CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Nepal, being a developing country, is facing problems with the economic deficiency for nations development. It has more than 40% people living below poverty line and its per capita income of $270(W.B 2006) also places it among the lowest per capita income countries. Considering the fact; the development of any country largely depends upon its economic development, Nepal has embarked upon the path of economic development by economic growth rate and developing all sector of economy. Though it is progressing, the improvement in economic sector is not much significant. Its annual GDP rate is reflecting this.

The process of economic development depends upon various factors, however economist are now convinced that capital formation and its proper utilization plays a vital roles. In this regard, the network of well-organized financial system of the country has great bear. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In this way, financial institutions provide savers highly liquid divisible assets at a lower risk while the investor receives a large pool of resources.

For the economic development of the country, bank plays pivotal role. These are financial institutions that collect idle funds, mobilize them into productive sector, which in return turns out to be an overall development of the country depending on their performance. Bank is considered as the backbone as well as the foundation for the development of the country. They also perform very useful and essential services to the community, thus the progress of modern society is based on it.

The whole credit system of modern banking is built upon the collection and mobilization of fund mainly based on the institution of interest. Commercial banks are the most numerous banks, which offer a full range of services, including current and saving accounts, loans, and trust services. Some of the banks are formed in joint venture. They primarily serve the needs of business but also offer their services to individuals. These banks are established to improve people’s economic welfare and facility, to provide loan to agriculture, industry and commerce and to offer banking services to the people and the country.

Its principle operations are concerned with the accumulation on the temporary idle money of the public for advancing others for expenditure. Two major task of the bank is to accept deposit from the depositors and to lend it to the borrower. Loans are essential aspect of commercial bank. “First, income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community-bank relationship. Third, lending money spurs business development and supports a growing economy.”

Two major tasks of the bank are to accept deposit from the depositors and to lend it to the borrower. Loans are essential aspect of commercial bank. “First, income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community-bank relationship. Third, lending money spurs business development and supports a growing economy.” While investing the fund, banks need to find out the productive sectors, evaluate and analyze the calculative risk. Therefore, policy makers have to make a right decision and adopt right policy on investment to survive in the competitive market.

1.1.1 Meaning of Bank

The bank is a financial institution acts as an intermediary between the individuals who lend and who borrows the money. The word ‘Bank’ developed from Italian terms ‘BENKO’, which, later on, started to be called BANK by Englishmen, and this spread all over the world. In Italian language, BENKO means BENCH. In ancient time, Sunar and Saraphi were exchanging money by putting on the bench. For this reason, the banking carries out the work of exchanging money, providing loans, accepting deposits and transferring the money. Thus, modern banking system originated in Medieval Italy. The first bank; “Bank of Venice” was established in Venice in Italy in 1157 A.D. to finance the monarch in his wars but the modern banking started after the introduction of banking act 1883 A.D. at United States of America. Then after, this trend of banking slowly began to increase and spread initially all over the world.

According to the **Microsoft ® Encarta ® 2009 © 1993-2008 Microsoft Corporation**, "A broader definition of a bank is any financial institution that receives, collects, transfers, pays, exchanges, lends, invests, or safeguards money for its customers. This broader definition includes many other financial institutions that are not usually thought of as banks but which nevertheless provide one or more of these broadly defined banking services. These institutions include finance companies, investment companies, investment banks, insurance companies, pension funds, security brokers and dealers, mortgage companies, and real estate investment trusts."

Aforementioned in view it can be defined that bank is a financial institution that collects idle funds, mobilizing them into productive sector, which in return turns out to be an overall development of the country depending on the performance of the bank. It also performs very useful and essential services to the community. The conventional financial system focuses primarily on the economic and financial aspects of transactions, and the efficiency of any bank lies on the ability of mobilizing funds collected from people, attractive schemes for depositors. Therefore, it can be said that the progress of modern society is based on it. The whole credit system of modern banking is built upon the collection and mobilization of fund mainly based on the institution of interest.

1.1.2 Evolution of Banking System in Nepal

The history of banking was started from the very beginning. It started when goldsmith deposited valuables from people and changes same amount to the people for doing the same. However, in Nepal, banking history is said to be started from 723 AD when a king named Guna Kaman Deva borrowed money to reconstruct his kingdom, Kathmandu. Similarly, Jayasthiti Mall established a caste "Tanakdhari" to lend money to the people.

In 1877 AD "Tejarath Adda" was established as a financial institution during the prime minister ship of Ranoddip Singh. At the beginning only government staff were allowed to take loan at 5% interest rate, later, public were also allowed to take loan, after depositing collateral, at the same rate. Nepal Bank Limited replaced "Tejrath Adda" with the ownership of public and government on 1937 AD under Nepal Bank Act 1937 AD. However, there was a need of Central Bank in the country; therefore, Nepal Rastra Bank the Central Bank of the country came into existence in 1956. Later on, it was followed by another commercial bank called Rastriya Banijya Bank with the full government ownership. Presently besides central office at Baluwatar

Kathmandu, it has seven offices, located at Biratnagar, Janakpur, Pokhara, Siddharthanagar, Nepalgunj and Dhangadhi.

The Nepalese authorities restricted the entry of new bank for many years in order to protect the entry of new bank for many years in order to protect the domestic banks. But, the authorities ultimately lifted its restriction in 1984 on the entry of new banks in the form of joint venture banks (JVB) with foreign collaboration. Presently there are total seven JVBs, two joint venture finance companies and six joint venture insurance companies are operating in economic sector of Nepal.

In Nepal, economic growth and development has been considered as a primal objective of economic planning since the beginning of the first five year plan in 1956. Objectives of the plan were to increase production, employment and to improve the living standard of the people. To fulfill these objectives of planning it was necessary that banking activities especially the loan was to be regulated as per priority. Thus, Nepal Rastra Bank (NRB) was established under the first five year plan with following objective

- To ensure facilities and maintain economy interest of general public of safeguarding the issue of paper currency.
- To ensure countrywide circulation of Nepalese currency
- To mobilize capital for economic development and stipulated in trade and industries
- To achieve stability in its exchange rate and
- Development of banking system of the country

Under the guidance of NRB, the commercial banks have established branches outside of the Kathmandu valley. The growing influence of liberal economic policies in early 80’s first of all appeared in the form of Nepal’s liberal policies in the banking sector. The financial system in Nepal has undergone rapid change particularly during the past decade.

Till March 2011, a total 31 commercial banks along with 83 development banks and 79 finance companies are working in Nepalese market with fierce competition. Recently Central Bank has declared some policies regarding the function of commercial banks. Because of this also the competition has invented many policies on investment of their collected fund. Commercial banks are service oriented business firm with profit motive. In this line, strategy of the Banks is focused to collect the deposits and lends them.

1.1.3 Development of Banks in Nepal

Firstly, in Nepal on the preliminary stage, Prime Minister Ranodeep Singh has established “Tezarath Adda” in 1877 A.D. in Kathmandu. It was fully subscribed by the government and grant loan for government employees. This played a vital role in banking system, which helped to public by providing credit facilities at very low interest rate but only the collateral of gold and silver. Several branches were opened in different part of the country. Tezarath Adda did not accept any deposit that may be the main reason it faced many financial problem in absence of saving mobilization.

Secondly, after the realization of banking institution, for the first time Nepal Bank Limited was established in the year of 1937 A.D. It is the first bank in the banking history of Nepal. Then the essentiality of another bank was realized to control over all the financial aspect of the country and NRB as the country’s central bank was established in 1956. Then Ratriya Banijya Bank (RBB) the second commercial bank was established in 1966. After 1984, the government gradually liberalized and opened up the financial sector, resulting in the rapid entry of the foreign banks. Later, with the grand opening of Nabil Bank Ltd. in 1984, other commercial banks started emerging in the private sectors. As the result now there are altogether 31 commercial banks operating at different parts of the country.

Thirdly, at present, the banking sector is more liberalized and there are various types of bank are operating in modern banking system. This includes central, development and commercial banks. Evolution of the information technology has revolutionized the banking sector is saving lots of time and money by implementing IT. Technology has changed the traditional method of the services of bank. Invention of different software and hardware, which are very essential and available for functioning bank such as Banking software, ATM, E-banking, Mobile Banking and card like Debit card, Credit card, Prepaid card etc which helps the customer as well as banks to operate and conduct their activities more efficiently and effectively. This helps bank to generate more customers, goodwill and profit.

Lastly, besides of these developments in banking sector of Nepal there are only few banks are working in rural sector.

Classification of Financial Institution in Nepal

Types	Numbers
Central Bank	1
Commercial Banks	31
Developments Banks	83
Finance Companies	79

Source: Nepal Rasta Bank

As thesis deals on investment policy of Commercial Banks in Nepal special focus on Nepal Investment Bank Ltd (NIBL) and Siddhartha Bank Ltd (SBL), this paper will concentrated on marketing sector of commercial banks and mainly deals with analytical view on presently available data of both banks. Even though for the comparison purpose few statistical and banking activities of other banks are also being included here.

1.1.4 Types of Banks

There are different types of banks that get differed as according to functions they carry out the services they provide and in how they are owned. Banks normally are categorized as Central Bank, Commercial Bank which also includes JVBs, Development Bank, Exchange Bank, Saving Bank, Co-operative Bank and Indigenous Bank. Many financial experts use the word bank to a commercial bank. These experts believe that savings banks, building societies and credit unions are not true banks because they do not perform all the function of commercial banks. Savings banks building societies and credit unions are in business to encourage saving.

A. Central Banks

Central banks in every country are first & foremost banker to the government. They do not lend money to public. They ensure that their government has the money to pay the bills. These banks are also making sure that the government’s monetary policy is carried out usually by controlling money supply. The Central Bank is responsible for the issuing of currency, and often for the design and printing of notes and the minting of coins. It buys and sells foreign exchange currency markets and intervenes to protect its country’s own currency. By changing interest rates, central banks also affect exchange rates. In Nepal, Central Bank (Nepal Rastra Bank) supervises the commercial banks and guides monetary policy it also oversees foreign exchange rates and the country's foreign exchange reserves. The bank is one of the principal owners of the Nepal Stock Exchange.

B. Commercial Banks

Commercial banks are the most numerous banks. As the name suggest, commercial banks deal with trade, finance and commerce. These offer a full range of services, including current and saving accounts, loans, and trust services. They primarily serve the needs of business but also offer their services to individuals. These banks are established to improve people’s economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. These banks have been playing a great role for the economic development of the country directly or indirectly.

It is established with capital collected by issuance of shares and debentures. Their main function is to prosper the economy through undertaking various investment activities. A shareholder’s, that buy shares in it, owns a commercial bank. In return for investing in the bank, shareholders expect the bank to pay them cash dividend from its profit. Total 31 commercial banks have been providing various services as per the needs and the requirements of the customers.

C. Development Banks

Development banks are established to promote the development of a particular sector of economy. It is the government, which has the responsibility to enhance the development of economic sector such as agriculture, industry etc. They collect fund from shares, debentures, long term deposit and refinance from central bank. They normally give long term loan and provide technical and other advice. The origin of development bank dates back to agriculture and industry revolution in England. Nepal Industrial Development Corporation (NIDC) is the first development bank, which was established in 2018 B.S. Development Act 2052 was introduced under which Nepal

Development Bank was established and a total 89 development banks operating in different sectors.

D. Exchange Banks

Exchange banks deal with foreign exchange. They are specialized in financing foreign trade. They are also known as Export and Import Banks. Such banks facilitate international payment.

E. Saving Banks

Saving banks were created in the early 1800's as charitable institution to provide a safe place for poor working people to save for retirement. The main purpose of establishing saving bank is to promote savings among the public. They accept deposit under various types of saving accounts from small depositors and mobilize them in secured and productive sectors. Such banks were established with the purpose of encouraging the saving habit of the people and to tackle the problem of poverty by encouraging the saving habits among individuals. They are set up by government and usually provide higher interest rate. Trustee saving set up around 1800 A.D were very popular in UK. In Nepal, Hulas Bachat Bank (Postal Saving Bank) was established in 2019 B.S to encourage saving habit of poor. It is out of function in urban areas.

In such banks, pre- information should be required to withdraw the money out of certain limitation. There is no facility of over draft in it. Laws ensure the safety of depositors' money by limiting the investment such banks can make and by insuring the deposits saving banks invest chiefly in mortgages and government bonds.

F. Investment Banks

Investment, or merchant banks, provides long-term loans and capital to industry. They also give advice to companies on such things as takeovers. In the United States, such activities may not be carried out by commercial banks. British merchants formed the first merchant banks in the 1800's.

Traditionally, the main business of merchant banks has been concerned with the acceptance of credit for the financing of international trade and rising of loans for overseas borrows by new capital issues. Recently, they have extended their interests over domestic financing.

G. Co-operative Banks

The banks established under Co-operative Act are known as Co-operative bank. They collect deposit from the members of the co-operative bank and provide loans only to the members. All types of banking services as that of commercial banks is provided only to the members of the bank. Members on the basis of investment also entertain profit. It was first set up in England in the name of Credit Union. In Nepal, Co-operative Act was introduced in 2048 B.S. Navajeevan Co-operative Society Limited operated under this act Nepal Rastra Bank has approved 35 co-operative banks among them to provide limited banking services to customers.

H. Indigenous Banks

People have involved in different types of occupation for their livelihood. Some people engage in banking profession in a traditional way. Indigenous banks are the traditional form of the modern bank which practices banking services privately without banking laws, rules and regulations. Generally, such banks charge higher interest rate in loan. Such banks are found all over the world. They were found since the civilization when development of trade emerged. They are still playing a dominant role in rural sectors. Present banking sector in Nepal are binding with the Acts which were issued in different years as per necessity.

1.1.5 Introduction of Sample Banks (NIBL & SBL)

1.1.5.1 Nepal Investment Bank Limited (NIBL)

NIBL, previously known as Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies, comprising of bankers, professionals, industrialists and businesspersons, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.The name of the bank has been changed to NIBL upon approval of bank's Annual General Meeting, NRB and Company Registrar's office with the following shareholding structure.

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

NIBL is managing by a team of experienced bankers and professionals having proven record of accomplishment with the following Vision, Mission, Value and Ethics.

A. Vision

"To be the most preferred provider of Financial Services in Nepal"

B. Mission

To be the leading Nepali bank, delivering world-class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff, achieve sound financial health with sustainable value addition to all stakeholders. To achieve the mission, it is committed in ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

C. Core Values and Ethical Principles

Core Values tell that the customers and the communities served are; what they are about; and the principles by which it pledge to conduct business. In essence, it believes that success can only be achieved by living with their core values and principles. These are customer focus, quality, honesty and integrity, belief in people, teamwork, good corporate governance and corporate social responsibility.

D. Strategic Objectives

- To develop a customer oriented service culture with special emphasis on customer care and convenience.
- To increase market share by following a disciplined growth strategy.
- To leverage its technology platform and pen scalable systems to achieve cost-effective operations, improved delivery capability and high service standards.

- To develop innovative products and services that attracts targeted customers and market segments.
- To continue to develop products and services that reduces cost of funds.
- To maintain a high quality assets portfolio to achieve strong and sustainable returns and to continuously build shareholders’ value.
- To explore new avenues for growth and profitability.

Branch Network of NIBL

This bank has head office is located at Darbarmarga and opened many branches in Nepal to provide banking services efficiently and continuously. So far presently 38 branches of NIBL has operating in different parts of the country and are interconnected through Anywhere Branch Banking System (ABBS),a facility which enables its customer to do banking transactions from any of these branches irrespective of their having account in other branches.

1.1.5.2 Siddhartha Bank Limited (SBL)

SBL commenced operations in 2002. A group of highly reputed Nepalese dignitaries having wide commercial experience promotes the Bank. It provides a full range of commercial banking services through its thirty-five branches across Nepal.

The environment of Nepalese banking sector is undergoing a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. It is geared to meet the challenges and keep abreast with the changes.

The Vision statement of the Bank describes the core values and purposes that guide the Bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology.

A. Vision

SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern.

B. Mission

The Bank wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

- As a first step, SBL will strive to be in a leading position amongst the banks of its age in terms of profitability, productivity and innovation.
- SBL aims at total customer satisfaction by rendering efficient and diversified financial services through improved technology.
- SBL will build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness.
- SBL will be the place of pride to all its stakeholders.

As other banks SBL also collects deposits, and does international banking including trade financing, inward and outward remittances and funds and portfolio management. Bank has gone to public share where promoters taken 70% of the total share and 30% are distributed to public.

The bank has opened total 25 branches in different parts of the country to provide banking services efficiently and continuously having head office at Kamaladi, Kathmandu. All the branches in the country are interconnected through ABBS, a facility which enables its customer to do banking transactions from any of these branches irrespective of their having account in the other branches.

1.1.6 Some Important Banking Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

A. Deposits

Deposit is the most important source of liquidity for a commercial bank. It is also the main source of fund that a bank usually uses for the generation of profit. Therefore, the efficiency depends on its ability to attract deposits. Banks collects the scattered savings of the public through various accounts type like saving, current, fixed etc. Deposit being the borrowed amount from the depositors or from general public and institutions, it constitutes the liability of a bank. The management of a bank is affected by various factors, like, Types of customers, Physical facilities of bank, Management accessibility of customers, Types and range of services offered by the bank, Interest rate paid on deposits and Goodwill and financial position of the bank.

In addition to the above, the prevailing economic conditions exert a decisive influence on the amount of deposit the bank receives.

B. Loans and Advances

"Loan, advance and overdraft are the main sources of income for a bank. Bank deposits can cross beyond a desired level but level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main services in which customer of the bank can enjoy

Fund borrowed from bank are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases the demand for the fund. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary both ratio to the general customers. Such loan from these institutions would be available on special request only and there is chance of utilization of resources in economically less productive fields. There lies the undesirable effect of low interest rate.

In addition to this, some portion of loan and advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others in mobilization of commercial banks fund, loan advance and overdrafts have occupied a large portion.

C. Off-Balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some examples of these items are letter of credit, letter of guarantee, bills of collection etc. These activities are very important, as they are the good source of profit of bank though they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

1.1.7 Concept of Commercial Banks in Investment

Investment is the use of money to earn profit. The term also refers to the expenditure of fund for capital goods such as livestock, machines, equipment etc. Therefore we can say investment is concerned with management of investors' wealth which are the current income and present value of future income. In broadest sense, it means to sacrifice current rupees for future rupees. Sacrifice takes place in present and is certain. Return comes in future and is uncertain. So, two attributes are generally involved in investment – time and risk. In some case, the element of time predominates i.e. in government bonds in some risk predominate like in call option on common stock and both time and risk predominates in shares or common stock. The reward comes later and funds to be invested come from assets already owned borrowed money, savings or forgone consumption. Investors have to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other factors.

The purpose of the study is to analyze and examines how far the present investment policy of NIBL is effective in encouraging the entrepreneurs to invest in different sectors. An investment policy is an important ingredient of overall National economic development because it ensures efficient allocation of funds to achieve the material and economic well being of society as a whole. "Investment policy should incorporate several elements such as regulatory environment, the availability of the funds, the selection of the risk, and loan portfolio balance and term structure of the liabilities." In this regard, the investment policy of NIBL in comparison to SBL is also a push drive to achieve priority of industries in the context of economic development of Nepal.

A. Investment on Government Securities, Shares and Debentures

Though a commercial bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend by treating it as a second source of banking business. A commercial bank may extend credit by purchasing government securities bonds and shares for several reasons. Some of them are given as:

- It may want to space it maturates so that the inflow of cash coincide with expect withdrawals by depositors or large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial banks is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

B. Investment on Other Company's Share and Debenture

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debenture of regional development bank, NIDC and other development banks.

C. Priority & Deprived Sector Investment

Priority sector includes micro and small enterprises, which help to increase production, employment and income as prioritized under the national development plans with an objective to uplift living standard of general public. Many directives have been introduced and amended as per the requirement by NRB. Commercial banks are directed to invest 5% in priority sector with inclusive of 3% in deprived sector. The credit limits in the priority sector has been raised to Rs 2 million from Rs

1 million on agricultural and service sector and from Rs 1.5 million to Rs 2.5 million on cottage and small-scale industry.

Likewise deprived sector credit includes low income and particularly socially backward women, tribes, physically impaired groups etc. Deprived sector investment is advanced up to Rs 30000 per borrower of micro credit programs and projects. However, priority sector credit programme is being phased out by NRB.

1.1.8 Sources of Investment Risk

There are the various sources, which continually provide the various risks to the operation of the banks. Such risks should be minimized as much as possible. Following points represent the various risks the bank may face in its course of operation.

A. Business Risk

It refers to the uncertainty about the rate of return caused by the nature of business. The firm’s sales are not guaranteed and will fluctuate as the economy fluctuates or nature of industry change. It's related to sales volatility as well as to the operating leverage caused by the fixed operating expenses.

B. Financial Risk

The firm’s capital structure or sources of financing determine financial risk. If the firm is all equity financed, then any variability in the operating income is passed directly to net income in an equal percentage basis. If the firm is partially financed debt that requires fixed interest payment or by preferred stock that requires preferred dividend payment which introduces financial leverage. The introduction of financial leverage causes the firms’ lenders and its stockholders to view their income as having additional uncertainty.

C. Liquidity Risk

It is associated with the uncertainty created by the inability to sell the investment quickly for cash. The arrangement of cash receipts and cash payments is ascertained to ensure that there is no mismatch between the timing of receipts and payments of cash. When there is huge mismatch, liquidity crises arises.

D. Default Risk

Default risk is related to the probability that some initial investment won't be returned. Some default risk is undiversifiable because it is systematically related to the business cycle which affects almost all investments. However, some default risk may be diversified away in a portfolio of independent investments.

E. Interest Rate Risk

Money has its time value. Fluctuations in interest rate will cause the value of investment to fluctuate also. Although interest rate risk is most commonly associated with bond price movements, movement in interest rate affects almost all investment alternatives.

F. Management Risk

Decisions made by a firm's management and board of directors materially affect the risk faced by the investors. Areas affected by these decisions range from product innovation and production methods, financing to acquisition.

G. Purchasing Power Risk

Purchasing power risk is perhaps most difficult to recognize than the other types of risks. It's easy to observe the decline in the price of a stock or bond but it's often more difficult to recognize that the purchasing power of the return that the investor has earned on investment has declined as a result of inflation or deflation.

1.1.9 Principles of Investment

There are various aspects which have to be taken care of while making investment. Investment should be made with due care and observation as failure to do so might result in the failure of the banks as well. So following factors should be taken care of while making investment.

A. Liquidity

The commercial banks are considered as financial mediators. Generally people deposit their earnings in different accounts of the bank having confidence that the bank will repay their money whenever it is needed. Liquidity is the ability of the firm to satisfy its short-term obligations as they become due. Scrupulous care must be taken to see that the funds lent are not subject to any undue risk of being lost due to deployment for unproductive or speculative ventures or due to dishonesty of the borrowers. The recovery of a bank's money will be ensured when the advance goes to the right type of borrower and is utilized in such a way that it will be safe at the time of lending but will remain so throughout.

B. Safety

The security offered against the loan can be of various types. It may vary from a piece of land or a building to bullion. Whatever may be the security, a banker has to realize that it is only a cushion to fall back upon in case of need and its adequacy alone should not form the sole consideration for advance. It must be ensured that the security when accepted must be adequate, readily marketable easy to handle and free from burden.

C. Profitability

Any advance given has to be profitable, otherwise banks cannot run. Sometimes, the loan may not appear profitable but it may bring substantial deposits or foreign exchange business, which may be remunerative to a bank. A banker has to see that the advance is on the whole profitable. Lending rates are affected by bank's internal policy like credit rating of the borrower; interbank competition and NRB directives on lending rates.

D. Spread

A successful banker is one who manages his risks. One of the tools of management is to spread his advance portfolio not only among many borrowers but also to diversify lending to different types of industries and against different types of securities.

1.2 Statement of Problem

At present, various commercial banks are rapidly increasing but with mismatch balance between deposit and investment in Nepalese economy. This has decelerated the pace of economic development. Because of the unbalanced situation between deposits and investment condition, commercial banks are in a position of liquidation. To overcome this problem these banks are adopting various investment policies considering their marketing strategy. Even though few commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. The commercial banks must make profit to survive in the competitive market by adopting proper and suitable investment policy. Therefore, it is necessary to study about the customer satisfaction and the service provided by the banks to the customers.

The lack of knowledge of financial risk, interest rate risk, management risk, business risk, liquidity risk and purchasing risk etc. are the main problem facing by them. Granting loan against insufficient deposit, over valuation of goods pledged, land and building motoraged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound investment policy sighted in the banks.

Thus, this study will make a modest attempt to analyze investment policy of NIBL comparing it with the SBL. The problems specially focused to investment policy by comparing the marketing strategy of the commercial banks of Nepal will be analyzed as under:

- What is the position of NIBL in mobilizing fund with the reference providing services and products that fulfill the customer's needs in comparison to SBL?
- Did the Bank have done the research about the customers when they launch the new product to the market in the process of collecting deposits for a long period?
- What is the relationship between various important variables of NIBL i.e deposits, loan and advances, total investments and net profit in comparison to SBL?
- What is the liquidity, efficiency of assets management, profitability and risk position of NIBL in comparison to SBL?
- Is the investment policy focused to certain group or for the whole society in regard to contribute national development?
- What is the trend of deposit collection, its utilization, net profit and its projection?

1.3 Objectives of the Study

The main objective of this study is to evaluate comparatively adopted by NIBL and SBL to gain the goodwill and customers' satisfaction . But the specific objectives are:

(i) To assess the current investment policies of both banks.

(ii) To examine the fund mobilized of NIBL and SBL.

(iii) To analyze the relationship of total investment and net profit of bank.

(iv) To analyze the liquidity, asset management , profitability, risk and change percentage of NIBL and SBL.

1.4 Hypothesis

NIBL and SBL have been operating from many years in Nepalese economy with considerable competition. They have collected cooperatively enough deposit from the beginning and are in somehow profitable position from the beginning in comparison of other majority of commercial banks. Due to the prevailing security situation, less availability of investment opportunities and other internal affecting factors commercial banks still need put their effort to gain profit which is important not only to banks but also for shareholders and depositors. The bank must make profit to survive in the competitive market, where a lot of money and very little investment opportunity exit.

The profit will be achieved by making proper investment in the form of loan and advances and investment on government securities. Therefore appropriate investment policy if applied as the basic function by all joint venture commercial banks and institutes they could stand in better position in competitive market.

1.5 Significance of the Study

The commercial banks play vital role in economy of various sectors of the country. As well, some of them are in liquidation position and adopting various strategies to get deposit by providing customer service could not mobilize their deposits in a safe manner in productive sectors. Since all the commercial banks along with other financial institutions are operating in high competition under the policy of Central Bank, a deep and thorough study of it is necessary and acceptable. As the parts of 31 commercial banks, NIBL and SBL are also operating in Nepalese economy sector with high competition. This competition has invented many new products as needed by the customers so as to invest a good sum of fund in suitable sectors. For the collection of funds, banks are developing new products and services with the help of new modern technologies as per the needs of customers.

This study gives brief knowledge about the customers' needs, way to achieve and strategy to cope, customers' satisfaction and detail knowledge about investment with analytical study regarding competitors' plans, focused groups etc. This report will be helpful to the students who are interested to know about the investment policy of joint venture banks in Nepal. This study is expected to be helpful to the policy makers in making new strategy for the investment as well as to modify the present policy if needed for future market development.

1.6 Limitation of the Stud

The following factors are the basic limitations.

(i) This study has focused in two banks (NIBL and SBL) only.

(ii) Even to some primary data are used, but the study is mainly based on secondary data.

(iii) This study has covered a period of five years starting 2005/06 to 2009/10 only.

1.7 Organization of the Study

The study has been organized into five different chapters. Which are follow.

(i) Chapter I - Introduction

It includes general introduction regarding the meaning, evolution and development of banks, limitation of the study, statement of the problem, objective, hypothesis, significance and organization of the study.

(ii) Chapter II - Literature Review

It includes review of books, articles, research papers and thesis.

(iii) Chapter III - Research Methodology

It covers the research methodology & design, population and sample, source of data, data collection procedure and methods of analysis.

(iv) Chapter IV - Data Analysis and Presentation

This chapter attempts to analyze and evaluate data with the help of analytical tools, procedure and interprets the result obtained.

(v) Chapter V - Summary, Conclusion and Recommendations

It sums up the results obtained through analysis and recommends some suggestions. This chapter will highlight the major findings of the study work.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Review

In the process of preparing this thesis some available literatures related to investment policy and marketing strategy of commercial banks were reviewed. For this all available national and international banking journals, research and non research reports, books, articles and internet web sites were referred.

2.1.1 Commercial Banks

Commercial banks are major financial institutions, which deals in accepting deposits of persons and institutions and in giving loans against securities. It occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resource deficit sectors by investing the saving collected as deposits. Besides this, commercial banks render numerous services to their customer in view of facilitating their economic and social life. They also provide technical and administrative assistance to industries, trades and business. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus, Commercial banks become the heart of financial system.

The first commercial bank and the first bank of Nepal started since 1994 B.S. in the name of the Nepal Bank Ltd. Again, in 2022 B.S., RBB was established under Rastriya Banijya Bank Act 2021. Since 2041 B.S., Agricultural Development Bank has also been allowed to serve commercial functions. Other so many other banks after the restoration of democracy in the country have also been stabilized.

Their main functions are as follows:

- To accept deposits
- To provide loan
- To purchase bill/letter of exchange
- To transfer money
- To serve agency function
- To work for foreign currency exchange

- To open letter of credit
- To help in issuing capital

2.1.1.1 Strategies of Commercial Banks

Commercial banks are focused on collections of deposits and utilizing them to get interest. For this, they have set different types to strategies given as follows:

- Deposits Collection Strategy
- Lending Strategies
- Service Strategies

Deposits are the main source of funds for the commercial Banks. They collect deposits from individuals, local market, firms, government and non-government organizations, schools, collages etc. Interest bearing and non-interest bearing are types of deposits.

Commercial Banks have launched different products in the market for collection of adequate deposits so as to lending it. Deposits are the lifeblood to the commercial Banks.

2.1.2 Joint Venture Commercial Bank (JVB)s

Joint venture banking scenario is not so long in Nepal. After the political reformation I 2046 BS, the elected government, it introduced liberal and market oriented economic policy which facilitated the establishment of JVBs and pointed a new horizon to the financial sector of Nepal. Presently total 7 JVBs are operating in Nepalese financial sector and Nepal Arab Bank Limited (NABIL Bank Ltd) is the first JVB of Nepal.

JVBs pose a serious challenge to the existence of the inefficient native banks but the same challenge can be taken by the domestic banks as an opportunity to modernize themselves and sharper their competitive zealous. It is undoubtedly true that the JVBs are already paying an increasingly dynamic and vital role in the economic development of the country. At present the financial institution of the country has been effortful to mobilize resources on one hand, the major part of the few individual where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution of these problems to encourage competition in the banking sector, a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted; this will promote competition among banks whereby the clients will get improved facilities addition, the share of the new banks will also be sold to the general public and while distributing the share, it will be ensured that the ownership is spread out to the maximum extent possible.

In the present economic scenario, the need and role of the JVBs need not be overemphasized. JVBs definitely help to boost the economy through various productive undertakings. JVBs work as an intermediary between two groups. The most important bank functions were lending and investing money, making payments on behalf of customers for their purchases of goods and services, managing financial assets and real property for customers and assisting customers in investing and raising funds.

2.2. Bank Marketing Strategy

Strategy is the bridge that relates the capabilities of organization with its objectives. All the profit and non-profit organization, Government and non-government organization have a goal to achieve. In addition, for this purpose they all make a strategy to achieve the goal. Like a commercial bank is a service oriented business firm with profit motive. Bank collects deposits and lends them to earn profit. In this line a strategy of the Banks are focused to collect the deposits and lends them.

Strategy is related with competition. This is a globalization time and there we found many competitors in the market. Therefore, a marketing manager has to make a right decision and right strategy to survive in the market. As per Philip Kotler, "Marketing is a social and managerial process by which individuals and groups obtain what they need and what through creating, offering, and exchanging products of value with others." (Prentice Hill of India Pvt. Ltd.: 1991: p. 15)

Thus, we knew that marketing strategy is a chain of works that can achieve the goal and hit the targets. While making a marketing strategy, it is required to select the target market and assemble the marketing mix.

2.3 Deposits Collection Strategies of Commercial Banks

Deposits are the main source of funds for the commercial Banks. Banks collects deposits from individuals, local market, firms, government and non-government organizations, schools, collages etc. Commercial Banks have launched different products in the market for collection of adequate deposits. Deposits are the lifeblood to the commercial Banks. If there are no deposits there is no lending. Deposits are of two types, Interest bearing and Non-Interest Bearing.

Some Deposits Product launched by NIBL and SBL are as follows:

A. Nepal Investment Bank Limited:

(i) **E-zee Saving Scheme**

- 2.75% interest rate
- Lucky draw upto Rs. 50,000 per month
- Minimum balance Rs.50,000.00
- No key deposit amount for lockers
- Following free services:ABBS, ATM Cards, Tele banking, E-banking, Accidental Insurance, Privilege lounge, Unlimited withdrawal.

(ii) **Pariwar Bachat Khata**

- Monthly minimum deposit Rs.500.
- Minimum balance Rs.2, 500.
- Interest 3% p.a
- Maturity 3 yrs to 16 years.
- Accidental insurance Rs.50,000.
- 50% discount on locker facility
- Free ABBS charge.

B. Siddhartha Bank Limited:

(i) **Normal Savings Account:**

- Interest 5%
- Minimum balance Rs.1, 000.
- Free debit Card.
- Cheque issue on minimum balance of Rs.2, 500.

(ii) **Special Savings Account:**

- Interest 4.25 %
- Minimum balance of Rs.50,000.

- Free debit Card.
- Free Accidental Insurance Coverage upto Rs.500,000.
- Discount on issue of Travelers cheques.
- Interest on daily balance.
- No restriction on withdrawal and deposits.
- 50% discount on home loan processing fee.
- Free account statement on request.
- Preference on locker facility

(iii) **Siddhartha Remit Account:**

- Interest Rate: 5% per annum on daily for NPR account and 2.5% per annum on daily basis for USD account.
- Account can be opened with zero balance.
- Free debit Card
- Free debit card.
- Free any branch banking services.
- Free internet banking and chequebook facility.
- No restrictions in withdrawals
- Special discount on Home and Personal Loan processing fee
- No charges in TC sales to the account holders and their spouse and children
- Travel loan against acceptable securities.

(iv) **Siddhartha Investor's Account:**

- Only for any equity investor investing on NEPSE listed equities.
- Other features remaining same as Siddhartha Normal Saving account.

(v) **Fixed Deposits Account:**

- Interest 4.25%
- Maturity up to 6 months to 10 Years.
- Interest Payable Quarterly.

(vi) **100 Days Fixed Deposit:**

- Interest Rate: 11% pa
- Maturity: 100 days

- Interest Payable at maturity

From the study of above schemes of commercial banks following aspects have been found:

- Banks have brought some innovative ideas, technologies that attract the depositors like: Internet Banking, ATM Card, Mobile Banking etc.
- Banks are on the way of interest war. Banks are attracting the depositors by offering them higher rate of interest in deposits.
- Privilege banking services are being offered by some of the banks to other valued customers.
- Some deposits schemes are launched for some potential groups of people. For instance, NIC Shiksya Kosh, NB Banks Grihini Bachat Khata, BoK Grihalaxmi Bachat, BoK Jestha Lagani Kosh etc.

Banks are also focused on insuring the depositors by doing medical and accidental insurance of the depositors

2.3.1 Deposite strategy of NIBL

NIBL is one of the older banks in Nepal. It has launched different depository products through different branches in the country. NIBL has also focused on different target groups to collect the deposits. NIBL has launched Ezee Saving Schemes; Pariwar Bachat Khata etc in the market and response of these products are satisfactory. NIBL also offers better interest in the deposits scheme. The comparative interest of NIBL with other banks is higher and the ratio of deposits in NIBL is also higher than other Banks.

2.3.2 Depositing strategy of SBL

Siddhartha Bank limited has commenced their operation on 2002 and since the Bank has launched Normal Saving and special saving account product in the market. The response of these products is also better and deposits collection is satisfactory till date. In comparison with other banks SBL is new one so, the Bank has to launch other new products to the market and also have to focus on target group of peoples. SBL is providing ATM card, e-banking facility, locker facility, ABBS facility to the customers.

2.4. Investment Policy

Investment is pre-requisite for economic development of the country. Therefore, the significance of Investment needs no stressing. Before making any decision on Investment we must be well informed about the factors, which affect Investment. Investment decisions related with saving, capital formation, capital market, risk involve with it, return, inflation etc.

Saving can be defined as income which is not consumed. It is one of the important and perhaps the chief sources of Investment. In developing countries about 45% of the incremental saving is invested domestically, while in developed countries about 75% of the incremental saving is invested domestically. This suggests that capital is more mobile in developing countries than in developed countries. Savings are of great significance in a country's development. While saving results in high economic growth rate, rapid development leads in turn high savings. Nepal's saving rate is lower as to other developing countries, however, even to achieve 5 to 6 percent economic growth rate, more than 25% annual Investment of GDP is considered necessary. The situation is such that huge portion of Investment has still to be made with external resources. The amount of saving of a typical household in Nepal is small because of the people have limited opportunities for Investment. They prefer to spend savings on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring benefits such as reduction of Investment risk and increase in liquidity. When capital is highly mobile internationally, saving from abroad can also finance the Investment needed at home. When capital is not mobile internationally, saving form abroad will limit Investment at home.

Wherever there is Investment there must be Capital formation. The development of an economy requires expansion of productive activities, which in turn is the result of the capital formation, which is the capital stock of the country. The change in the capital stock of the country is known as Investment. Therefore Capital formation is closely related to Investment. Investment generally takes two forms:

- Financial Investment and
- Physical Investment

Physical Investment related to real Investment in the economy or industry, which is known as Capital formation. Capital formation shows the change in gross fixed assets of productive units of manufacturing industries.

Capital formation refers to the creation of physical productive facilities such as building tools, equipment and roads. The process of adding to the amount of stock of the real assets produces growth in the economy. It means increasing a country's stock of real capital. It implies additions to the existing supply of capital goods in a country. It represents an addition of new capital stock to existing stock after deducting depreciation, damage and other physical deterioration of the existing capital stock. Economic progress in country depends upon its rate of capital formation. Hence, a key factor in the development of an economy is the mobilization of domestic resources. In the process of capital formation, the capacity to save by certain classes of people an institution becomes quite important. These people have varied asset-preferences, which change from time to time. The need of entrepreneurs who actually use savings for productive purpose also varies over time.

Capital formation is regarded as one of the important and principal factors in economic development because it leads to the expansion of market. A rapid rate of capital formation gradually dispenses with the need for foreign aid. In fact, capital formation helps in making a country-self-sufficient and reduces the burden of foreign aid. The process of capital formation helps in raising national income. Therefore, capital formation is necessary pre-requisite for economic growth. And without Investment capital formation is not possible.

Investment activities greatly depend on the development of capital markets. Capital markets are characterized by a number of characteristics, which make them suitable to serve a means for capital resources mobilization and channeling the resources for the Investment. The government as well as private sector undertakes Investment. Investment can be made either on proprietorship business, partnership business or on large company. Proprietors or partners might use their own funds or borrow loan from banks for Investment but to establish industrial company of large type investors own saving may not be sufficient. Therefore, they usually floats share in capital market.

In the absence of well-developed capital market it is not possible to arrange capital through the sale of shares. The concept of capital market in Nepal began with the flotation of share by Nepal Bank Limited and Biratnagar Jute Mills in 1937.

The stock market is a recent development in Nepal with the incorporation of the securities Exchange Act, 1983 and Conversion of the securities Exchange Center into the Nepal Stock Exchange. Under the government policy on capital market reforms has greatly contributed to the development of primary as well as secondary market for the corporate securities.

Development and expansion of capital market are essential for the rapid economic growth of countries like Nepal. Capital market helps economic developing by mobilizing long-term capital needed for productive sector.

The main objective of capital market is to create opportunity for maximum number of people to get benefit from the return obtained by directing the savings towards the productive activities.

Tax laws play a major role in the way securities are priced in the marketplace because investors are understandably concerned with after tax returns not before tax return. Accordingly, the investors should determine the tax rate applicable to him or her before making any Investment decisions. This tax rate is not the same for all securities for given individual investors. It can be low in the case of certain tax exempt securities issued by states and municipalities or small tax is levied on NGO, foundation etc. And it may be as high as 40% for corporate bonds when both federal and state taxes are considered. Income earned by proprietorship and partnerships is taxed primarily through the personal income tax levied on their owners. Income earned by a corporation may be taxed twice. Once when it is earned, via the corporate income tax and again, when it is received as dividends by holders of the firm’s securities via the personal income tax. After determining the applicable tax rate the investor can estimate a security’s expected return and risk. Upon doing so, an investment decision can be made wisely.

Although the corporate income tax is an important feature of the investment, its impact on most individuals is indirect. The provisions of personal income tax laws that deal with the treatment of capital gains and losses have had a great impact on investors' behavior. There are features of tax code that virtually all investors should consider. Specially, investors should take advantage of the opportunities available to invest their money on a before tax basis where, in addition, the income earned on the initial Investment grows tax free.

Inflation is a major concern for investors. By and large, people have come to fear significant inflation, particularly when it is unpredictable.

Capital rationing is likely to result in Investment because depreciation charges do not reflect replacement costs & firm’s taxes grow at a faster rate than inflation. In estimating cash flows one should take account of anticipated inflation. Otherwise a bias arises in using an inflation-adjusted required return & non-inflation-adjusted cash flows and there is a tendency to reject some projects that should be accepted. (Van Horne: 1996: p.168)

There is no completely satisfactory way to summarize the price changes that have occurred over a given time period for the large number of goods and services available. Nevertheless, the government has attempted to do so by measuring the cost of a specific mix of major items at various points in time. The ‘overall’ price level computed for this representative combination of items is termed as a cost of living index. The percentage change in this index over a given time period can then be viewed as a measure of the inflation (or deflation) that took place from the beginning of the period to the end of the period.

The simplest view of investor’s attitudes toward inflation is that they are concerned with real returns, not nominal returns and that a single price index is adequate to characterize the difference. Looking to the future, investors do not know what the rate of inflation will be, nor do they know what the nominal return on an Investment will be. However in both cases they have expectations about what these figures will be which are denoted as Expected inflation rate (EIR) and Expected nominal return (ENR), respectively. Thus the Fisher Model Implies that ERR (Expected real return) on an Investment can be approximated by:

A. ERR ≈ ENR – EIR

Total risk of security can be divided into systematic and unsystematic components. Systemic risk is risk that cannot be diversified away for it affects all securities in the market. Unsystematic risk is unique to the particular security and can be eliminated with efficient diversification.

Internal rate of return (IRR) and Net present value (NPV) are the only appropriate means by which to judge the economic contribution of an Investment proposal. The important distinctions between the internal rate of return method and the Present value method involve the implied internal rate of return. (Van Horne: 1996: p.167)

B. Lending Strategy of Commercial Banks:

The collected deposits must be lends to the needy people, by which the bank can earn interest. Interest is must to the banks because the interest will be distributed to depositors (for interest), salary of staffs, dividends to shareholders, rents, other office expenses etc.

Banks are providing different types of loans listed below:

- Overdraft
- Personal Loan
- Term Loan
- Letters of Credit
- Education Loan
- Home Loan
- Trust Receipt
- Hire Purchase Loan etc.

Bank has done different marketing strategies for lending the funds like reducing the interest rate, diversifying the loans etc.

2.5 Loans Offered by different Commercial Banks in the Market

A. Everest Bank Limited:

(i) **EBL Education Loan:**

- Should be Nepali citizens
- Should have regular source of income
- For Students education like admission fees, lodging, books & Stationary, monthly fees etc.
- For SAARC Countries: Rs.10 Lakhs

- For Abroad: Rs.15 Lakhs.
- No Margin money required
- Personal Guarantee of parents required
- Fixed collateral required
- Repayment starts after one year of completion of study or one month after getting the job, whichever is earlier.
- Principal amount should be paid in 48 monthly installments.

(ii) **EBL Home Loan:**

- Interest rate 8.5% to 9.5% p.a.
- Applicant should have a permanent source of income
- Applicant normally should not be more than 60 years
- Income should be double than EMI
- Repayment: Equal monthly installment up to 15 years.
- Margin Security:25% of fixed assets
- Security: Mortgage of Property
- Personal Guarantees

(iii) **EBL Flexi Loans**

- Loan against mortgage.
- Minimum loan amount:Rs.5 Lakhs
- Maximum loan amount: Rs.40 Lakhs
- Security: Mortgage of Property
- Personal Guarantees.
- Either Overdraft or Term loan will be given to borrower.
- Repayment: EMI basis on Term Loan for 60 months
- Insurance to be done of property

(iv) **EBL Professional Loan**

- Loan for self employed persons like doctors, chartered accountants, engineers etc.
- Security: mortgage of property and hypothecation on movable assets.
- Repayment: EMI within 5 years.

(v) **EBL Property Plus**

- To buy the property.
- Financing upto 80 % of valuation
- Repayment: EMI Basis
- Insurance of property

(vi) **EBL Hire Purchase**

- To purchase the vehicle
- Security: Vehicle and fixed assets
- Repayment: EMI upto 5 years
- Registration of vehicles in Banks name
- Insurance of vehicles.

B. Macchapuchhre Bank Limited:

(i) **Home Loan**

- Interest 8.5% to 9.5%
- 75% of valuation amount shall be disbursed
- To Purchase of land or construction of building
- Repayment: EMI Basis
- Loan Amount:Rs.5 Lakhs to 50 Lakhs
- Security: Mortgage of Property

(ii) **Auto Loan**

- To purchase of vehicles
- Interest : 8.5% to 9.5%
- Security: Vehicle & Personal Guarantees
- Insurance of the vehicle
- Repayment: EMI

(iii) **Education Loan:**

- To further study
- Loan up to Rs.10 Lakhs
- 0.5% Service charge
- Security: Mortgage of Property and Personal Guarantee
- Must be at least 18 years old
- Interest rate: 11.5%.

- Repayment: EMI Basis

(iv) **Foreign Employment Loan**:

- To go foreign for employment
- At least 21 years old
- Confirmation letter from the company
- Loan amount up to Rs.150, 000.
- Interest rate 11.5% p.a
- Service charge:1% of loan amount
- Repayment :EMI basis
- Visa Copy

C. NIC Bank Limited:

(i) **NIC Home Loan:**

- For purchase or construction of building
- Finance up to 75 % of valuation
- Interest rate:6.99% to 9.99%
- Security: Mortgage of Property and Personal Guarantees
- Repayment: EMI basis
- Loan amount: Rs.5 Lakhs to 150 Lakhs
- 25% discount on locker facility
- Free ATM card

(ii) **NIC Small Business Loan:**

- For short term working Capital
- Interest 8.99% to 11.49%
- Security: Mortgage of Property & Hypothecation of movable assets
- Loan amount 5 lakhs to 1 crore
- Repayment: EMI Basis within 6 years

(iii) **NIC Auto Loan**

(iv) **NIC Travel Loan**

D. Bank of Kathmandu Limited:

(i) **BoK Education Loan:**

- Interest rate:10%
- Processing fee:1%

- Prepayment fee:0.5%
- Repayment: EMI Basis
- Tenure: Maximum 10 Years
- Security: Mortgage of Property and Personal Guarantees

(ii) **BoK Home Loan:**

- Interest: 9.5%
- Financing upto 70 % of valuation
- Repayment: EMI Basis
- Security: Mortgage of Property and Personal Guarantee
- Tenure: Upto 15 Years

(iii) **BoK Hire Purchase**

- Interest: 8 % to 11 %
- Financing upto 70 %
- Tenure: 5 years
- Repayment: EMI Basis
- Security: Vehicle & Personal Guarantees

E. Siddhartha Bank Limited:

(i) **SBL Home Loan**

- Interest: 14% to 16%
- Tenure: Up to 15 Years
- Repayment: EMI Basis
- Security: Mortgage of Property
- Financing up to 70 % of Valuation

(ii) **SBL Personal Loan**

- Mortgage of property
- Interest 15% to 17%
- Tenure upto 15 Years
- EMI Basis
- Financing up to 57 % of valuation

(iii) **SBL Auto Loan**

- Interest: 14 % to 16 %
- Financing upto 70 %

- Tenure: 5 years
- Repayment: EMI Basis
- Security: Vehicle & Personal Guarantees

(iv) **SBL Education Loan**

- Interest rate: 14% to 16%
- Processing fee:1%
- Prepayment fee:1%
- Repayment: EMI Basis
- Tenure: Maximum 10 Years
- Security: Mortgage of Property and Personal Guarantees

The other loans given by the commercial banks are as follows:

- Term Loan
- Working Capital Loan
- Project Loans
- Time Loan
- Trust Receipt
- Letters of Credit
- Guarantees etc.

As we see that due to country's unstable political situation and frequent disturbances in the country, Banks are diverted on consumer financing or short term financing. Because of political instability and frequent disturbances in the country long term financing is risk full now a days. Thus, the commercial banks have diverted their focus on short tern consumer loans like Home Loan, Auto loan, Personal Loans, Education Loans etc. These loans are of low risk.

The interest rate provided by Bank of Kathmandu is minimum than Siddhartha Bank Limited because BoK is older bank than operating cost of BoK is minimum than SBL.

2.6 Service Strategy of Commercial Banks

Now a day Banks are providing different services to the customers. In this competitive world, one has to survive by launching different types of products and services in the market. Some banks are offering home banking services, privilege banking services to their valued customers.

Services provided by different Banks are as follows:

A: Bill Payment Facilities

Banks are providing services to pay the bills of telephones, mobiles etc. Bank of Kathmandu, Laxmi Bank, Machhapuchhre Bank are providing these facilities to the customers.

B. Card Facilities

Banks have offering two types of cards; Debit Card and Credit Card. These cards are convenient financial management tools. A Debit Card is a payment card, which enables customers with the option of making purchases at merchant locations as well as cash withdrawal from ATM's with access to bank account. A Credit Card is a payment card, which enables customers with the option of making purchases on credit. Credit card is designed with the concept of spend now and pay later.

They offer many benefits, however at the same time they also carry many responsibilities to the holder thereof. They provide freedom from the burden of carrying cash. Credit cards have very wide applications, wider than the currency notes and safer than them too.

C. Mobile/Internet Banking Facilities

Due to innovation in technologies and competition in the banking market, banks are launching different types of innovative products in the market. Banks had launched Mobile banking, internet-banking facilities in the market. We can know our balance, transfer of funds, issuing drafts etc by mobile/internet banking. Siddhartha Bank had just launched "Siddhartha *i* connect", an Internet banking facility.

D. Remittance Facilities

Banks are also providing inwards and outwards remittance facilities to the customers. Job opportunity in the third country is better abroad and the most of the younger generation of the country are going abroad for job opportunities. It has been revealed by the NRB data that about Rs. 200 billion is being remitted to Nepal legally every year. Different Banks are providing different money transfer schemes in the market like:

- Bank of Kathmandu has launched BoK money transfer.

- Himalayan Bank Limited has launched Himal Remit.
- Laxmi Bank Limited has launched Express Money Transfer, which mainly remit money from Malaysia.

Most of the other Banks are providing the remittance facility via the channel of Western Union Money Transfer, an international money transfer agency.

2.7 Review of Books

Country's growth rate is largely depending on Investment and commercial banks are key for investing funds in productive works as they deal with money. They collect funds and utilize it in a good Investment, which is not an easy task for them. Therefore an Investment of fund may be the question of life and death for the bank. They must have effective and good Investment policy to exist in this world of competition.

Different people had defined Investment in different terms. According to Clark Investment means sacrifice of current money for future money.

According to Investment agreement in the Western Hemisphere of American states (2003), the term Investment comprise any kind of asset, invest by an investor of one contracting party in the territory of the other contracting party, according to the latter's laws and regulations. The Investment doesn't mean real estate or other property, tangible or intangible not acquired in the expectation or used for the purpose of economic benefit or other business purposes.

There are mainly 3 concept of Investment:

- Economic Investment-that is an economist's definition of Investment.
- Investment in a more general or extended sense, which is used by "the main of street"
- The sense in which we are going to be very much interested, namely financial Investment.

Frank.K. Reilly in his book "Investment" has defined investment as the current commitment of funds for a period to derive a future flow of funds that will compensate the investing unit for the time the funds are committed for the expected rate of inflation.

The problem of the Investor is to select the funds whose objectives and degree of risk taking most closely match its own situation. The one that will accomplish for him what he would wish to do for himself if he could diversify and manage his own holdings. (Bhalla: 1983: p.2)

Many authors have resorted to empirical studies regarding the relationship between Investment and growth. In world book (2000), it states that Investment promotes economic growth and contributes to a nation's wealth when people deposit money in a saving account in bank. For example, the bank may invest by lending the funds of various business companies. These firms, in return, may invent the money in new factories and equipment to increase their production.

2.8 Review of Articles /Journals

During study some related articles published in different books, economic journals, World Bank Bulletin, magazines, newspaper has been examined and reviewed.

Shrestha Shiba Raj (2004) in his article "Portfolio Management in commercial Bank, Theory and practice" has emphasized that portfolio management is essential for individual and institutional investors. He explained that the small investor as they are not left with much of an option, may be limited to small savings, but for large investors, diversification through investment in mutual funds, shares, debentures should be practiced, as any rational investor would seek to derive the maximum return on investment although assuming some risk at the same time. A best mix of investment assets fulfilling the under mentioned aspects are preferred by prudent investors. They are:

- Higher return which is comparable with alternative opportunities available not undermining the risk taking capability of the investor undermining the risk taking capability of the investor.
- Adequate liquidity with sufficient safety and profitability of investment.
- Maximum tax concessions.
- Certain capital gain and flexibility of investment.
- Economic, efficient and effective mix of investment etc.

With these in view, the following strategy needs to be adopted:

- To have a portfolio of different securities and not just holding a single Security.
- Don't invest in a single company or single sector. Investment should be practiced for adequate safety, liquidity and profitability.
- Choose such a portfolio of securities, which ensures maximum return with low degree of risk and uncertainty.

For designing & managing good portfolio, he has suggested following approaches:

- Search investment assets which have scope for better returns, depending upon individual characteristics; age, health, need deposition, liquidity & tax liability etc.
- To identify securities for investment to reduce volatility of returns and risk.
- To develop alternative investment strategies for selecting a better portfolio which will ensure a tradeoff between risk and return to attain the primary objective of wealth maximization at lowest risk.
- To find out the risk of the securities depending upon the attitude of investor towards risk.

Shrestha has also recommended that banks in order to succeed in portfolio management should have skilled manpower, research and analysis team, and proper management information system. He has suggested that the banks having international network can also offer access to global financial markets. He has also stressed that:

- The survival of every bank depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standard and give their clients the benefits of global strength, local insights and prudent philosophy.
- The Nepalese banks having greater network and access to national and international capital market has to go for portfolio management activities for the increment of their fee-based income as well as to enrich their fund based income and to contribute to the national economy.

Shrestha Bodhi (2005) in his article "Monetary Policy and Deposit Mobilization in Nepal" writes, Mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal and for this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different aspects of the economy.

Shrestha Ramesh Lal (2007) in his article "A study on deposits and credits of commercial bank in Nepal" concluded that the credit deposit ratio would be 51.30% other things remaining the same in Nepal, which was the lowest under the period of review. He strongly recommended that the commercial banks should try to give more emphasis on entering new field as far as possible; otherwise, they might not be able to absorb even the total expense.

Sharma Bhaskar (2008) in his article "Banking the future on competition" has highlighted that majority of commercial banks are being established and have operation in urban areas only. They have shown no interest to open branches in rural areas. The branches of NBL and RBB are only running in those sectors. The commercial banks are charging higher interest rate on lending, they are offered maximum tax concession, they do not property analyze the credit system.

According to him "Due to lack of investment avenues, banks are tempted to invest without proper credit approval and on personal guarantee, whose negative side effects would show true colors only after four or five years" He has further added that private banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Pradhan Shekhar Bahadur (2009) in his article "Deposit mobilization its problem and prospects" points out that deposit in the lifeblood of every financial institution. The latest financial/accounting figures of most bank and financial companies produce a strong feeling that serious review must be made with regards to problem and prospect of deposit sectors. Leaving a few joint venture banks, other organization relies heavily on the business deposit and credit disbursement.

Mr. Pradhan has highlighted the following problems of deposit mobilization in the Nepalese context.

- Most of Nepalese people do not go for institutional savings due to lack of adequate knowledge. They are much used to savings in the form of cash and ornaments. Their half-heartedness to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawal system, and availability of deposit facilities and so on.
- Unavailability of institutional services in rural areas.
- Due to lesser office hours of banking system, people prefer holding cash in their personal possession.
- Improper mobilization and improvement of the employment of deposits towards various sectors.

For proper deposit mobilization, he has recommended the following:

- Provide sufficient institutional services in the rural areas.
- Cultivate the habit of using rural banking unit.
- Add service hours to the bank.
- NRB should organize training programs to develop skilled manpower.
- Spreading co-operatives to rural areas to develop mini-branch service.

2.10 Review of Related Thesis

Several thesis works has been attempted by previous students regarding various aspects of commercial banks like financial performance, lending policy, investment policy, resource mobilization, capital structure etc. were reviewed. Among them, some research those that were found relevant for this study are presented below:

Khadka (2002) in his thesis work entitled "A study on the Investment Policy of Nepal Arab Bank Ltd in comparison to other joint venture banks of Nepal" has tried to examine and interpret the investment policies adopted by NIBL and other JVBs of Nepal.

The objectives of the research were:

- To evaluate the liquidity, asset management, efficiency and profitability position.
- To discuss fund mobilization and investment policy of NIBL with respect to its fee based off-balance sheet transaction in comparison to other JVB's.

- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit of other JVB's.
- To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets of NIBL comparison to other JVB's.
- To evaluate the trends of deposit utilization and its projection for next five years of NIBL compared to other JVB's.

His major findings were:

- The liquidity position of NIBL is comparatively worse than other JVB's. NIBL has utilized more portions of current assets as loan and advances and lesser portions in government securities.
- The profitability position of NIBL is comparatively better then that of other JVB's.
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit where as there is no significant and relationship between deposit and total investment in case of other JVB's.
- The trend values of loan and advances to total deposit of NIBL and other JVB's are in increasing trend. The trend value of total investment to total deposit of NIBL and other JVB's are in increasing trend.
- NIBL is seen to be more successful in increasing its sources of fund for deposit mobilization and granting loan and advances and maintain a good investment but it has failed to maintain its high growth rate of profit in comparisons with other JVB's .Tuladhar (2002) has conducted a thesis research on “A study of investment Bank of Kathmandu Limited in comparison to other JVB'S of Nepal".

The basic objectives of this study were:

- To study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on balance sheet activities.
- To evaluate the liquidity, efficiency, assets management and profitability position.

- To evaluate the growth ratios of loan & advances and total investment with respective growth rate of total deposit and net profit.
- To evaluate the trends of deposit utilization towards total investment and loan advances and its projection for next five years.
- To perform an empirical study of the customer's views and ideas regarding the existing service and adopted investment policy of the joint venture banks.
- To provide suggestions and recommendation on the basis of this study.

His major findings were:

- BoK has maintained adequate liquidity than other JVB's. It is in a better position to meet current obligation.
- BoK has successfully maintained and managed its assets towards different income generating activities.
- The profitability position of BoK is higher than other JVB's.
- BoK has invested higher portion of total working fund in government securities than other JVB's. BoK's loans and advance to total deposit ratio is less than other JVB's.
- BOKL has the largest profit margin in comparison with other JVB's.

Thapa (2003) has conducted a thesis research on "A comparative study on investment policy of Nepal Bangladesh Bank and other JVB's (NIBL and Nepal Grindlays Bank Limited)".

The basic objectives of this study were:

- To evaluate the liquidity, assets management efficiency, profitability and risk position of NBBL in comparison to NIBL and BoK.
- To analyze the relationship between loan and advances and total investment with other financial variables of NBBL and compare them with NIBL & BoK.
- To examine the fund mobilization and investment policy of NBBL through off-balance sheet and on balance sheet activities in comparison to the other two banks.
- To study the various risks in investment of NBBL in comparison to NIBL & BoK.

- To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare it with that of NIBL & BoK.

The major findings of the study were as follows:

- NBBL has good deposit collection, enough liquidity, it has sanctioned enough loan and advances, but it has made negligible amount of investment in government securities.
- NBBL is in a weak position regarding its on balance as well as off balance sheet activities.
- Profitability position of NBBL is comparatively worse than that the NIBL & BoK.
- The credit risk ratio, interest risk ratio, capital risk ratio of NBBL is higher than BOKL & NIBL. It is exposed to more risk.
- NBBL has been successful in increasing its sources of funds and its mobilization. The growth ratio of total investment of NBBL is comparatively worse than the other two JVB's.
- There is significant relationship between deposit and loan and advance, outside assets and net profit of NBBL but there is no significant relationship between deposit and investment of NBBL.
- The position of NBBL in regard to utilization of fund to earn profit is not better in comparison to NIBL & BoK.
- The cost of fund of NBBL is competitively higher than NIBL & BoK.

Bohara (2004) has conducted a research entitled "A comparative study on Investment policy of Joint Venture Banks and Finance Companies of Nepal".

The objectives of the study were as follows:

- To find out the liquidity position and profitability posit ion of above mentioned JVB's in comparison with finance companies.
- To find out the relationship between profitability and asset structure.
- To analyze the deposit utilization trend and its future projections for next five years for JVB's and finance companies.
- To study the various risks in investment of JVB'S in comparison with finance companies.

- To analyze the relationship between deposits and investment, deposits and loan & advances, net profit and total assets of JVB'S in comparison with finance companies.
- To provide suggestion and recommendation on the basis of findings.

The major findings of the study were as follows:

- Liquidity position of JVB's is comparatively better than that of finance companies. Finance companies have made nominal amount of investment in government securities.
- Finance companies have mobilized their deposits smoothly in comparison with JVB's. The average loan and advance to total deposit ratios of finance companies is higher than JVB's.
- Profitability position of JVB's except for BOKL is better than that of finance companies, but profitability position of finance companies in terms of return on total assets is better. Interest income in relation to proportion of total assets and operating income is higher in finance companies in comparison to JVB's.
- The growth ratios of deposits, net profit, loan and advances are higher than that of JVB's and are increasing every year, which indicates good performance of the finance companies.
- The risk ratios of finance companies are less variable than the JVB's. The interest risk ratios of finance companies are higher where as the capital risk ratios of JVB'S are comparatively higher than that of finance companies.
- JVB'S are in a better position in mobilizing deposits as loan and advances, but so far finance companies have been successful in utilizing their sources of funds and in their mobilization.

Shrestha (2004) has conducted a research entitled "Investment Analysis of Commercial Banks" (A Comparative Study of Nepal Bank Limited and Nepal State Bank of India Limited).

The objectives of the study were:

- To analyze percentage of investment made by HBL and NSBIL in total investment made by commercial banks.

- To analyze investment trend, deposits trend and total income and their projection for next five years of HBL and compare then with that of NSBIL.
- To identify investment sector of HBL and NSBIL.
- To evaluate the liquidity, assets management efficiency, profitability and risk position of HBL in comparison to that of NSBIL.
- To study the relationship between investment and deposits of bank.

The major findings of the study were as follows:

- Percentage of HBL's investment to total commercial banks investment in extremely higher than NSBIL.
- Both HBL and NSBIL have invested mostly on government securities but HBL has invested in NRB bonds also as well as in other productive sectors.
- NSBIL is better than HBL from liquidity point of view.
- HBL has higher profitability position than NSBIL.
- HBL is exposed to more risk than NSBIL.
- HBL has maintained higher growth rate in net profit in comparison to NSBIL.

Bhattarai (2006) has conducted a research entitled "Investment policy Analysis of Joint Venture Bank (with special reference to NSBIL & EBL)"

The objectives of the study were as follows:

- To evaluate the liquidity management, assets management efficiency, profitability position, risk position and investment practices of NSBIL, BOKL & EBL)
- To find out the relationship between deposit and total investment, deposit and loan and advance, and net profit and outside asset.

His major findings are enumerated below:

- NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL & BOKL has not been satisfactory.
- NSBIL's loan and advance to total deposit ratio is lower than EBL & BOKL. It does not seem to follow any definite policy regarding the management of its assets.

- The profitability position of all the banks is not satisfactory. The banks have not adopted sound investment policy in utilizing their surplus funds.
- BOKL & EBL are exposed to high credit risk and capital risk.
- NSBIL & BOKL has not been successful to increase their sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit.
- There is significant relationship between deposits and total investment of BOKL & EBL but the same is not significant in case of NSBIL.

Thapa (2007) has conducted a research entitled "Investment Policy of Commercial banks in Nepal”.

The objectives of the study were:

- To discuss fund mobilization and investment policy of EBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction of NIBL and BOKL.
- To evaluate the liquidity, efficiency, profitability and risk position.
- To evaluate the growth ratios of loans and advances and total investment with other financial variables.
- To analyze the trends of deposits utilization towards total investment and loan and advances and its projection for next five years.
- To conduct hypothetical test to find out whether there is significant difference between the important ratios of EBL, NIBL & BOKL.
- To provide packages of workable suggestions and possible guidelines to improve investment policy of EBL and other banks.

His major findings are enumerated below:

- EBL is comparatively better than NIBL and BOKL in terms of liquidity.
- EBL has been less successful than NIBL and BOKL in its on balance sheet operation as well as off balance sheet activities.
- The profitability position of EBL is worse than NIBL and BOKL.
- EBL is exposed to more credit risk and capital risk, but lower interest rate risk than NIBL and BOKL.
- EBL has maintained high growth rates in total deposit, loan and advances but it has moderate position in investment.

- There is significant relationship between deposit and loan and advances and outside assets and net profit of EBL.

Most of research studies conducted prior to this study involving comparative analysis comprised of a successful bank and an emerging bank as samples. It was obvious that the successful bank with sound financial health would excel in various aspects of banking. The possibility of the samples showing different result during data analysis was high. The financial and empirical analysis to data revealed higher degree of consistency in case of successful bank and less uniformity in case of emerging bank. This study comprises of two of the most successful Job‟s as sample via NIBL and SBL.

This study will reveal the strength and weaknesses of the sample bank and serve as a valuable input in decision-making process of the concerned banks and other emerging banks in formulating appropriate investment policy.

2.10 Research Gap

Most of the past research studies about investment policy of commercial banks are found basically related to lending of loans in relation to deposits in suitable areas specially referring to the joint venture banks. There is a certain gap between the present research and past research. Previous several researches are done in this topic called “Investment portfolio Analysis”. Besides this, some researches were done about the Marketing strategy of commercial banks to collect fund by attracting the customers. So far no research was found about the investment policy of commercial banks in comparison of marketing strategy.

Since previous researches were confined only either investment policy or marketing strategy of commercial banks, this study lies in filling a research gap on the study of investment policy of commercial banks in comparison of marketing strategy special referring to the NIBL and SBL with the relating efforts done by the banks to gain superior customers for long period. The study is basically confined to reviewing the investment policy of NIBL & SBL in last five FYs.

The previous researchers could not submit the present fact. This research will deliver the answer to the recent questions and it will also give the latest information about the current practices of concerned commercial banks. This study gives brief knowledge about the customers' needs, way to achieve and strategy to cope, customers' satisfaction and detail knowledge about investment with analytical study regarding competitors' plans, focused groups etc. This report will be helpful to the students who are interested to know about the investment policy of commercial banks in Nepal. This study is expected to be helpful to the policy makers in making new strategy for the investment as well as to modify the present policy if needed for future market development.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It is the arrangement of conditions for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Descriptive Techniques applied to evaluate investment performance of NIBL comparing with SBL. as well as some statistical and financial tools adopted to examine facts.

3.2 Population and Sample

The populations of the study are altogether thirty-one commercial banks functioning all over the country. In this study, Investment policy of NIBL and SBL is selected from total population. The population is as follows:

Table 1

Commercial Banks in Different Parts of Nepal

S.No	Names	Operation Date (A.D)	Head Office	Remarks
1	Nepal Bank Limited	1937/11/15	Kathmandu	
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	
4	Nabil Bank Limited	1984/07/16	Kathmandu	JVB - National Bank Ltd; Bangladesh
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	

6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	Standard Chartered Grind Lays Bank Ltd (Australia & UK)
7	Himalayan Bank Limited	1993/01/18	Kathmandu	JVB - Habib Bank Ltd; Pakistan
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	JVB -State Bank of India; India
9	Nepal Bangladesh Bank Limited	1994/06/05	Kathmandu	JVB - IFIC Bank; Bangladesh
10	Everest Bank Limited	1994/10/18	Kathmandu	JVB - Punjab National Bank; India
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupendehi	
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitawan	
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar, Morang	
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	
16	Kumari Bank Limited	2001/04/03	Kathmandu	
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	

19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	
24	Development Credit Bank Ltd.	2008/5/25	Kamaladi, Kathmandu	
25	NMB Bank Ltd.	2008/6/5	Babarmahal, Kathmandu	JVB - Young Lien Reality SDN BHD; Malaysia
26	Kist Bank Ltd.	2009/02/21	Anamnagar, Kathmandu	
27	Commerz and Trust Bank Nepal Ltd		Kathmandu	
28	Civil Bank Ltd		Kathmandu	
29	Mega Bank Ltd		Kathmandu	
30	Janata Bank Ltd		Kathmandu, Baneshwor	
31	Century Bank Ltd		Kathmandu	

Source: http://www.ktm2day.com/2010/05/04/list-of-banking-institutions-in-nepal/3/, accessed on 30 July, 2011

3.3 Data Collection Procedure

The study is mainly conducted on the basis of the secondary data. The date required for the analyses are directly obtain from the P/L a/c and balance sheet of concerned banks' annual reports. Supplementary data and information are collected from NRB also.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Data Analysis Method

Various financial and statistical tools have been used for the data analysis. Financial ratios like net profit ratio, credit/deposit ratio, proportion of Interest to total profit, proportion of loan/assets and equity, current ratios have been used for measuring Investment policies of the bank and its effect on economic development. Due to limited time and resources simple analytical statistical tools such as percentage, method of least square, mean, coefficient of correlation between different variables, trend analysis of important variable as well as hypothesis test, financial tools, economic tools have also be used as per necessary.

3.4.1 Financial Tools

Financial tools are used to examine the strength and weakness of bank. In this study financial tools like ratio analysis and financial statement analysis have been used.

3.4.1.1 Ratio Analysis

Ratio is the mathematical relationship between two accounting figures. “Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions.” Thus, ratio analysis is used to compare a firm’s financial performance and status to that of other firm’s or to it overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Therefore, there are many ratios; only those ratios have been covered in this study, which are related to the investment operation of the bank. This study contains following ratios.

3.4.1.1.1 Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short-term liabilities that are likely to mature in the short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

The following ratios are evaluated under liquidity ratios:

A. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor.

This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as,

$$\frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

Hence, cash and bank balance includes cash on hand, foreign cash on hand; cheques and others cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposit, fixed deposits, money at call and short notice and other deposits.

B. Investment on Government Securities to Current Asset Ratio

This ratio is calculated to find out the percentage of current assets invested in government securities i.e. treasury bills and development bonds.

This ratio is calculated to find out the percentage of current assets invested in government securities i.e. treasury bills and development bonds.

This ratio is computed by dividing investment on government securities by current assets. We can state it as,

$$\frac{\text{Investment on government securities}}{\text{Total current assets}}$$

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

C: Loan and Advances to Current Assets Ratio

Loan and Advances are the current assets, which generates income for the bank. Loan and advances to current asset ratio shows the percentage of loan and advances in the total current assets. This ratio can be computed by dividing loan and advances by current assets. This can be state as,

$$\frac{\text{Loan and Advances}}{\text{Current Assets}}$$

The numerator consists of loans, advances, cash credit, local and foreign bills purchased and discounted.

3.4.1.1.2 Profitability Ratios

Profitability ratios are calculated to measure the efficiency of operation of a firm in term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. Profitability position can be evaluated through following different way:

A: Return on Loan and Advances Ratio

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

$$\frac{\text{Net Profit}}{\text{Loan and Advances}}$$

B: Return on Equity Ratio (RER)

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. The ratio measures how efficiently the banks have used the funds of the owners. This ratio is calculated by dividing net profit by total equity capital (net worth). This can be stated as,

$$\frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

Here, total equity capital includes shares holder's reserve including P/L a/c and share capital i.e. ordinary share and preference share capital.

C. Total Interest Earned to Total outside Assets Ratio

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

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

The denominator includes loan and advances, bills purchased and discounted and all types of investments. The numerator comprises total interest income from loans, advances, cash credit and overdrafts, government securities, interbank and other investments.

3.4.1.1.3 Asset Management Ratio

Asset management ratio measures how efficiently the bank manages the resources at its command. The following ratios are used under this asset management ratio.

A. Loans and Advances to Total Deposit Ratio

This ratio is calculated to find out, how successfully the banks are utilizing their total deposits on loan and advances for profit generating purpose. Greater ratio implies the better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit, which can be states as,

$$\frac{\text{Loan \& advances}}{\text{Total deposit}}$$

B. Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on investment in government securities and shares debentures of other companies and bank. This ratio can be calculated by dividing total investment by deposit. This ratio can be mentioned as,

$$\frac{\text{Total Investment}}{\text{Total Deposit}}$$

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

C. Loans and Advances to Working Fund Ratio

Loan and advance is the major component in the total working fund (total assets), which indicates the ability of bank to canalizes its deposits in the form of loan and advances to earn high return.

This is computed by dividing loan and advances by total working fund. This stated as,

$$\frac{\text{Loan and Advances}}{\text{Total working fund}}$$

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

D. Investment on Government Securities to Total Working Fund Ratio

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

$$\frac{\text{Investment on government securities}}{\text{Total working fund}}$$

E. Investment on Shares and Debenture to Total Working Fund Ratio

This ratio shows the banks investment in shares and debenture of the subsidiary and other companies. Dividing Investment on shares and shares and debentures by total working fund, which can be mentioned as, can derive this ratio,

Investment on Shares and Debenture

Total Working Fund

The numerator includes investment on debentures, bonds and shares of other companies.

3.4.1.1.4 Loans Loss Provision Ratio

This ratio shows the possibility of loan default of a bank. It indicates how efficiently it manages its loan and advances and makes efforts for loan recovery. Higher ratio implies higher portion of non-performing loan in total loan and advances. This can be stated as,

$$\frac{\text{Total loss provision}}{\text{Total loan and advances}}$$

Here, the numerator indicates the amount of provisions for possible loan loss.

3.4.1.1.5 Risk Ratios

Risk taking is the prime business of bank's investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operations, which ultimately influences the banks investment policy.

The following ratios are evaluated under this topic:

A. Credit Risk Ratio

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

$$\frac{\text{Total loan \& advances}}{\text{Total assets}}$$

B. Interest Rate Risk Ratio

Interest rate risk ratio shows the decline in the net interest income (NII) due to the change in the interest rates charged by the banks on its deposit and loan and advances. Higher interest rates risk ratios suggest the banks to increase the interest rates on deposit and loan and advance, to increase net interest income (NII) and vice verse. This ratio is calculated by dividing interest sensitive assets (i.e. securities + variable rate loan and advances) by interest sensitive liabilities (i.e. borrowing + total deposits) excluding current deposits. This can be mentioned as:

$$\frac{\text{Interest Sensitive Assets}}{\text{Interest Sensitive Liabilities}}$$

Here, the numerator includes Treasury bill, development bonds investment in debenture, mutual fund and other investments and the denominator includes borrowing from NRB and other, total deposits excluding current deposits.

3.4.2 Statistical Tools

To achieve the objective of this study, some statistical tools are used such as coefficient of correlation between different variables, trend analysis of important variable as well as hypothesis test (T-statistic), which are as follows:

A. Co-efficient of Correlation Analysis

This analysis identifies and interprets the relationship between the two or more variables. In the case of highly correlation variables, the effect on one variable may have effect on other correlated variable. Under this topic, Karl-Pearson's co-efficient of correlation has been used to find out the relationship between the following variables:

- Co-efficient of correlation between deposit and loan and advances
- Co-efficient of correlation between deposit and total investment
- This tools analyze the relationship between these variables and help the bank to make appropriate policy regarding deposit collection, fund utilization and maximization profit.

B. Trend Analysis

This topic analyses the trend of deposits, loan and advances, investments and net profit of NIBL and the SBL and makes the forecast for the next five years.

- Trend analysis of total deposits
- Trend analysis of loan and advances
- Trend analysis of total investment

- Trend analysis of net profit

C: Test of Hypothesis

The objective of this test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been conducted on the various ratios related with the banking business.

Generally, following steps were followed for the test of stated hypothesis.

- Formulating Hypothesis
- Null Hypothesis
- Alternative Hypothesis
- Computing the test statistic
- Fixing the level of significance
- Finding critical region
- Deciding two tailed or one tailed test
- Making decision

3.5 Research Variables

Various components of Balance Sheet, Income Statement and Cashflow are the research variables of the present study i.e. for measuring Profitability.

CHAPTER-IV

DATA ANALYSIS AND PRESENTATION

This chapter deals in depth analysis and interpretation of the responses of respondents to the research questions. For this, a total number of 50 respondents were purposively chosen and their responses have been analyzed according to the objectives and research questions of the study. The analyzed data and their interpretation are discussed in subsequent paragraphs.

4.1 Financial Analysis

The objective of this chapter is to study, evaluate and analyze those major financial performances, which are mainly related to the investment management and fund mobilization of NIBL in comparison with SBL. The summaries of financial performance of FY 2009/10 are presented below:

Summaries of Financial Performance

Table No.2

RATIOS	**NIBL**			**SBL**		
	Mean($\overline{X}$)	**S.D** (σ)	**C.V.**	**Mean** ($\overline{X}$)	**S.D** (σ)	**C.V**
Liquidity Ratios a. Cash and bank balance to Total deposit	12.75	2.44	19.12	7.34	3.34	45.37
Asset Management Ratios a. Loan and advance to Total deposit ratio	74.90	5.56	7.42	89.75	5.56	6.19
b. Total Investment to Total deposit ratio	21.84	5.35	24.50	13.36	1.81	13.55
c. Loan loss provision ratio	2.16	0.60	27.75	1.60	0.085	5.31
Profitability Ratios a. Return on Loan and Advance ratio	2.44	0.69	28.28	1.57	0.09	5.73
b. Return on Equity	23.04	6.46	28.04	13.62	2.19	16.08
Risk Ratios a. Credit Risk ratio	67.58	3.82	5.65	77.09	2.82	3.66

Source: Appendix - 2

4.2 Analysis of the Liquidity Position of NIBL and SBL

Commercial Bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long run profit.

Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are assets that constitute the banks first line of defense and consist of Cash on hand, Foreign Cash on hand, cheques and other cash items, balance with domestic banks and balance held abroad.

Cash and Bank Balance to Total Deposit Ratio

Table No.3

Banks	Fiscal Years					Mean	S.D	C.V%
	2005/06	2006/07	2007/08	2008/09	2009/10			
NIBL	12.34	9.97	10.90	16.96	13.61	12.75	2.44	19.12
SBL	2.94	7.80	4.29	9.76	11.91	7.34	3.34	45.37

Source: Appendix - 2

The above table shows that the Cash and Bank Balance to Total Deposit ratio of both banks are fluctuating trend. NIBL's highest ratio is 16.96% in FY 2008/09 and lowest is 9.97% in FY 2006/07. Similarly, in a case of SBL, highest ratio is 11.91% in FY 2009/10 and lowest is 2.94% in FY 2005/06. The mean ratio of NIBL is highest than that of SBL i.e. 12.75%>7.34%. On the basis of coefficient variances, it can be concluded that SBL's ratios are not more consistent than that of NIBL i.e. 19.12<45.37

This analysis helps to conclude that, the Cash and Bank Balance position of NIBL with respect to Total Deposit is better against the readiness to serve its customer deposits than the SBL. It implies the better liquidity position of NIBL. In contrast, a high ratio of non earning cash and bank balance may be unfit which indicates the banks inability to invest its funds in income generating areas. Thus, NIBL may invest in more productive sectors like short term marketable security, treasury bills etc. ensuring enough liquidity which will help the bank to improve its profitability.

4.3 Analysis of the Asset Management Position of NIBL and SBL

A commercial bank must be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. Asset management ratio measures how efficiently the bank manages the resources at its commands.

Through following ratios, asset management ability of NIBL has been measured in comparison to the SBL.

Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advances for the purpose of profit generation

A high ratio of loan and advances indicates better mobilization of collected deposits and vice-verse. But it should be noted that too high ratio might not be better from its liquidity point of view. The following table exhibits the ratio of loan and advances to total deposits of NIBL and SBL.

Loan and Advance to Total Deposit Ratio

Table No.4

Banks	Fiscal Years					Mean	S.D	C.V%
	2005/06	2006/07	2007/08	2008/09	2009/10			
NIBL	67.50	70.59	78.36	77.61	80.48	74.90	5.56	7.42
SBL	96.70	93.92	91.60	84.07	82.45	89.75	5.56	6.19

Source: Appendix - 2

The comparative table listed above shows that NIBL rising and falling trend during the period under study while SBL recorded decreasing trend. On the other hand, when mean ratios of loan and advances of NIBL and SBL are compared, SBL seems to be good to mobilize its total deposit as Mean ratio under study period is 89.75% but in case of NIBL is 74.90%. On the basis of coefficient variances, it can be concluded that NIBL's ratios are not more consistent than that of SBL i.e. 7.42>6.19

It should be noted that in the process of loan management of bank assets, so many factors are to be considered such as risk analysis, diversification, social responsibility, bank credit policy, compensation policy, limits of lending power etc.

4.4 Total Investment to Total Deposit Ratio

Commercial bank may mobilize its bank deposit by investing its fund different securities issued by government and other financial or non-financial companies.

Total Investment to Total Deposit Ratio

Table No.5

Banks	Fiscal Years					Mean	S.D	C.V%
	2005/06	2006/07	2007/08	2008/09	2009/10			
NIBL	29.60	26.56	19.95	15.84	17.24	21.84	5.35	24.50
SBL	16.59	13.06	11.28	13.72	12.14	13.36	1.81	13.55

Source: Appendix - 2

Above table reveals than NIBL's total investment to Total deposit ratios have been decreasing trend except in FY 2009/10. During the study period, in the beginning i.e. FY 2005/06, it maintained 29.60% ratio and decreasing till FY 2008/09 i.e. 15.84% but in the last year i.e. in 2009/10, the ratio was inclined 17.24%. On the other hand, SBL has shown fluctuating and almost decreasing trend throughout the review period. SBL shows high ratio which is the indicator of high success to mobilize the banking fund as investment and vice versa. In the FY 2005/06, SBL ratio was highest i.e. 16.59% and lowest i.e. 12.14% in FY 2009/10.

On the basis of mean ratios, it can be said that NIBL's capacity to mobilize its deposits on Total Investment is good as SBL because its mean ratio is 21.84% where as SBL has the 13.36%. On the other hand, observing the C.V. of ratios, we can further conclude that NIBL's ratios during the study period have seen more inconsistent than of SBL because of its higher C.V i.e. 24.50>13.55

So, it is clear from the above analysis that NIBL is not so successful in utilizing its resources on Investment than that of SBL.

4.5 Loan Loss Provision Ratio

The loan loss occurs when a borrower fails to repay the loan bank's failure in loan recovery lends to the loss of its loan. So, the control of loan loss is an important fact of bank operation and bank is greatly concerned to minimize it. A poorly administered loan portfolio usually has significant negative impact on the earnings and capital of the bank. Greater loan loss provision is required to incorporate in income statement if high loss is expected. This leads to low profit and a possible loss that produces low increase or decrease in capital.

It indicates how efficiently the bank manages its loan and advances and makes effort for timely recovery of loan. The following table shows the loan loss ratio of NIBL and SBL during the study period.

Loan Loss Provision Ratio

Table No.6

Banks	Fiscal Years					Mean	S.D	C.V%
	2005/06	2006/07	2007/08	2008/09	2009/10			
NIBL	3.14	2.79	1.97	1.61	1.56	2.214	0.64	28.91
SBL	2.11	1.56	1.55	1.32	1.45	1.60	0.085	5.31

Source: Appendix - 2

The above table shows that NIBL has the ratios with decreasing trend and SBL has fluctuating trend. In case of NIBL, the highest ratio recorded was 3.14% in FY 2005/06 and lowest i.e. 1.56% in 2009/10. Similarly, SBL's highest ratio was 2.11% in FY 2005/06 and lowest i.e. 1.32% in FY 2008/09. When we observe mean ratio, we find that NIBL has higher ratio than the SBL i.e. 2.214%>1.60%. It indicates that much of its loan is still to be recovered. On the other hand NIBL's coefficient of variation among ratios under study period seems to be less consistent than SBL because C.V. of NIBL, 28.91% is higher than SBL i.e. 5.31%. From the above analysis, it can be concluded that the performance of SBL in terms of recovery of loan is lower in comparison to the NIBL.

4.6 Analysis of the Profitability Position of NIBL and SBL

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

Of course, profitability ratios are the best indicators of overall efficiency. Here, mainly those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NIBL in comparison to SBL.

A. Return on Loan and Advance Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its mobilized fund- based loan and advances. A high ratio indicates greater success to mobilize fund as loan and advances and vice versa.

Return on Loan and Advance Ratio

Table No.7

Banks	Fiscal Years					Mean	S.D	C.V%
	2005/06	2006/07	2007/08	2008/09	2009/10			
NIBL	2.74	2.90	2.58	1.12	3.14	2.54	0.17	28.40
SBL	1.71	1.53	1.53	1.63	1.44	1.57	0.09	5.73

Source: Appendix - 2

The above comparative table proves that the ratios of return on loan and advances of both NIBL and SBL are fluctuating trend. In case of NIBL, the highest ratio recorded was i.e. 3.14% in FY 2009/10 and lowest ratio i.e. 1.12% in FY 2008/09 whereas the SBL has ranged from 1.44% to 1.63% in all fiscal years of the study period.

When the mean ratios are observed, NIBL seems to be good to maintain its high return on loan and advances in comparison to the SBL. NIBL has mean ratio of 2.54%, whereas, SBL has ratio 1.57%. On the other hand, low C.V of SBL i.e. 5.73% indicates low variability of ratios than that of NIBL. The C.V. of ratios in case of NIBL is significant higher than SBL.

Thus in conclusion, it can be said that NIBL seems to be failure to earn high return on its loan and advances in comparison to the SBL.

B. Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital.

ROE is the measuring role of the profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher success to mobilize its owned capital (equity) and vice versa. This ratio is calculated by dividing net profit by total equity capital including paid up equity capital, P/L a/c, various reserves, general loan loss provision etc.

Return on Equity

Table No.8

Banks	Fiscal Years					Mean	S.D	C.V%
	2005/06	2006/07	2007/08	2008/09	2009/10			
NIBL	24.73	26.68	25.95	10.26	27.59	23.04	6.46	28.04
SBL	10.78	11.98	13.39	16.98	14.97	13.62	2.19	16.08

Source: Appendix - 2

The above listed table reveals that both the banks have fluctuating ratios during the study period.

Thus, in overall, it can be concluded that NIBL has been able to earn profit through the efficient utilization of its owned capital. Moreover, NIBL’s high C.V shows its less homogeneous ratios during the study period, which shows lack of efficient investment policy for the mobilization of capital resources.

4.7 Analysis of the Risk Position of NIBL and SBL

The possibility of risk makes bank’s investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So, the banks opting for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk that one has to bear while investing its funds.

Credit Risk Ratio

Bank utilizes its collected funds by providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows the proportion of non-performing assets in the total loan and advances of a bank. But, due to unavailability of the relevant data, here we presented the credit risk as the ratio of total loan and advances to total assets.

Credit Risk Ratio

Table No.9

Banks	Fiscal Years					Mean	S.D	C.V%
	2005/06	2006/07	2007/08	2008/09	2009/10			
NIBL	61.78	64.40	70.81	69.47	71.46	67.58	3.82	5.65
SBL	79.69	78.22	80.00	74.54	73.03	77.09	2.82	3.66

Source: Appendix - 2

The above table shows that both banks have fluctuating trend. In case of NIBL, its highest ratio is 71.46% in FY 2009/10 and lowest ratio i.e. 64.40% in FY 2006/07. The ratio of SBL has highest ratio 80.00% in FY 2007/08 and lowest ratio i.e. 73.03% in FY 2009/10.

On the basis of mean ratio, it can be said that credit of NIBL is lower than the SBL i.e. 67.58<77.09. On the other hand, Low C.V of NIBL i.e. 5.65% indicates low variability of ratios than that of SBL.

From the above analysis, it can be concluded that the degree of credit risk in NIBL is higher and its risk ratios are more volatile.

4.8 Percentage Change in Total Deposit

Here, those percentage change in total deposits are analyzed and interpreted which are directly related to the fund mobilization and investment management of a commercial banks. Percentage changes represent how well the commercial banks are maintaining their economic and financial position. Under this topic, two types of percentage changes i.e. percentage changes of total deposits and total investment are given in different tables. The ratios are calculated by subtracting the first period figure from last period figure and converted into percentages. This high percentage generally indicates better performance of a bank and vice versa. The following table presents percentage change in total deposits over the last five fiscal years (2005/06 - 2009/10).

Total Deposit and Percentage Change

Table No 10

(Rs. in millions)

	Nepal Investment Bank Ltd.			**Siddhartha Bank Ltd.**		
Year	**Total Deposit**	**Change amt.**	**% Change**	**Total Deposit**	**Change amt.**	**% Change**
2005/06	18927	-	-	3918	-	-
2006/07	24489	5562	29.38	6625	2707	69.09
2007/08	34452	9963	40.68	10191	3566	53.83
2008/09	46698	12246	35.54	15854	5663	55.57
2009/10	50094	3396	7.27	20197	4343	27.39

Source: Appendix - 2

Change in Total Deposit (Nepal Investment Bank Ltd)

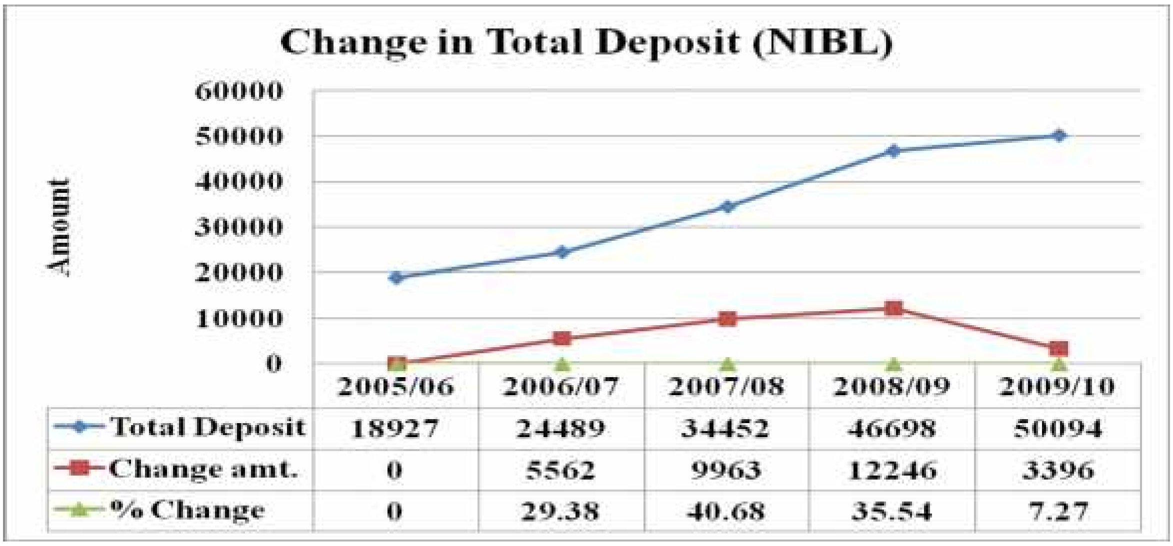

Figure: 1

Change in Total Deposit (Siddhartha Bank Ltd)

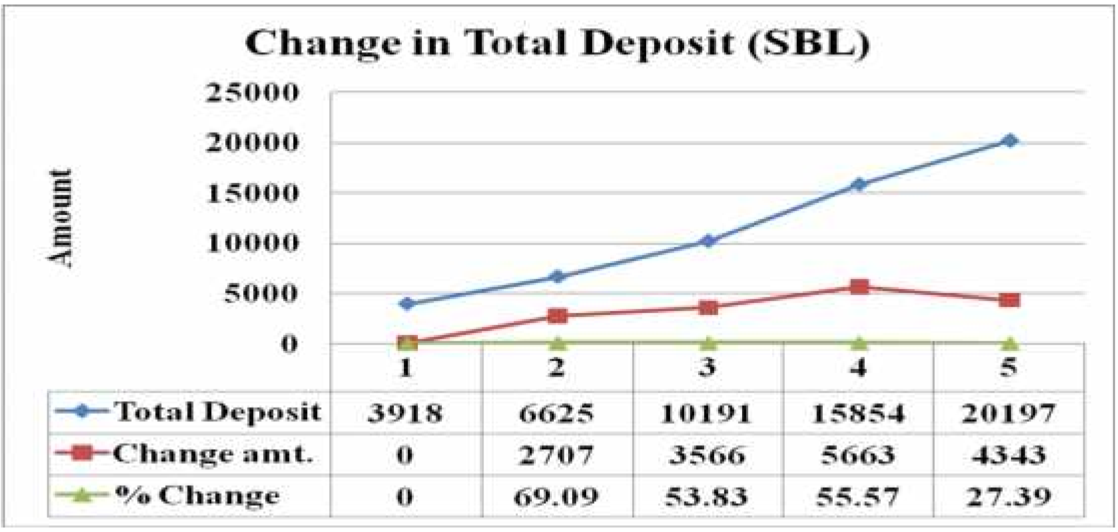

Figure: 2

The above table and figures shows fluctuating trend of Total deposit of Nepal Investment Bank Ltd and shows increasing trend of Total deposit of Siddhartha Bank Ltd. The total deposit of Nepal Investment Bank Ltd has jumped from Rs. 18927 in the year 2005/06 to Rs. 50094 in the year 2009/10. In the case of SBL the amount has increased from Rs. 6625 in the year 2006/07 to Rs. 20197 by the year 2009/10.

4.9 Percentage Change in Total Investment

The table presents the Percentage Change in Total Investment from the year 2005/06 to the year 2009/10.

Total Investment and Percentage Change

Table No 11

(Rs. in millions)

	Nepal Investment Bank Ltd.			**Siddhartha Bank Ltd.**		
Year	**Total Investment**	**Change amt.**	**% Change**	**Total Investment**	**Change amt.**	**% Change**
2005/06	5602	-	-	650	-	-
2006/07	6505	903	16.12	865	215	16.89
2007/08	6874	369	5.67	1150	285	32.95
2008/09	7399	525	7.64	2176	1026	89.23
2009/10	8635	1236	16.70	2452	276	12.68

The above table shows fluctuating trend of Total Investment of both Nepal Investment Bank Ltd and Siddhartha Bank Ltd. In case of NIBL, the greatest change recorded was i.e. 16.70% in FY 2009/10 and lowest change i.e. 5.67% in FY 2007/08. Similarly, SBL's greatest change was 89.23% in FY 2008/09 and lowest i.e. 12.68% in FY 2009/10

Change in Total Investment (Nepal Investment Bank Ltd)

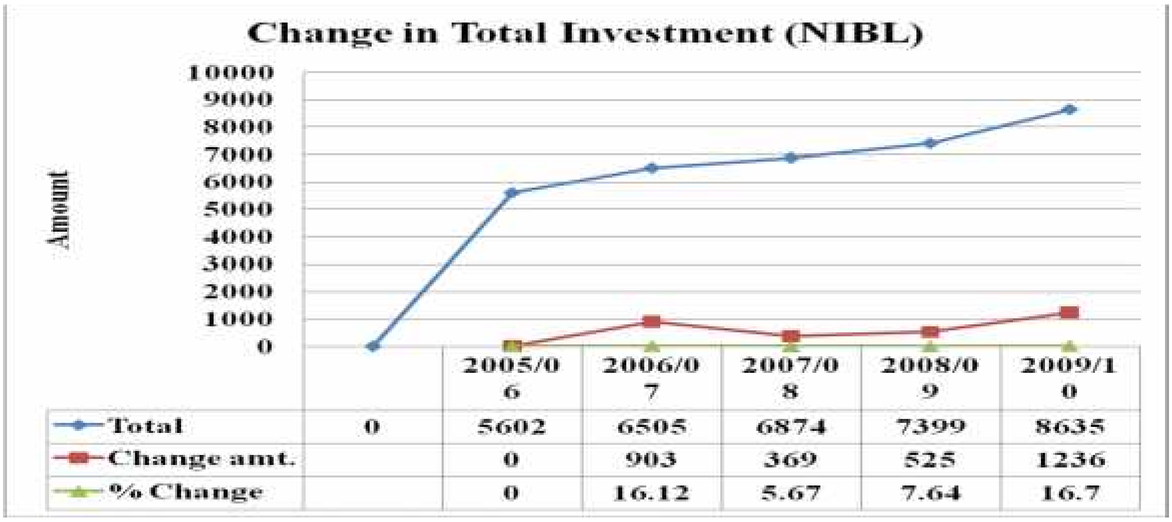

Figure: 3

Change in Total Investment (Siddhartha Bank Ltd)

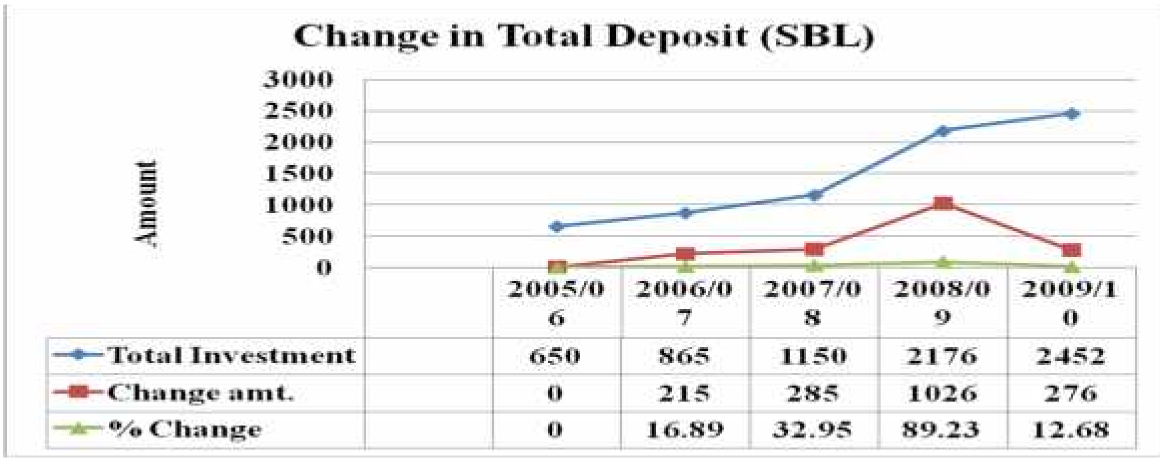

Figure: 4

4.10 Statistical Analysis

Some Statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of deposits, loan and advances, Investments and Net profit as well as Hypothesis Test (t-statistics) are used to achieve the objectives of the study.

Co-efficient of Correlation Analysis

Under this topic, Karl Pearson's co-efficient has been used to find out the relationship between Deposit and Loan and advances, Deposit and Total Investment and Net Profit and Total outside Assets.

A. Co-efficient of Correlation between Deposit and Loan and Advances

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

The following table shows relation between those variables of NIBL and SBL during the study period.

Co-efficient of Correlation between Deposit and Loan and Advances

Table No.12

Banks	Evaluation Criterions			
	R	r^2	P.Er	6P.Er
NIBL	0.999	0.998	0.0036	0.002
SBL	0.999	0.998	0.0006	0.036

Source: Appendix - 3

From the above table, both banks have found that co-efficient of relation between Deposits and loan and advances is 0.999. It shows positive relationship between these two variables. Moreover, we consider the value of co-efficient of determination (r^2) is 0.998 and it means 99.8% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposit). Similarly considering the value of 'r' is i.e. 0.999 and comparing it with 6P.Er i.e. 0.002, we can find that 'r' is highly greater than the value of 6 P.Er which reveals that the value of 'r' is significant. In other words there is significant relationship between deposits and loan and advances in case of NIBL.

We can draw a conclusion from the above analysis that in both NIBL and SBL, there is positive relationship between deposits and loan and advances. The relationship is significant and the value 'r^2'shows high percent in the dependent variable has been explained by the independent variable. This indicates that NIBL as well as SBL are successful to mobilize their deposits in proper way as loan and advances.

B. Co-efficient of Correlation between Deposits and Total Investment

The co-efficient of correlation between deposit and total investment measures the degree of relationship between these two variables. In this analysis, Deposit is independent variable(X) and Total Investment is dependent variable (Y). The purpose of computing correlation of co-efficient is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables.

The following table shows relation between deposits and total investment i.e. P.Er, 6 P.Er, and co-efficient of determination of NIBL and SBL during the study period. Detail calculation is given in Appendix

Co-efficient of Correlation between Deposits and Total Investment

Table No.13

Banks	Evaluation Criterions			
	r	r^2	P.Er	6P.Er
NIBL	0.938	0.879	0.0246	0.148
SBL	0.986	0.972	0.0084	0.0056

Source: Appendix - 3

Moreover, the value of r = 0.938 is more than thirty eight times of probable error (0.0246) which means the relationship between deposits and total investments is significant. In other words, the SBL are successful to mobilize their funds in proper way in total investments.

From the above table, in case of NIBL, it is found that co-efficient of relation between deposits (independent) and total investments (dependent) value of 'r' is 0.938. It shows positive relationship between these two variables. Moreover, we consider the value of co-efficient of determination (r^2) is 0.879 and it means 93.8% of the variation in the dependent variable (total investments) has been explained by the independent variable (deposits). Similarly considering the value of 'r' is i.e. 0.938 and comparing it with 6P.Er i.e. 0.148, we can find that 'r' is greater than the value of 6 P.Er which reveals that the value of 'r' is significant. In other words there is significant positive relationship between deposits and total investments in case of NIBL.

Likewise, in case of SBL, the Karl-Pearson's co-efficient of correlation between deposits (independent variables) and total investments (dependent variable) is 0.986, which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination (r^2) is found 0.972, which shows that 98.6% in the dependent variable (total investments) has been explained by the independent variable and total investments. The relationship is significant and the value 'r^2'shows high percent in the dependent variable has been explained by the independent variable.

Lastly, it can be said that both NIBL as well as SBL are successful to mobilize their total investments but have no certain investment policy to invest their deposits.

4.11 Trend Analysis and Projection for Next Five Years

To utilize deposits, a commercial bank may grant loan and advances and invest some of the funds in government securities and shares and debentures of other companies. Regarding this topic, trend of deposit, loan and advances, total investments and Net profit are forecasted for next five years. The projections are based on the following assumption:

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

4.11.1 Deposit

Deposit of NIBL & SBL

Table No 14

Year	**Deposit of NIBL**	**Deposit of SBL**
2005/06	18927	3918
2006/07	24489	6625
2007/08	34454	10191
2008/09	46698	15854
2009/10	50094	20197

Source: Appendix - 3

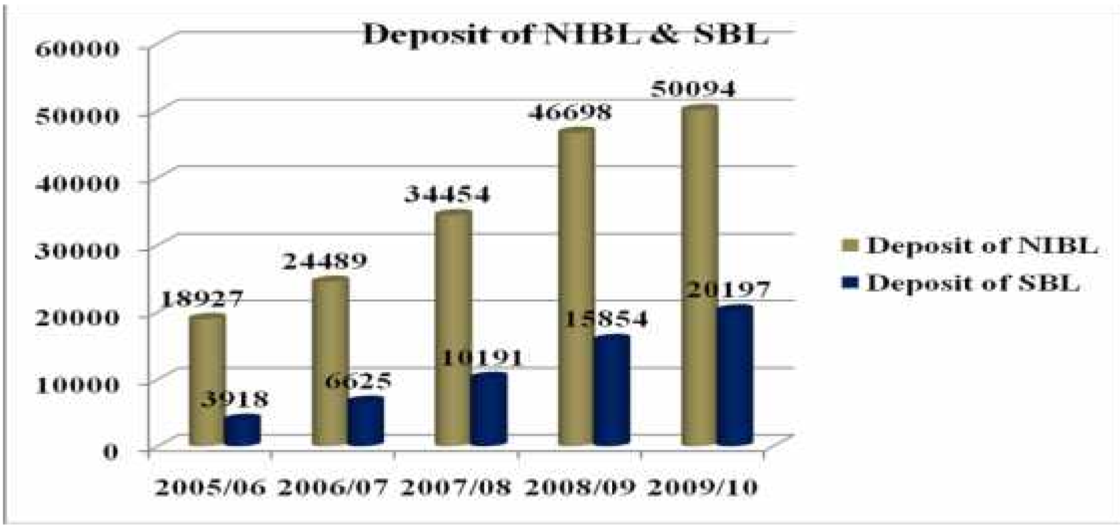

Figure: 5

Trend Analysis of Total Deposits

In this topic, an effort has been made to calculate the trend values of deposit of NIBL and SBL for five years from 2005/06 to 2009/10 and forecast for next five years from 2010/11 to 2014/15 is done. The following table shows the trend values of Total deposits for 15 years from 1996 to 2010 of NIBL & SBL. (Detail calculation in Appendix -3,A & B)

Trend values of Total Deposit of NIBL and SBL (2010/11-2014/15)

Table No.15

(Rs. In millions)

Years	Trend values of NIBL	Trend values of SBL
2010/11	60213.9	13671.7
2011/12	68641.2	17850.4
2012/13	77068.5	22029.1
2013/14	85495.8	26207.8
2014/15	93923.1	30386.5

Source: Appendix - 3

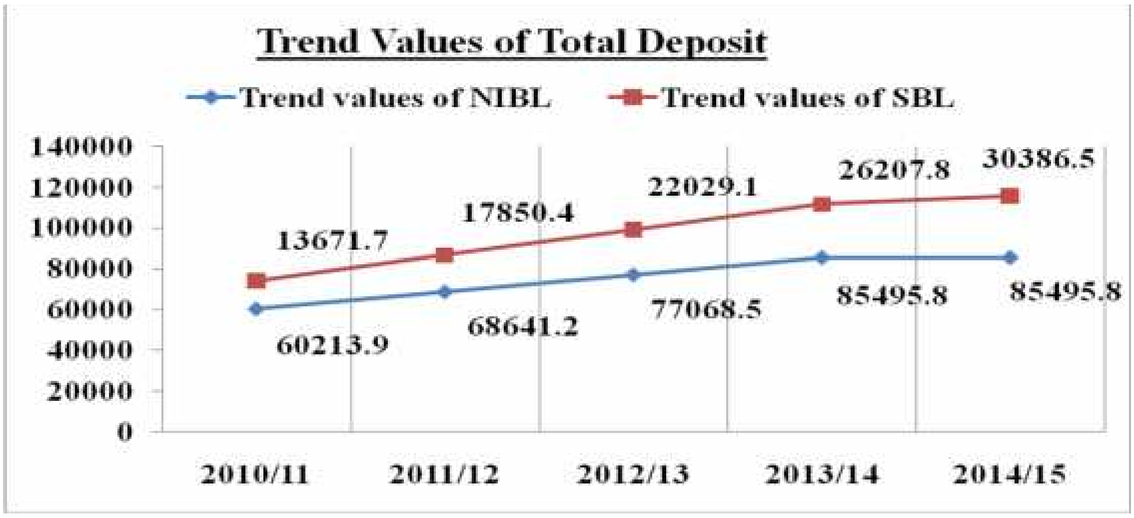

Figure: 6

4.11.2 Loan & Advances

Loan and Advance of NIBL and SBL

Table No 16

YEAR	Loan & Advances of NIBL	Loan & Advances of SBL
2010/11	19715.6	19715.6
2011/12	48935.1	22999.0
2012/13	56339.0	26282.4
2013/14	63742.9	29565.8
2014/15	78550.7	32849.2

Source: Appendix - 3

Figure: 7

Trend Analysis of Loans and Advances

Here, the trend values of loan and advances of NIBL and SBL has been calculated for 5 years from 2005/06 to 2009/10. The forecast for next five year till 2010 has also been done. The following table shows the trend values for 5years from 2010/11 to 2014/15 of NIBL and SBL. (Detail calculation in Appendix -3, C & D)

Trend values of Loan and Advances of NIBL and SBL (2010-2015)

Table No.17

Years	Trend values of NIBL	Trend values of SBL
2010/11	48935.1	19715.6
2011/12	56339.0	22999.0
2012/13	63742.9	26282.4
2013/14	71146.8	29565.8
2014/15	78550.7	32849.2

Source: Appendix - 3

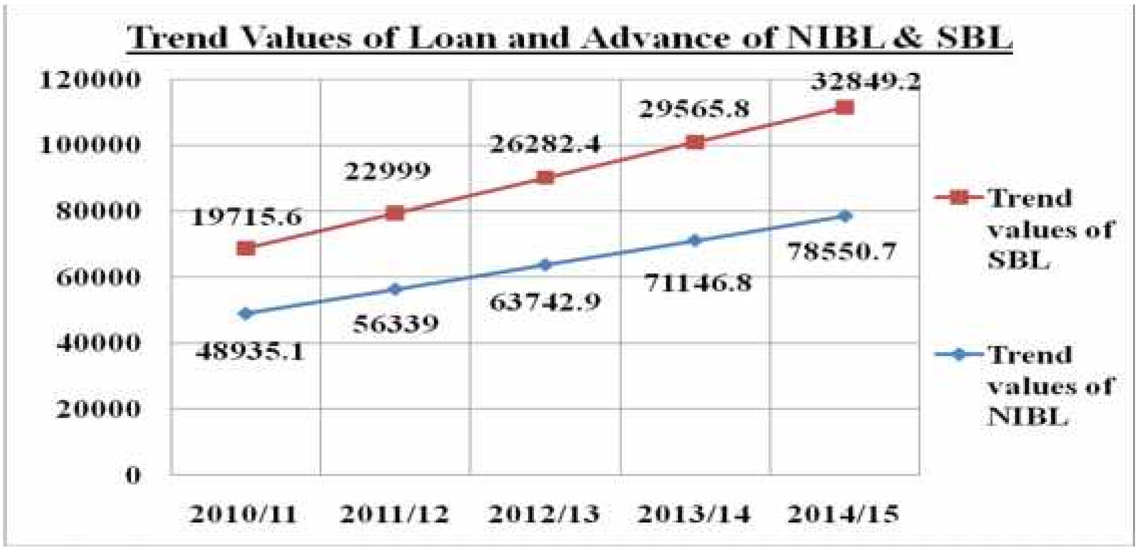

Figure: 8

4.11.3 Total Investment

Total Investment of NIBL and SBL

Table No 18

(Rs. In millions)

YEAR	Total Investment of NIBL	Total Investment of SBL
2005/06	5602	650
2006/07	6505	865
2007/08	6874	1150
2008/09	7399	2176
2009/10	8635	2452

Source: Appendix - 3

Figure: 9

Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze total investment of NIBL and SBL for five FYs from 2005/06 to 2009/10 and forecast for next five years from 2010/11 to 2014/15. The following table and trend chart shows the trend values of Total Investments for 10 years from 2005/06 to 2014/15 of NIBL & SBL.

Trend Values of Total Investment of NIBL and SBL (2005/06-2014/15)

Table No.19

(Rs. in millions)

Fiscal Years	Trend values of NIBL	Trend values of SBL
2005/06	5611	476
2006/07	6307	967.5
2007/08	7003	1459
2008/09	7699	1950.5
2009/10	8395	2442
2010/11	9091.0	2933.5
2011/12	9787.0	3425.0
2012/13	10483.0	3916.5
2013/14	11179.0	4408.0
2014/15	11875.0	4899.5

Source: Appendix - 3

Figure: 10

4.11.4 Net Profit

Net Profit of NIBL and SBL

Table No 20

YEAR	Net Profit of NIBL	Net Profit of SBL
2005/06	350	65
2006/07	501	95
2007/08	696	143
2008/09	900	217
2009/10	1265	240

Source: Appendix - 3

Figure: 11

Trend Analysis of Net Profit

Under this topic, an attempt has been made to analyze Net Profit of NIBL and SBL for five FYs from 2005/06 to 2009/10 and forecast for next five FYs from 2010/11 to 2014/15. The following table shows the trend values of Net Profit for 10 years from 2005/06 to 2014/15 of NIBL and SBL. (Detail calculation in Appendix -3, G & H)

Trend Values of Net Profit of NIBL and SBL (2005/06-2014/15)

Table No.21

(Rs. In millions)

Fiscal Years	Trend values of NIBL	Trend values of SBL
2005/06	296.6	57.6
2006/07	469.8	104.8
2007/08	643.0	152.0
2008/09	816.2	199.2
2009/10	989.4	246.4
2010/11	1162.6	293.6
2011/12	1335.8	340.8
2012/13	1509.0	388.0
2013/14	1682.2	435.2
2014/15	1855.4	482.4

Source: Appendix -3

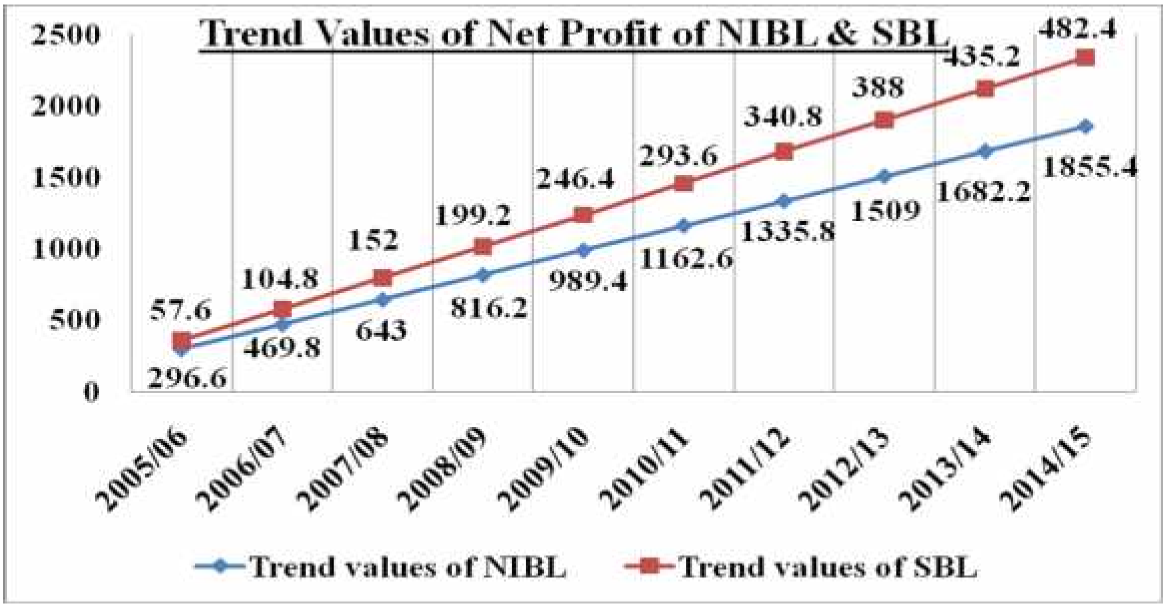

Figure: 12

From the above comparative table and trend chart of trend values of net profit, it has been found that the expected amount of both banks is in increasing trend. From above trend analysis, it is clear that SBL's net profit is comparatively better than the NIBL.

4.11.5 Test of Hypothesis

Effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. Generally, following steps are followed for the test of hypothesis.

- Formulating Hypothesis
- Null Hypothesis
- Alternative Hypothesis
- Computing the test statistic
- Fixing the level of significance
- Finding critical region
- Deciding two tailed or one tailed test
- Making decision

In the following lines, some of the main hypothesis tests are calculated and decisions are made.

There is no difference in the mean ratio of Loan and Advances to Total Deposit of NIBL and SBL

Let, Loan and Advances to total deposit ratios of NIBL and SBL are x and y respectively.

Hypothesis test on Loan & Advances to Total Deposit Ratio

Table No.22

S		NIBL			SBL		
N	**Year**	**X**	**d=(X-78.36)**	d^2	**Y**	**d=(Y-91.60)**	d^2
1	2005/06	67.50	-10.86	117.94	96.70	5.1	26.01
2	2006/07	70.59	-7.77	60.37	93.92	2.32	5.382
3	2007/08	78.36	0	0	91.60	0	0
4	2008/09	77.61	-0.75	0.562	84.07	-7.53	56.70
5	2009/10	80.48	2.12	4.494	82.45	-9.15	83.72
		$\sum X=374.54$	$\sum d$-17.26	$\sum d^2=183.37$	$\sum Y=448.74$	$\sum d=-9.26$	$\sum d^2=171.812$

Mean $(\bar{X})$ $\sum X$ = 374.54/5 = 74.91

Mean $(\bar{Y})= \sum Y$ = 448.74/5 = 89.75

$$S^2 = \frac{1}{n1 + n2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n1}\right\} + \left\{\sum d^2 - \frac{(\sum d)^2}{n2}\right\}\right]$$

$$= \frac{1}{5 + 5 - 2}\left[\left\{183.37 - \frac{(17.26)^2}{5}\right\} + \left\{171.812 - \frac{(9.26)^2}{5}\right\}\right]$$

$$= \frac{1}{8}\{123.79 + 154.66\}$$

$$= \frac{1}{8}\{30.87248\} = 34.81$$

Here,

Null Hypothesis (H_0) : $\mu x = \mu y$

i.e. There is no significant difference between mean ratios of total deposit of NIBL and SBL.

Alternative Hypothesis (H_1): µx □ µy (Two tailed test) i.e. There is significant difference between mean ratios of total deposit of NIBL and SBL.

Under $H_{0,}$ the test-statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2(1/n1 + 1/n2)}}$$

$$= \frac{74.91 - 89.75}{\sqrt{34.81(1/5 + 1/5)}}$$

$= - 14.84/\sqrt{13.924} = 14.84/3.73 = -3.98$ i.e. $/t/ = 3.98$

Tabulated value of 't' (two tailed test) at 5% level for (n1 + n2 – 2) i.e. d.f 8is 2.365

Decision:

Since the calculated value of 't' i.e. 3.98 is greater than tabulated value of 't' i.e 2.365. H0 is rejected. In other words there is significant difference between mean ratios of loan and advances to total deposits of NIBL and SBL.

There is no difference in the mean ratio of Total Investment to Total Deposit of NIBL and SBL

Let, Total investment to total deposit ratios of NIBL and SBL are x and y respectively.

Hypothesis Test on Total Investment to Total Deposit Ratio

Table No.23

S.N		**NIBL**			**SBL**		
	Year	**X**	**d=(X-19.95)**	**d^2**	**Y**	**d=(Y-11.28)**	**d^2**
1	2005/06	29.60	9.65	93.122	16.59	5.31	28.20
2	2006/07	26.56	6.61	43.692	13.06	1.78	3.178
3	2007/08	19.95	0	0	11.28	0	0
4	2008/09	15.84	-4.11	16.892	13.72	2.44	5.954
5	2009/10	17.24	-2.711	7.349	12.14	0.86	0.740
		∑X=109.19	∑d=9.439	$\sum d^2$=161.05	∑Y=66.79	∑d=10.39	$\sum d^2$=38.078

$$\textbf{Mean}(\bar{X}) = \frac{\sum X}{n} = 109.19/5 = 21.838$$

$$\textbf{Mean}(\bar{Y}) = \frac{\sum Y}{n} = 66.79/5 = 13.358$$

$$S^2 = \frac{1}{n1 + n2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n1}\right\} + \left\{\sum d^2 - \frac{(\sum d)^2}{n2}\right\}\right]$$

$$= \frac{1}{5 + 5 - 2}\left[\left\{161.05 - \frac{(9.939)^2}{5}\right\} + \left\{38.072 - \frac{(10.39)^2}{5}\right\}\right]$$

$$= \frac{1}{8}\{143.23 + 16.48\}$$

$$= 159.71/8 = 19.96$$

Here,

Null Hypothesis (H_0) : $\mu x = \mu y$

i.e. There is no significant difference between mean ratios between total investment to total deposit of NIBL and SBL.

Alternative Hypothesis (H_1): $\mu x \neq \mu y$ (Two tailed test)

i.e. There is significant difference between mean ratios of total investment to total deposit of NIBL and SBL.

Under H_0, the test-statistic is:

$$t = \frac{\bar{X} \quad \bar{Y}}{\sqrt{S^2(1/n1 + 1/n2)}}$$

$$= \frac{21.838 - 13.358}{\sqrt{16.48\,(1/5 + 1/5)}}$$

$$= 8.48/\sqrt{6.592} = 8.48/2.567 = 3.30$$

i.e. t = 3.30

Tabulated value of ‘t’ (two tailed test) at 5% level for (n1 + n2 – 2) i.e. 8d.f is 2.365

Decision:

Since the calculated value of 't' is greater than tabulated value of 't' i.e 2.365, it is significant. Therefore H0 is rejected and H1 is accepted

In other words there is significant different between mean ratios of total investment to total deposits of NIBL and SBL.

4.12 Problem of Loans

There is always a credit risk in lending. For one or more reasons, the loan may become a problem loan. Some of the causes of problem loan are as follows:

- Under utilization of capital/assets;
- Economic downturn;
- Changes in regulatory policies;
- Faulty credit analysis;
- Lacks in follow up and control;

Indicators of Problem Loans

The loan does not turn into problem loan overnight. It happens gradually during the course of time. Therefore, it is very essential that the loan should be reviewed from time to time in order to segregate the problem loans. The following could be indicator of the problem loans;

- Slowness in trade;
- Law suits;
- Slowness in submitting financial statements;
- Declining profits or weakening financial conditions;
- Change of key management;
- Economic factors;

Identification of Problem Loans

The problem loans are identified as those in which:

The original terms and conditions have been violated or breached often resulting in default for nonpayment or default under the security or loan covenant

The original loan repayment terms have been altered because the borrower could not pay in accordance with Bank's requirement and needed extensions, renewals and debt structure.

The collateral margin was depleted or diminished to the point where the risk of Bank debt structure

The interest is repeatable past due.

Failure to make repayment of principal overdue;

Operating cash flow is either negative or drastically reduced.

General Options to manage the problem loans;

Debts restructuring;

- Debt equity swap;
- Modification of terms of the loan viz
- Interest rate modification;
- Amortization period modification;
- Interest payment modification;
- Mortgage reduction

One time Settlement;

One time settlement is preferably better against the legal recourse. The amount of one time settlement varies from case to case. Such amount inter-alias depends upon the quality of collateral possessed by the Nepal Investment Bank Ltd.

Legal Recourse

Settlement through legal recourse is time consuming and costly. The legal recourse results into loss of customer as well as future revenue from such customer. The legal recourse also requires perfect documentation before its initiation.

Watch List and Doubtful Loan Committee

Any credit facility, which has indication of the problem loan should be listed in 'Watch list and doubtful loans' and a committee should be formed to formulate strategy for proper management of these loans. The Loan Administration unit will be responsible to convene the meeting and prepare agenda for the meeting.

The committee should constitute the following members

- Chief Executive officer;
- Head of credit;
- Officers of LAU;
- Officers of CMU;
- Head of Legal Department;
- Head of Loan Monitoring unit (LMU)

The meeting of this committee should be convened as and when needed but is should be at least once a month. The head of Loan monitoring unit will be responsible to prepare minutes of the meeting and get signature of all the members in the minutes.

The ‘Watch list’ should include loans showing any of the following criteria

Breach of Covenants: Any loan where imperfection of security and/or breaches of covenants cannot be remedied within three months of notice

Legal Action: Any borrower against to whom legal action has been initiated which has reasonable chance to jeopardize the business of the borrower.

Likewise, the doubtful loan should include loans with following criteria

Default: Any loan where payment of interest, principal or any other amount is overdue by more than 120 days or where breach of covenants continue for more than 120 days, without any restructure or waiver.

Provision: Any loan for which specific provision has been made in part or full or provision is expected in near future.

Uncorrected watch list: Any loan that remains in watch list for 12 months and still cannot qualify for upgrading shall be categorized as doubtful loan.

The committee should clearly formulate the strategy and laid down the action plan listing practical steps to be taken. The strategy should be either to get remedy from the borrower or to improve the situation and maintain the relationship. The progress of action plan should be discussed in each meeting of watch list.

Banks are expected to make loans to all qualified customers and thereby aid the communities they serve to grow and to improve their living standards. Indeed, making loans is the principal economic function of banks. But it is also a risky function because both external factors (principally economic conditions) and internal factors (including management errors and illegal manipulation) can result in substantial losses for the bank. In order to keep this risk factor under control, the bank lending function is closely regulated to ensure prudent policies and practices.

Banks also control risk in the lending function by setting up written policies and procedures for processing each loan request. Each bank should have a written loan policy that describes what types of loans and loan terms best protect the bank's soundness and also help to meet the needs of the communities the bank serves. The loan policy statement indicates the lines of authority and decision making within the loan department and the documentation that must accompany each loan application. Other features in a typical written bank loan policy include guidelines on taking, evaluating and perfecting loan collateral; procedures for setting loan rates and a description of those types of loans the bank prefers not to make.

Banks consider many factors in deciding whether or not to grant a loan to a borrower. Generally, however the evaluation of a loan application will focus on six key factors: (i) character, which goes to the honesty and sincerity of the borrower and whether the loan is for a good purpose; (ii) capacity, or whether the borrower has the legal standing necessary to sign a valid loan contract; (iii) cash, which focuses on the borrower's estimated capacity to generate sufficient income or cash flow to repay the loan; (iv) collateral, or whether the borrower has assets or other items of value that can be pledged to help secure the loan; (v) conditions, or the broader environment of the industry and the economy in which the borrower operates that could adversely affect loan repayment and (vi) control, which refers to whether or not the borrower's application meets the bank's loan quality standards and the standards imposed by the regulatory authorities.

Loan review is not a luxury but a necessity for a sound bank lending program. It not only helps management spot problem loans more quickly but also acts as a continuing check on whether loan officers are adhering to the bank's loan policy.

The Bank is eminently aware that, for the achievement of the objectives in the present dynamic environment, sustained progress and continued reform of the financial sector is of utmost importance. Continuously aware of this great responsibility, NRB is seriously pursuing various policies, strategies and actions, all of which are conveyed in the annual report on monetary policy which provides a comprehensive review and evaluation of the previous monetary policy and justification and the analysis of the following year's monetary policy. The re-engineering of the NRB itself is one of the critical components of the reform agenda. To improve the financial sector legislative framework, some new Acts, namely Bank and Financial Institution Act, 2006; NRB (First Amendment) Act, 2006; Insolvency Act, 2006; Secured Transaction Act, 2006; Company Act, 2006 have recently been enacted. Money laundering Control and Deposit and Credit Guarantee Acts are expected to be soon materialized, all with the goal of strengthening the financial sector through building on its healthy development and improved stability. These activities convey the commitment of the NRB for addressing the present and future challenges of the financial system more competently. This dynamic and proactive approach to the financial system, especially with its increasing openness and competitive process in the context of growing global financial environment, should ensure a sustained progress and stability of the financial system under NRB's guidance and leadership, for contributing substantially to the sustained development of the economy of Nepal.

The major indicator of financial sector’s efficiency is the level of financial intermediation cost. The difference between deposit rate and lending rate is generally taken as financial intermediation cost. Non economic factors have largely contributed to the persistent higher level of interest rate spread in Nepal. It is likely that persistence of higher level of interest spread may weaken the financial intermediation. In the light of this fact, the monetary policy instruments such as gradual phasing out of priority sector credit program, the cut in compulsory reserve ratio (CRR) and the bank rate, provision of concessional refinance facility and conduct of transparent open market operations (OMOs) have been initiated for the last couple of years. A system of allowing banks and financial institutions to determine interest rate freely has been put in place since the last two decades. The system of fixation of interest rate spread has also been already done away with. In this context, the only option available to the NRB in helping narrow down the interest rate spread is through the operation of various monetary instruments. Nepal Rastra Bank is aware of the need to bring down the interest rate spread to the desired level. The Bank expects the operations of these measures will relieve the economy from the burden of higher interest rate spread. Over the fast few years, the Bank has steadily pursued the policy of gradually reducing the compulsory reserving ratio. The objective has been to assist the process of increasing financial intermediation in the economy by way of lowering the cost of commercial bank's funds. Due to the pressures on prices and external sector front, the policy of not reducing the compulsory reserving ratio and maintaining at the current level of 5 % for the fiscal year 2005/06. However commercial banks also make efforts to reduce the interest rate spread between lending and deposit rates.

Need for promulgating a separate law with regard to anti-money laundering to control illegal transactions that may take place through the banking system. In the absence of such a law, the above-mentioned objective can be achieved to extent by banks and financial institutions following the practice of KYC (Know your customer). For this reason, the bank will draft, finalize and issue KYC policy for the implementation of all the stakeholders.

Banking crisis not only creates panic for the depositors, banks and regulators but can also be a cause of turmoil in the economy. NIBL faced a depositor run. This is the first incident of bank run in the banking history of Nepal. Though the crisis was timely handled by the central bank, the bank run case has given a message that Nepalese banking system does not refrain from the chances of crisis. Special Inspection has been continued for NIBL. since March 2006, especially by monitoring loan transactions. As of mid-July 2006, the numbers of permission provided was 28 for NIBL. The Board of Directors of NIBL was warned for ignoring the directives of the NRB. The Bank was asked to revise the loan loss provisioning so that cumulative loss would increase. A number of serious shortcomings were found in the Bank such as drawbacks in the credit flow and management and violations of the NRB directives in regards to priority and deprived sector credit.

The major findings of the study are derived on the basis of analysis & interpretations of financial data are as follows:

- Cash & bank balance to total deposit ratio reveals both banks have fluctuating trend. The mean ratio of NIBL is higher than that of SBL

- Loan & advances to total deposit ratio of both banks shows rising trend during study period. The mean ratio of NIBL is higher than that of SBL. On the other hand, NIBL's variability is lower than SBL.
- The mean ratio of total investment to total deposit of SBL is higher than that of NIBL & the variability of the ratios of NIBL is higher than that of SBL. It is clear that NIBL is not so successful in utilizing its resources on Investment.
- The average loan loss ratio of SBL is slightly higher than NIBL which indicates loan is still to be recovered. The performance in terms of recovery of loan in not in good position.
- When we observe the mean ratio of Return on loan & advance ratio, it can be concluded that SBL seem to be good to maintain its high return on loan and advances in comparison to NIBL.
- Return on equity reveals both banks have rising and falling ratios which indicate that they are not been able to earn profit due to the lack of efficient investment policy for the mobilization of capital resources. In comparison of both banks SBL is seems in good conditions.

The average credit risk ratio of NIBL is higher than SBL. Credit risk ratio has fluctuating trend with high risk. It indicates the unstable credit policy of the bank

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

In this chapter the attempt has been made to present Summary, Conclusions and Recommendations.

5.1 Summary

Industrial Development is very important for economic development of any country. And there must be Investment made on productive activities for Industrial development. Investment is one of the financial activities which involve the decision of capital to establish commercial or industrial venture. Investment in its broadest sense means the sacrifice of current money for future money. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward or result of sacrifice comes later and the magnitude is generally uncertain. Time and risk are predominates for investment. Such as Investment in government bonds time is predominates whereas in common stock time and risk both are important. Investment involves uses of funds to long term assets that would yield benefits in the future.

Investment greatly depends on the saving behaviour of that country. The amount of saving of typical household in Nepal is small because of the people have limited opportunities for Investment. They prefer to spend savings on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring benefits such as reduction of Investment risk and increase in liquidity. Investment depends on development of the capital market also. It provides and allocates funds to firms with profitable Investment opportunities and offers an avenue of liquidity for individuals to invest current income or borrow against future income.

Similarly Investment is related with Tax, inflation, risk and return from that Investment. Investment activities of the country also depend on the development of financial institutions, as financial institution as a key for Investment. Financial institution plays a very important role to develop the nation by collecting and investing money. Commercial banks are major financial institutions which occupy quite an important place in the frame work of every country's economy because they provide capital for the development of the industries, trade and business and other resources deficit sectors by investing the saving collected as deposits.

The beginning and establishment is financial institution depends upon the level of economic activities and monetary transaction in the country. In Nepal history of modern financial institution begins with the establishment of NBL in 1937A.D. Since then several financial institutions have come into existence. But Nepalese Industries have been facing challenges especially due to inadequacy of financial resources although numerous financial institutions have emerged both in regional as well as in international financial centers to extend credit facilities to the financially viable enterprises. But there still a big gap between demand for and supply of financial resources and the gap seems ever widening over the years. Globalization and freeing up the economy, decentralization, restructuring, and downswing of large firms, worldwide communication networks and transfer and acquisition of state of the art, technology and other application, all have brought the challenges and opportunities to entrepreneur. Those entrepreneurs who respond to these challenges and mobilize necessary financial resources will become successful and those who do not fall victim in their rapidly changing economic environment. Banks plays a crucial role in this matter. Commercial banks not only collect the scattered saving from individual by accepting deposits but also provides various types of loan. And it itself invest in various share and debentures of other companies. A healthy development of any band depends heavily upon its Investment policy. A sound and viable Investment policy can be effective one for the economy to attain the economic objectives directed towards the acceleration of the pace of development. A good Investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and Investment.

Bank which serves as a repository of the cash resources of the public and as purveyors of finance for trade and industry play a vital role in the economic and financial life of a country. Unlike other joint stock companies, banks generally obtain a very large proportion of their working capital from the depositors rather than from the share holders. Therefore it should wisely and carefully use its collected fund. The Investment policy should be carefully analyzed. Commercial banks have to pay due consideration while formulating Investment policy regarding loan and Investment. Investment policy should ensure minimum risk and maximum profit (return) from lending. The loan provided by bank is guided by several principles such as length of time, their purpose, profitability, safety etc.

The basic objective of this study is to find out the position of Nepal Investment bank Limited on fund mobilization and investment policy in comparison to Siddhartha Bank Limited. The subsidiary objectives determined to achieve the foresaid objective are : To analyze the relationship between various important variables of Nepal Investment bank Limited i.e deposits, loan and advances, total investments and net profit in comparison to Siddhartha Bank; To assess the liquidity, efficiency of assets management, profitability and risk position on the basis of findings of the analysis; To provide the suggestion for improving the investment policy of Nepal Investment bank Limited in comparison to Siddhartha Bank Limited on the basis of findings of the analysis.

To fulfill these objectives and other specific objectives an appropriate research methodology has been developed which include the analysis of time series and test of hypothesis as a statistical tools. Some null hypothesis formulated during the study tested in appendix and analyzed.

5.2 Conclusion

From the study it is found that NIBL and SBL as commercial banks are running in profit. Banks plays a crucial role in sustainable development of least developed countries. Because of bottlenecks inherent in the economies of least developed countries are either unemployed or under-employed or only seasonally employed. It can absorb the population in gainful employment activities. Thus, they can play an important role in poverty alleviation in the country. The major sources for financial resources to Industries in the least developed countries are the commercial banks. NRB licensed bank and non- bank financial institutions for the development of economy in the country. Presently 31 are commercial banks, 79 development banks, 83 finance companies are operating with fierce competition. A few more development banks and finance companies may come into operation in coming years. It is certain that competition will intensify among commercial banks, development banks and finance companies. Under such circumstances, it is imperative for the Bank to have its own separate identity in the market by formulating a special strategy.

Increasingly, bankers are being forced by both competition and regulatory pressure to assess their bank's performance over time and relative to other banks, analyze the reasons behind any performance problems that appear and find ways to strengthen the bank's performance in the future. Two key dimensions of bank performance are profitability and exposure to risk. Profitability is clearly the more important, because satisfactory profits preserve the bank's capital, providing it with a base for future survival and growth. For larger banks, the value of their stock in the market is the best overall indicator of whether they are achieving adequate profitability relative to the risks they have assumed.

SBL is one of the successful commercial bank of Nepal. Nepal Investment bank Limited is still in developing period. SBL has made a great achievement within last 5 years period. Siddhartha Bank continued to top the private banks in terms of deposits and loans for the past many years. It has also invested in different sectors. These commercial banks should take favorable step for the development of rural parts of the country.

With a view to maintain the financial stability, a number of regulatory measures were adopted. The umbrella directive incorporates 16 directives relating to capital adequacy, classification of loan and advances and loan loss provisioning, sectoral credit limit, accounting policy and structure of financial statement, risk minimization arrangement, corporate good governance, work schedule for directives implementation, investment, statistical returns to be submitted, sale of promoters shares, consortium lending, credit information and black listing arrangement, cash reserve ratio, branch office opening, interest rates and financial resources collection.

The management of excess liquidity of commercial banks is considered to be an important operating procedure of monetary policy. First, it helps to achieve the policy objective of maintaining monetary stability through the necessary adjustment in the availability of credit. Second, in turn, the change in credit availability can contribute to achieve the financial sector stability.

The lending operation of the commercial banks in Nepal is extended to various sectors such as the lending operation of the commercial banks in Nepal is extended to various sectors such as industrial sector, commercial sector, agriculture sector, service sector, general purpose sector, these sectors are also categorized in productive, nonproductive or priority sector and the investment on the securities consist of the investment in treasury bill, development bonds, national saving bonds, shares on government owned companies or non government companies.

5.3 Recommendations

On the basis of analysis, findings of the study, following recommendations can be advanced to overcome weakness, inefficiency and to revitalize improve present fund mobilization and investment policy of NIBL and SBL.

1. The liquidity position of a bank can be affected by external as well as internal factors. The affecting factors can be interest rates, supply as demand position of loan and advance as well as saving, investment situation, central bank direction, the lending policies, capability of management strategic planning and funds flow situation. As SBL has maintained the ratios of cash and bank balance to total deposit considerably lower than NIBL, SBL's cash and bank balance to deposit ratio is not performing well. So it is recommended to increase cash and bank balance to meet current obligations and loans and demand for such loans.

2. To get success in competitive banking environment, deposit money must be utilized as loan and advances. Negligence in administering - the largest item of the bank in asset side i.e. loan and advances could be one of the main reasons of the bank failure. When mean ratios of loan and advances of NIBL and SBL are compared, NIBL seems to be good to mobilize its total deposit. It means that SBL has not properly used their existing fund as loan and advances. To overcome this situation SBL needs to increase its deposit mobilization capacities and find out more profitable sector in order to capture the market share.

3. Recovery of loan is most challenging tasks these days. The performance of SBL in terms of recovery of loan is lower in comparison to the NIBL. So, SBL is suggested to implement a sound collection policy including procedures which ensure rapid identification of delinquent loans, immediate contract with borrower

and continual follow up until a loan is recovered and legal procedure if necessary. On the other hand loan loss provision ratio of NIBL is comparatively high that makes negative impact on profit. NIBL in terms of recovery of loan is worse. It has large non-performing asset as loan not recovered. Therefore, it is recommended to apply Loan recovery act that would help to realize overdue loan in time. Moreover, half yearly internal audit of L/C transaction was not done; required capital fund was not maintained as per the NRB's directive; the Bank has been suffering from a huge loss and lacks good corporate governance. The Bank has been restrained to open new branch and ordered to increase capital fund within three years and lower the loan loss provisioning and non – banking assets. Thus NIBL was recommended to publish revised financial statement by revising the loan loss provisioning.

4. Both Banks should be more careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and all its customers. They can't keep its eyes closed from the profit motive. Therefore both banks needs to form a Committee to identity the reasons behind sharp decline in profit over the years and adopt various measures to improve its profitability. Nepal Investment bank Limited is strongly recommended to utilize its risky assets and shareholder's fund to gain profit margin similarly it should reduce its expenses and should try to collect cheap fund being more profitable. Equity capital gives the bank protection against declining income and grants management time to correct the bank's earnings problems. However, these problems must be addressed quickly before continuing earnings losses erode the bank's remaining capital and threaten its survival.

5. Countries like Nepal with low financial development and high poverty incidence are more vulnerable to crises in case the regulatory mechanism fails to deliver or when the regulatory capture supersedes the market monitoring. Thus, a strategic approach is needed to maximize the number of motivated, watchful eyes to enhance market monitoring. Promoting market monitoring will pave the way for sound and sustainable financial development and stability and will reduce the chances of banking crisis.

6. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customer. Growing economic sophistication, global financial integration, trade and investment interdependence and revolution in information and communication technology are influencing in the banking sector tremendously. To cope the changing environment of the banking business NIBL is suggested to any branch banking system, credit card facility and web site etc. Similarly emphasis should be given on Research and Development.

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APPENDIX:1
Annual Report

APPENDIX:2
Data for Financial Tools

APPENDIX – 2.1

Cash and Bank Balance to Total Deposit Ratio

(Rs. in millions)

NIBL				
FY	Cash and Bank Balance	Total Deposit	Ratio(X) %	$(X-\bar{X})^2$
2005/06	2336	18927	12.34	0.18
2006/07	2442	24489	9.97	7.67
2007/08	3755	34452	10.90	3.46
2008/09	7918	46698	16.96	17.64
2009/10	6816	50094	13.61	0.72
				$(\sum(X-\bar{X})^2 = 29.67)$
SBL				
2005/06	115	3918	2.94	19.36
2006/07	517	6625	7.80	0.21

2007/08	437	10191	4.29	9.30
2008/09	1547	15854	9.76	5.86
2009/10	2406	20197	11.91	20.89
				($\sum(X-\bar{X})^2$ =55.62)

Source: - Nepal Investment Bank Ltd. **Annual Reports**, Balance Sheet

Siddhartha Bank Ltd. **Annual Reports**, Balance Sheet

Standard Deviation is calculated by STDEV = [$\sqrt{(\sum(X-\bar{X})^2 /N}$]

Where N = 5

C.V = $(\sigma/\bar{X}) \times 100\%$

APPENDIX – 2.2

Loan and Advance to Total Deposit Ratio

(Rs. in millions)

NIBL				
FY	Loan and Advance	Total Deposit	Ratio(X) %	$(X-\bar{X})^2$
2005/06	12776	18927	67.50	54.91
2006/07	17286	24489	70.59	18.66
2007/08	26996	34452	78.36	11.90
2008/09	36241	46698	77.61	7.29
2009/10	40318	50094	80.48	31.02
				$(\sum(X-\bar{X})^2 = 123.78)$
SBL				
2005/06	3789	3918	96.70	48.44
2006/07	6222	6625	93.92	17.39
2007/08	9335	10191	91.60	3.42
2008/09	13328	15854	84.07	32.26
2009/10	16653	20197	82.45	53.29
				$(\sum(X-\bar{X})^2 = 154.80)$

Source: - Nepal Investment Bank Ltd. **Annual Reports**, Balance Sheet

Siddhartha Bank Ltd. **Annual Reports**, Balance Sheet

APPENDIX – 2.3

Total Investment to Total Deposit Ratio

(Rs. in millions)

NIBL				
FY	Total Investment	Total Deposit	Ratio(X) %	$(X-\overline{X})^2$
2005/06	5602	18927	29.60	60.22
2006/07	6505	24489	26.56	22.28
2007/08	6874	34452	19.95	3.57
2008/09	7399	46698	15.84	36.00
2009/10	8635	50094	17.24	21.16
				$(\sum(X-\overline{X})^2 = 143.23)$
SBL				
2005/06	650	3918	16.59	10.43
2006/07	865	6625	13.06	0.09
2007/08	1150	10191	11.28	4.32
2008/09	2176	15854	13.72	0.13
2009/10	2452	20197	12.14	1.49
				$(\sum(X-\overline{X})^2 = 16.46)$

Source: - Nepal Investment Bank Ltd. **Annual Reports**, Balance Sheet

Siddhartha Bank Ltd. **Annual Reports**, Balance Sheet

APPENDIX – 2.4

Loan Loss Ratio

(Rs. in millions)

NIBL				
FY	Loan Loss Provision	Loan and Advance	Ratio(X)	$(X-\bar{X})^2$
2005/06	401	12776	3.14	0.86
2006/07	482	17286	2.79	0.33
2007/08	532	26996	1.97	0.06
2008/09	585	36241	1.61	0.36
2009/10	630	40318	1.56	0.43
				$(\sum(X-\bar{X})^2 = 2.04)$
SBL				
2005/06	80	3789	2.11	0.260
2006/07	97	6222	1.56	0.001
2007/08	145	9335	1.55	0.002
2008/09	176	13328	1.32	0.078
2009/10	241	16653	1.45	0.022
				$(\sum(X-\bar{X})^2 = 0.036)$

Source: - Nepal Investment Bank Ltd. **Annual Reports**, Various Issues

Siddhartha Bank Ltd. **Annual Reports**, Various Issues

APPENDIX – 2.5

Return on Loan & Advances

(Rs. in millions)

FY	Net Profit	Loan and Advance	Ratio(X) %	$(X-\bar{X})^2$
NIBL				
2005/06	350	12776	2.74	0.058
2006/07	501	17286	2.90	0.160
2007/08	697	26996	2.58	0.006
2008/09	401	36241	1.12	1.904
2009/10	1265	40318	3.14	0.409
				$(\sum(X-\bar{X})^2 = 2.537)$
SBL				
2005/06	65	3789	1.71	0.019
2006/07	95	6222	1.53	0.001
2007/08	143	9335	1.53	0.001
2008/09	217	13328	1.63	0.003
2009/10	240	16653	1.44	0.016
				$(\sum(X-\bar{X})^2 = 0.04)$

Source: - Nepal Investment Bank Ltd. **Annual Report**, Various Issues

Siddhartha Bank Ltd. **Annual Report**, Various Issues

APPENDIX – 2.6

Return on Equity

(Rs. in millions)

NIBL				
FY	Net Profit	Equity Capital	Ratio(X) %	$(X-\overline{X})^2$

2005/06	350	1415	24.73	2.856
2006/07	501	1878	26.68	13.249
2007/08	697	2686	25.95	8.468
2008/09	401	3907	10.26	163.328
2009/10	1265	4585	27.59	20.702
				($\sum(X-\overline{X})^2$ =208.608)
SBL				
2005/06	65	603	10.78	8.065
2006/07	95	793	11.98	2.689
2007/08	143	1068	13.39	0.052
2008/09	217	1278	16.98	11.289
2009/10	240	1603	14.97	1.822
				($\sum(X-\overline{X})^2$ =23.917)

Source: - Nepal Investment Bank Ltd. **Annual Reports**, Various Issues

Siddhartha Bank Ltd. **Annual Reports**, Various Issues

APPENDIX – 2.7

Credit Risk Ratio

(Rs. in millions)

NIBL				
FY	Loan and Advance	Total Assets	Ratio(X) %	$(X-\overline{X})^2$
2005/06	13178	21330	61.78	33.64
2006/07	17769	27590	64.40	10.11
2007/08	27529	38873	70.81	10.43

2008/09	36827	53010	69.47	3.57
2009/10	40948	57305	71.46	15.05
				$(\sum(X-\overline{X})^2=72.80)$
		SBL		
2005/06	3789	4756	79.69	6.76
2006/07	6222	7954	78.22	1.28
2007/08	9335	11668	80.00	8.47
2008/09	13328	17881	74.54	6.70
2009/10	16653	22802	73.03	16.48
				$(\sum(X-\overline{X})^2=39.69)$

Source: - Nepal Investment Bank Ltd. **Annual Reports**, Various Issues

Siddhartha Bank Ltd. **Annual Reports**, Various Issues

APPENDIX:3
Statistical Tools

APPENDIX – 3.1

Correlation between Total Deposit and Loan & Advances of NIBL

(Rs. In Millions)

FY	Deposit (X)	x^2	Loan & Advances (Y)	y^2	xy
2005/06	18927	358231329	12776	163226176	241811352
2006/07	24489	599711121	17286	298805796	423316854
2007/08	34452	1186940304	26996	728784016	930066192
2008/09	46698	2180703204	36241	1313410081	1692382218
2009/10	50094	2509408836	40318	1625541124	2019689892
	$\sum X =$ 174660	$\sum x^2 =$ 6834994794	$\sum Y =$ 133617	$\sum y^2 =$ 4129767193	$\sum xy =$ 5307266508

Now, we have,

N = 5

$\sum X = 174660$ $\sum Y = 133617$ $\sum xy = 5307266508$

$\sum x^2 = 6834994794$ $\sum y^2 = 4129767193$

Correlation co-efficient can be calculated by using following formula

$$r = \frac{N\sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum x^2 - (\sum x)^2}\ \sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 5307266508 - 174660 \times 133617}{\sqrt{5 \times 6834994794 - (174660)^2}\ \sqrt{5 \times 4129767193 - (133617)^2}}$$

$$= \frac{27019952565 - 23337545220}{\sqrt{34174973970 - 30506115600}\ \sqrt{20648835965 - 17853502689}}$$

$$= \frac{3198787320}{60571.10177 \times 52870.91144}$$

$$= \frac{3198787320}{3202449358}$$

$= 0.999 \qquad r^2 = 0.998$

Calculation of probable error,

$$P.Er = 0.6745\,\frac{1 - r^2}{\sqrt{N}} = 0.6745\,\frac{(1 - 0.998)}{\sqrt{5}} = 0.0006$$

6P.Er = 6 x(- 0.0006) = - 0.0036

APPENDIX – 3.2

Correlation between Total Deposit and Loan & Advances of SBL

(Rs. In Millions)

FY	Deposit (X)	x^2	Loan & Advances (Y)	y^2	xy
2005/06	3918	15350724	3789	14356521	14845302
2006/07	6625	43890625	6222	38713284	41220750
2007/08	10191	103856481	9335	87142225	95132985
2008/09	15854	251349316	13328	177635584	211302112
2009/10	20197	4079188096	16653	277322409	336340641
	$\sum X = 56785$	$\sum x^2 = 822365955$	$\sum Y = 49327$	$\sum y^2 = 595170023$	$\sum xy = 698841790$

Now, we have,

N = 5

$\sum X = 56785$ $\sum Y = 49327$ $\sum xy = 698841790$

$\sum x^2 = 822365955$ $\sum y^2 = 595170023$

Correlation co-efficient can be calculated by using following formula

$$r = \frac{N \sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum x^2 - (\sum x)^2}\ \sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 698841790 - 56785 \times 49327}{\sqrt{5 \times 822365955 - (56785)^2}\ \sqrt{5 \times 595170023 - (49327)^2}}$$

$$= \frac{3494208950 - 2801033695}{\sqrt{4111829775 - 3224536225}\ \sqrt{2975850115 - 2433152929}}$$

$$= \frac{693175255}{29787.47304 \times 23295.86199}$$

$$= \frac{693175255}{693924861}$$

$= 0.999 \qquad r^2 = 0.998$

Calculation of probable error,

$$P.Er = 0.6745\ \frac{1 - r^2}{\sqrt{N}} = 0.6745\ \frac{(1 - 0.998)}{\sqrt{5}} = 0.0006$$

6P.Er = 6 x 0.0006 = 0.036

APPENDIX – 3.3

Correlation between Total Deposit and Total Investment of NIBL

(Rs. In Millions)

FY	Deposit (X)	x^2	Total Investment (Y)	y^2	xy
2005/06	18927	358231329	5602	31382404	106029054
2006/07	24489	599711121	6505	42315025	159300945
2007/08	34452	1186940304	6874	47251876	236823048
2008/09	46698	2180703204	7399	54745201	345518502
2009/10	50094	2509408836	8635	74563225	432561690
	$\sum X=$ 174660	$\sum x^2 =$ 6834994794	$\sum Y =$ 35015	$\sum y^2 =$ 250257731	$\sum xy =$ 1280233239

Now, we have,

N = 5

$\sum X = 174660 \quad \sum Y = 35015 \quad \sum xy = 1280233239$

$\sum x^2 = 6834994794 \qquad \sum y^2 = 250257731$

Correlation co-efficient can be calculated by using following formula

$$\mathbf{r} = \frac{\mathbf{N}\sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum x^2 - (\sum x)^2}\ \sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 1280233239 - 174660 \times 35015}{\sqrt{5 \times 6834994794 - (174660)^2}\ \sqrt{5 \times 250257731 - (35015)^2}}$$

$$= \frac{6401166195 - 6115719900}{\sqrt{34174973970 - 30506115600}\ \sqrt{1251288655 - 1226050225}}$$

$$= \frac{285446295}{60571.10177 \times 5023.786421}$$

$$= \frac{285446295}{304296278.6}$$

$$= 0.938 \qquad r^2 = 0.879$$

Calculation of probable error,

$$P.Er = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.6745 \frac{(1 - 0.879)}{\sqrt{5}} = 0.0246$$

6P.Er = 6 x 0.00246 = 0.148

APPENDIX – 3.4

Correlation between Total Deposit and Total Investment of SBL

(Rs. in millions)

FY	Deposit (X)	x^2	Total Investment (Y)	y^2	xy
2005/06	3918	15350724	650	422500	2546700
2006/07	6625	43890625	865	748225	5730625
2007/08	10191	103856481	1150	1322500	11719650
2008/09	15854	251349316	2176	4734976	34498304
2009/10	20197	4079188096	2452	6012304	49523044
	$\sum X=$ 56785	$\sum x^2 =$ 822365955	$\sum Y =$ 7293	$\sum y^2 =$ 13240505	$\sum xy =$ 104018323

Now, we have,

N = 5

$\sum X = 56785 \quad \sum Y = 7293 \quad \sum xy = 104018323$

$\sum x^2 = 822365955 \quad \sum y^2 = 13240505$

Correlation co-efficient can be calculated by using following formula

$$r = \frac{N \sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum x^2 - (\sum x)^2}\ \sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 104018323 - 56785 \times 7293}{\sqrt{5 \times 822365955 - (56785)^2}\ \sqrt{5 \times 13240505 - (7293)^2}}$$

$$= \frac{520091615 - 414133005}{\sqrt{4111829775 - 3224536225}\ \sqrt{66202525 - 53187849}}$$

$$= \frac{105958610}{29787.47304 \times 3607.585896}$$

$$= \frac{105958610}{107460867.6}$$

$= \quad 0.986 \qquad r^2 = 0.972$

Calculation of probable error,

$$P.Er = 0.6745 \frac{1 - r^2}{\sqrt{N}} \qquad = 0.6745 \frac{(1 - 0.998)}{\sqrt{5}} = 0.0084$$

6P.Er = 6 x 0.0006 = 0.0056

APPENDIX – A

Trend values of Total Deposit of NIBL

(Rs. in millions)

Year (t)	Total Deposits (Y)	X (t –2008)	X^2	XY	Yc = a + bx Yc=34932+(8427.3)X

2005/06	18927	-2	4	-37854	18077.4
2006/07	24489	-1	1	-24489	26504.7
2007/08	34452	0	0	0	34932
2008/09	46698	1	1	46498	43359.3
2009/10	50094	2	4	100118	51786.6
N = 5	∑Y = 174660	∑X = 0	$\sum X^2$ = 10	∑XY = 84273	

Now, we have,

N = 5

Since ∑X = 0,

a = ∑Y/n

b =∑XY/$\sum X^2$

Thus,

a = 34932

b = 8427.3

Trend values of Total Deposits of NIBL (2011/12 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=34932+(8427.3)X
2010/11	1	60213.9

2011/12	2	68641.2
2012/13	3	77068.5
2013/14	4	85495.8
2014/15	5	93923.1

APPENDIX – B

Trend values of Total Deposit of SBL

(Rs. in millions)

Year (t)	Total Deposits (Y)	X (t – 2008)	X^2	XY	Yc = a + bx Yc=1135.6+(4178.7)X
2005/06	3918	-2	4	-7836	7221.8
2006/07	6625	-1	1	-6625	-3043.1
2007/08	10191	0	0	0	1135.6
2008/09	15854	1	1	15854	5314.3
2009/10	20197	2	4	40394	9493
N = 5	∑Y = 56785	∑X = 0	$\sum X^2$ = 10	∑XY = 41787	

Now, we have,

N = 5

Since ∑X = 0,

a = ∑Y/n

b =$\sum XY/\sum X^2$

Thus,

a = 1135.6

b = 4178.7

Trend values of Total Deposits of SBL (2010/11 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=1135.6+(4178.7)X
2010/11	1	13671.7
2011/12	2	17850.4
2012/13	3	22029.1
2013/14	4	26207.8
2014/15	5	30386.5

APPENDIX – C

Trend values of Loan and advances of NIBL

(Rs. in millions)

Year (t)	Loan and Advances(Y)	X (t –2008)	X^2	XY	Yc = a + bx Yc=26723.4+ (7403.9)X
2005/06	12776	-2	4	-25552	11915.6
2006/07	17286	-1	1	-17286	19319.5
2007/08	26996	0	0	0	26723.4
2008/09	36241	1	1	36241	34127.3
2009/10	40318	2	4	80636	41531.2
N = 5	$\sum Y$ = 133617	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY$ = 74039	

Now, we have,

N = 5

Since $\sum X = 0$,

$a = \sum Y/n$

$b = \sum XY/\sum X^2$

Thus,

a = 26723.4

b = 7403.9

Trend values of Loan and Advances of NIBL (2010/11 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=(26723.4)+7403.9X
2010/11	1	48935.1
2011/12	2	56339.0
2012/13	3	63742.9
2013/14	4	71146.8
2014/15	5	78550.7

APPENDIX – D

Trend values of Loan and advances of SBL

(Rs. in millions)

Year (t)	Loan and advances (Y)	X (t –2008)	X^2	XY	Yc = a + bx Yc=9865.4+3283.4X
2005/06	3789	-2	4	-7578	3298.6
2006/07	6222	-1	1	-6222	6582.0
2007/08	9335	0	0	0	9865.4
2008/09	13328	1	1	13328	13148.8
2009/10	16653	2	4	33306	16432.2
N = 5	∑Y = 49327	∑X =0	$\sum X^2$ = 10	∑XY = 32834	

Now, we have,

N = 5

Since ∑X = 0,

a = ∑Y/n

b =$\sum XY/\sum X^2$

Thus,

a = 9865.4

b = 3283.4

Trend values of Loan and advances of SBL (2010/11 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=9865.4+3283.4X
2010/11	1	19715.6
2011/12	2	22999.0
2012/13	3	26282.4
2013/14	4	29565.8
2014/15	5	32849.2

APPENDIX – E

Trend values of Total Investment of NIBL

(Rs. in millions)

Year (t)	Total Investment (Y)	X (t –2008)	X^2	XY	Yc = a + bx Yc=7003.0+(696.0)X
2005/06	5602	-2	-4	-11204	5611.0
2006/07	6505	-1	1	-6505	7699.0
2007/08	6874	0	0	0	7003.0
2008/09	7399	1	1	7399	7699.0
2009/10	8635	2	4	17270	8395.0
N = 5	∑Y = 35015	∑X = 0	$\sum X^2$ = 10	∑XY = 6960	

Now, we have,

N = 5

Since ∑X = 0,

a = ∑Y/n

b = $\sum XY/\sum X^2$

Thus,

a = 7003.0

b = 696.0

Trend values of Total Investment of NIBL (2010/11 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=7003.0+(696.0)X
2010/11	1	9091.0
2011/12	2	9787.0
2012/13	3	10483.0
2013/14	4	11179.0
2014/15	5	11875.0

APPENDIX – F

Trend values of Total Investment of SBL

(Rs. in millions)

Year (t)	Total Investment (Y)	X (t –2000)	X^2	XY	Yc = a + bx Yc=(1459.0)+(491.5)X
2005/06	650	-2	-4	-1300	476.0
2006/07	865	-1	1	-865	967.5
2007/08	1150	0	0	0	1459.0
2008/09	2176	1	1	2176	1950.5
2009/10	2452	2	4	4904	2442.0
N = 5	$\sum Y$ = 7293	$\sum X = 0$	$\sum X^2$ = 10	$\sum XY$ = 4915	

Now, we have,

N = 5

Since $\sum X = 0$,

a = $\sum Y/n$

b = $\sum XY/\sum X^2$

Thus,

a = 1459.0

b = 491.5

Trend values of Total Investment of SBL (2010/11 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=(1459.0)+(491.5)X
2010/11	1	2933.5
2011/12	2	3425.0
2012/13	3	3916.5
2013/14	4	4408.0
2014/15	5	4899.5

APPENDIX – G

Trend values of Net profit of NIBL

(Rs. in millions)

Year (t)	Net Profit (Y)	X (t –2008)	X^2	XY	Yc = a + bx Yc=643.0+(173.2)x
2005/06	350	-2	-4	-700	296.6
2006/07	501	-1	1	-501	469.8
2007/08	697	0	0	0	643.0
2008/09	401	1	1	401	816.2
2009/10	1265	2	4	2530	989.4
N = 5	$\sum Y$ = 3214	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY$ = 1730	

Now, we have,

N = 5

Since $\sum X = 0$,

$a = \sum Y/n$

$b = \sum XY/\sum X^2$

Thus,

a = 643.0

b = 173.2

Trend values of Net Profit of NIBL (2010/11 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=643.0+(173.2)x
2010/11	1	1162.6
2011/12	2	1335.8
2012/13	3	1509.0
2013/14	4	1682.2
2014/15	5	1855.4

APPENDIX – H

Trend values of Net profit of SBL

(Rs. in millions)

Year (t)	Net Profit (Y)	X (t –2008)	X^2	XY	Yc = a + bx Yc=152.0+47.2
2005/06	65	-2	-4	-130	57.6
2006/07	95	-1	1	-95	104.8
2007/08	143	0	0	0	152.0
2008/09	217	1	1	217	199.2
2009/10	240	2	4	480	246.4
N = 5	$\sum Y$ = 760	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY$ = 472	

Now, we have,

N = 5

Since $\sum X = 0$, $\sum Y = 760$, $\sum X^2 = 10$, $\sum XY = 472$

a = $\sum Y/n$

b = $\sum XY/\sum X^2$

Thus,

a = 152.0

b = 47.2

Trend values of Net Profit of SBL (2010/11 – 2014/15)

Year (t)	X (t –2008)	Yc = a + bx Yc=152.0+47.2
2010/11	1	293.6
2011/12	2	340.8
2012/13	3	388.0
2013/14	4	435.2
2014/15	5	482.4