	4468.72	1207.27	-2190.28	-818.18	4797304.6	669410.9	1792029.1
2003/2004	5143.66	1907.52	-1515.34	-117.93	2296240.2	13906.39	178696.45
2004/2005	6213.88	2607.68	-445.12	582.23	198127.36	338997.2	-259161.4
2005/2006	7626.74	3610.78	967.75	1585.33	936530.39	2513270	1534194.8
2006/2007	9460.45	2659.45	2801.46	634.01	7848150.1	401964.4	1776141
2007/2008	12113.70	3088.89	5454.71	1063.44	29753807	1130906	5800754.9
	X = 53271.96	Y = 16203.563	X =0	Y =0	X^2 = 58761285	Y^2 = 9360611	XY = 18265562

Mean

$$\bar{X}\ \mathrm{X}\frac{X}{n}\ \mathrm{X}\frac{53271.96}{8}\ \mathrm{X}6658.99$$

$$\bar{Y}\ \mathrm{X}\frac{Y}{n}\ \mathrm{X}\frac{16203.563}{8}\ \mathrm{X}2025.44$$

We know

$$\text{Correlation (r)}\ \mathrm{X}\frac{\mathrm{XY}}{\sqrt{\mathrm{X}^2}.\sqrt{\mathrm{Y}^2}}$$

$$\mathrm{X}\frac{18265562}{\sqrt{58761285}.\sqrt{9360611}}\ \mathrm{X}\frac{18265562}{7665.59 \mid 3059.51}\ \mathrm{X}0.78$$

$$\text{Coefficient of Determination (r)}^2\ \mathrm{X}ƒ0.78Å^2 = 0.61$$

Apendix A

Current Astes to Current Liabilities Ratio

NABIL

Fiscal Year	Current Assets	Current Liabilities	Rato (%)
2000/2001	17521.98	16707.80	1.05
2001/2002	17391.61	16484.82	1.06
2002/2003	16310.71	15248.44	1.07
2003/2004	16407.36	15263.80	1.07
2004/2005	26868.38	15682.24	1.71
2005/2006	22010.88	20454.97	1.08
2006/2007	26971.49	25176.34	1.07
2007/2008	36534.72	34455.56	1.06

Nepal SBI

Fiscal Year	Current Assets	Current Liabilities	Rato (%)
2000/2001	7005.38	6835.11	1.02
2001/2002	6955.56	6460.8	1.08
2002/2003	7495.30	6996.47	1.07
2003/2004	8378.05	7813.77	1.07
2004/2005	10278.92	9656.36	1.06
2005/2006	12944.57	11853.46	1.09
2006/2007	13800.13	12537.91	1.10
2007/2008	17067.22	15573.80	1.10

Apendix B

Cash and Bank Balance to Current Astes Ratio

NABIL

Fiscal Year	Cash and Bank Balance	Current Assets	Rato (%)
2000/2001	812.91	17521.98	0.46
2001/2002	1051.82	17391.61	0.60
2002/2003	1144.76	16310.71	0.70
2003/2004	970.47	16407.36	0.59
2004/2005	559.38	26868.38	0.21
2005/2006	556.18	22010.88	0.25
2006/2007	1383.82	26971.49	0.51
2007/2008	2340.90	36534.72	0.64

Nepal SBI

Fiscal Year	Cash and Bank Balance	Current Assets	Rato (%)
2000/2001	1922.75	7005.38	2.74
2001/2002	1619.96	6955.56	2.33
2002/2003	1333.53	7495.30	1.78
2003/2004	864.43	8378.05	1.03
2004/2005	723.74	10278.92	0.70
2005/2006	870.31	12944.57	0.67
2006/2007	844.21	13800.13	0.61
2007/2008	711.91	17067.22	0.42