

# **INVESTMENT ANALYSIS OF COMMERCIAL BANKS IN NEPAL**

**A THESIS**

**Submitted by**

**Sajita Bajracharya**

**Campus Roll No: 147/064**

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**Exam Roll No.: 5468/280312**

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## **RECOMMENDATION**

This is to certify that the Thesis

Submitted by:

**Sajita Bajracharya**

**Entitled:**

**INVESTMENT ANALYSIS OF COMMERCIAL BANKS IN NEPAL**

*Has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.*

.....  
Asso. Prof. Ajaya Prasad Dhakal

(Thesis Supervisor)

.....  
Prof. Dr. Suniti Shrestha

(Head of Research Department)

.....  
Prof. Bal Krishna Shrestha

(Head Central Department  
of Management)

# VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

By

**Sajita Bajracharya**

Entitled:

**INVESTMENT ANALYSIS OF COMMERCIAL BANKS  
IN NEPAL**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the **Degree of Master's in Business studies (M.B.S.)**

## Viva-Voce Committee

Head, Research Department .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

Member (Central Department of Management) .....

**Date:**

## DECLARATION

I, hereby, declare that the work reported in this thesis entitled “**INVESTMENT ANALYSIS OF COMMERCIAL BANKS IN NEPAL**” submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of **Asso. Prof. Ajaya Prasad Dhakal** of Central Department of Management, Kirtipur, Kathmandu.

.....

**Sajita Bajracharya**

Researcher

Campus Roll No: 147/064

Central department of Management

T.U. Regd. No. 7-2-506-11-2004

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**Sajita Bajracharya**

Central Department of Management

Kathmandu, Nepal

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## **ABBREVIATION**

A/C	:	Account
AD	:	Anon Dominic
ADB	:	Agriculture Development Bank
Amt	:	Amount
ATM	:	Automated Teller Machine
BOK	:	Bank of Kathmandu
BS	:	Bikram Sambat
EBL	:	Everest Bank Limited
C.V.	:	Coefficient of Variance
Deb.	:	Debenture
F/Y	:	Fiscal Year
HBL	:	Himalayan Bank Limited
i.e.	:	That is
Ltd	:	Limited
MBS	:	Masters in Business Studies
NABIL	:	Nepal Arab Bank Limited
NBBL	:	Nepal Bangladesh Bank limited
NRB	:	Nepal Rasta Bank
SCBL	:	Standard charter Bank Limited
NIBL	:	Nepal Investment Bank Limited
NIDC	:	Nepal Development Corporation
NSBI	:	Nepal State Bank of India
Pvt.	:	Private

r	:	Correlation
Rs	:	Rupees
SD	:	Standard Deviation
S.No.	:	Serial number
TU	:	Tribhuvan University
UAE	:	United Arab Emirates
USA	:	United States of America
VDC	:	Village Development Commute
VOL	:	Volume
%	:	Percent
&	:	And

# CHAPTER-I

## INTRODUCTION

### 1.1 General Background of the Study

Investment means to sacrifice current consumption for future consumption whose main objective is to increase future wealth. The sacrifice of current consumption takes place at present with certainty and the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. In other words, it is a commitment of money and other resources that are expected to generate additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains uncertain. Therefore, every investment entails some degree of risk. The decision to invest now is a most crucial decision as the future level of wealth is not certain. So we can say that time and risk are the two conflicting attributes involved in the investment decision.

Fisher and Jordan (1982) defined that, “An investment is a commitment of funds made in the expectation of some positive rate of return. If an investor is properly undertaken, the return will be commensurate with the risk investor assumes”.

Amling (1986) defined that, “Investment may be defined as the purchase by an individual or institutional investor of financial or real asset that produces a return proportional to the risk assured over future investment”.

Investment, in its broadest sense means, the sacrifice of current currencies and resources for the sake of future currencies and resources. An investment is one of the decisions of finance function that involves the decision of capital to establish commercial or industrial venture. In other words, it involves commitment of funds into long-term assets that would yield benefits in coming future period. Two aspects of the investment decisions are:

- i. The evaluation of the prospective profitability of the investment.
- ii. The measurement and comparison of cut-off rate against that the Prospective return of the investment could be compared.

Investment is a primary factor for economic development of any country. Investment refers to using present money to get long-term benefit. 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 predominates whereas in common stock time and risk both are important. (Sharpe, Gordon, Alexander and Bailey, 2000)

Investment also refers to the expenditure of funds for capital goods such as factories, farm, equipment, livestock and machinery. Capital goods are used to produce other goods or services.

The main source of investment is saving. A distinction is often made between investments and saving. Saving is defined as forgone consumption; investment is restricted to real investment of the sort that increases national output in the future. This definition classified investment as real and financial investments. Real investments generally involve some kind of tangible assets such as land, machinery or factories. Financial investment involves contracts written on pieces of paper, such as common stock and bonds. These two forms of investments are complementary, not competitive.

A bank plays a very important role in Investment by collecting saving from individual and providing loans to individuals and industries for economic activities. Bank itself invests in different securities of the company and industries. It helps to mobilize the idle saving in financial activities. Banking has played a very important role in the economic development of all the nations of the world therefore it is termed as the life blood of modern commerce. The study mainly focuses on the Investment Analysis of the Commercial Banks by comparing five main commercial banks of Nepal.

The term bank or banking can be referred to any person, firm or company accepting deposit of money subject to withdrawal by cheque, draft or order.

While talking about investment we cannot forget that saving is primary factor for investment. If there be no saving none of the investment can be expected. So saving is the backbone of investment. Saving is needed to finance capital investment to increase and maintain the productive capacity of the country. It is commonly known fact that an investment is possible when there is adequate savings. If all the income and saving are

consumed for basic needs; then there is no saving, neither existence of investment. Therefore, saving and investment are interrelated.

Financial institutions play an important role to develop the business activities by collecting money from the public. Financial institutions involve commercial banks, saving and loan associations, credit unions, pension funds, and insurance companies. Especially commercial banks play significant role for development of financial activities. They render various services to their customers facilitating their economic and social life. They not only collect idle money from public but also provide loan to investors, who are in need of fund. In addition they invest money in different securities.

## **1.2 Focus of the Study**

The establishment of the Joint Venture (Commercial) banks has given a new horizon to the financial sector of Nepal. The study is mainly focused on the investment analysis of a joint-venture bank namely Nepal Investment Bank Limited (NIBL), Himalayan Bank Limited (HBL), Nepal SBI Bank Limited (NSBI), Everest Bank Limited (EBL), and Bank of Kathmandu Limited (BOKL) for next ten year period. Here we look at the status of these banks, the volume, and portfolio of their investment and decisive factors they consider while opting companies and other various sectors for investment.

### **Profiles of the Banks in study**

#### **1. Nepal Investment Bank Limited:**

Nepal Investment Bank was established in 1985, under the company Act. It was a foreign joint venture bank and the foreign partner is Banque Indosuez of France, Paris. 50% of the Bank's share was, of Indosuez Bank, 15% is of Rastriya Banijya Bank, 15% is of Rastiya Bima Sansthan and remaining 20% is of the public. The bank has 16 branches in the operation. Nepal Government gives the bank specific rights to manage for the 15 years. NIBL has been awarded the prestigious "Bank of the Year 2005" by the London-based Financial Times Group's. The Banker – making it the first Nepali Bank to win the award two times in three years. NIBL had also won the "Bank of the Year 2003" award. Bank was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by The Banker. The Award is based on the growth and performance in terms of capital, assets, and return on equity and management quality.

Authorized capital and paid-up capital of Nepal Investment Bank Limited are Rs.1000, 000,000 and Rs.801, 400,000. Its market value per share is Rs.1729 and book value per share is Rs.234.37. EPS is Rs.62.57.

## **2. Himalayan Bank Limited:**

HBL was established in 1992, under the company act. It is also a foreigner joint venture bank and the foreigner partner is Habib Bank Limited of Pakistan. This is the first Joint venture Bank managed by Nepalese Chief Executives. There are 16 branches of HBL in operation. Authorized capital and paid-up capital are Rs.1000, 000,000 and Rs.810, 810,000. Its market value per share is Rs.1740 and book value per share is Rs.264.74 currently its EPS is Rs.60.66.

## **3. Nepal SBI Bank Limited:**

Nepal SBI Bank Limited was established in 1993, under the company Act. It is also a foreign joint venture bank and the foreign partner is State Bank of India, holding the 50% of equity share of Nepal SBI Bank Limited, is managing the Bank under joint venture and technical services agreement signed between it and Nepalese promoters. There are 16 branches of Nepal SBI Bank Limited in operation. Authorized capital and paid-up capital of Nepal SBI Bank Limited is Rs.1000, 000,000 and Rs.647, 800,000 respectively. Its market value per share Rs.1160 and book value per share Rs.178.04 currently its earning per share is Rs.39.35.

## **4. Everest Bank Limited:**

Everest Bank Limited was established in 1992, under the company Act. It is also foreign joint venture bank and the partner was United Bank of India and managed from very beginning till November 1996. Later on it handed over the management to the Punjab National Bank Ltd, India that holds 20% equity on the banks share capital. Altogether 21 branches of Everest bank are in operation. Authorized capital and paid-up capital of Everest Bank Limited are Rs.10, 00,000,000 and Rs.51, 80, 00,000 respectively. Its market value per share Rs.2430 and book value is Rs.292.95. EPS is Rs.78.6.

## **5. Bank of Kathmandu Limited:**

Bank of Kathmandu Limited was established in 1993 in collaboration with the Siam commercial Bank PLC, Thailand under the company Act. The Siam commercial Bank has diluted and reduced its equity to 25% by selling 25% of Nepalese citizen in 1998 of its initial holding. The bank has 16 branches in operation. Authorized capital and paid-up capital of Bank of Kathmandu Limited are Rs.1000, 000,000 and Rs.603, 141,300 respectively. Its market value per share Rs.1375 and book value is Rs.162.81. EPS is Rs.43.50. The present study will make a modest attempt to analyze Investment policy of Commercial Banks.

### **1.3 Statement of the Problem**

The main economic goal of developing countries is to accelerate the growth rate. Although most of the developing countries are predominantly agricultural, industrial development is crying need of these countries for their economic development and investment is the dominant factor for industrial development. But, rate of investment in Nepal is very low. The main cause behind it is political instability, low investor confidences, lack of knowledge on Investment management, lack of improved prospectus to investors, restriction on foreign portfolio investment of Nepal, lack of efficient capital market, and slow privatization process.

Investment greatly depends on saving behavior of citizens but the saving rate of Nepalese is very low because most of the citizens are below poverty level. They don't have enough income for daily consumption. Some people hardly save some money but they want to save for future. Only few people invest in industries. People must be motivated to use their saving and mobilize their excess fund in economic activities.

Due to tough competition and lack of peace and political instability, Nepalese banks are facing problem to invest their funds in different sectors. So the banks have been facing low liquidity transaction. In other side the demand of loan is very low. Nepal is considered much liberal as banks and finance institution are opened for foreign Investment for quite a long time. Most of the commercial banks in Nepal are joint venture with a foreign bank. But some of the new banks were opened during last 8/9 years without foreign collaboration and some foreign banks have withdrawn their Investment from Nepal. According to some analysts the withdrawal of foreigners as the result of



some anomalies in the Nepali banking sector irrespective of what the withdrawing foreign bank would say officially to the Nepali authorities of the general public.

With some 32 commercial banks, 82 development banks and 78 financial companies operating in Nepal, the market seems overcrowded and the banks are now finding a tough competition among themselves. Since the entry barriers are not so high due to the governments liberal policy, this competition is expected to be more intense in the near future, as there is always the possibility of a new player entering this sector.

Nepalese commercial banks have not formulated their Investment policy in an organized manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards Investment policy. There is a lack of sound Investment policy of commercial bank. Furthermore, the implementation of policy is not in an effective way.

Commercial banks have to face tough competition due to limited and narrow capital market and investment opportunities. They are even discouraging depositors by offering very low interest and minimum threshold balance. This will definitely make bad impact on economy of a country. There is lack of knowledge on financial risk, interest rate risk, management risk business risk, liquidity risk, default risk, purchasing risk etc.

Commercial banks don't seem to invest their funds in more profitable sector. They are found to be more interested in investment in risky and highly liquid sector i.e. treasury bills development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors, this result into lower profitability to commercial banks and ignorance to the national economic growth process. This is the main reason for crisis in the commercial banks and in the whole national economy as well.

#### **1.4 Objectives of the Study**

Investment is necessary for economic development of the country. This study attempts to assess the role and impact of Investment on economic development of the country. The main objectives of this study are as follows:

1. To examine the percentage of Investment made by selected commercial banks in total Investment made by sample commercial banks.

2. To analyze the fund utilization of NIBL, HBL, EBL, NSBI and BOKL.
3. To identify Investment sector of selected commercial banks.
4. To examine the relationship between Deposit and Investment plus Loan & Advances of the banks.

## **1.5 Limitation of the Study**

This study is done for partial fulfillment for Masters of Business Studies (MBS). Time constraints, financial problems, and lack of research experience will be the primary limitations and other limitations are:

- This study is confirmed to five commercial banks. These banks are of average in nature and are expected to show the true picture of banking in Nepal.
- Non-availability of various references or sources and lack of sufficient time is another limitation faced to complete this research work.
- Validity of secondary data depends on the open sources.
- This study is mainly based on the secondary data. The study is particularly based on a data derived from the published annual reports, web-sites, and newspapers, articles along with NRB directives. Therefore, the calculation and conclusions of the study are fully dependent on the accuracy of those data provided by the concerned parties.

## **1.6 Organization of the Study**

This research work has been divided into five chapters each devoted to some aspect of Investment analysis of the before mentioned five commercial banks of Nepal. These are as follows:

### **Chapter One: Introduction**

Introduction chapter is the first chapter which includes background, statement of problem, objectives of the study, limitation of the study, and organization of the study.

### **Chapter Two: Review of the literature**

This chapter includes the review of the relevant studies. It deals with the review of available literature. It includes review of books, journals, previous thesis, websites, etc. Beside this it includes various related study of the articles and unpublished thesis.

### **Chapter Three: Research Methodology**

Chapter three contains how the study is done or the research methodologies used are described. For this purpose various financial tools and statistical tools are defined which will be used for analysis of the presented data. This includes research design, source of data, population and samples, method of data analysis, etc.

### **Chapter Four: Data Presentation and Analysis**

It deals with presentation and analysis of relevant secondary data and information through a definite course of research methodology. For analysis of the data, appropriate mathematical, financial as well as statistical tools are used.

### **Chapter Five: Summary, Conclusion and Recommendation**

The fifth chapter summarizes the main conclusion and flows of the study and offers suggestions and recommendation for further improvement. Bibliography and appendices will be attached at the end of the study.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

The term review of literature is very important for researcher or investigator in the area of concern problem. It distributes the knowledge and information for the researcher to discover the uncover things by other researcher. So, review of literature means reviewing the research studies or other relevant propositions in the related areas of the study, so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works.

Review of literature helps until the last step of the research process. The information about the earlier studies, if any which are similar to the study in hand should be provided by reviewing of the literature. Academic journals, conference proceedings, government reports, books, etc. must be consulted depending on the nature of the problem. Review of literature gives the framework of the research process.

Young (1978) defined that, "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of the research."

The main reason for a full review of research in the past is to know the outcomes of those investigators in areas where similar concept and methodologies had been used successfully. Further an extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researches in one's area of specialization, familiarizing with characteristic percepts, concept and interpretation with special terminology with the rationale for understanding one's proposed investigation.

This chapter shows the background of the work and a review of recent and reticent literature. In this regard, basic academic course books specially related to topic, some of the major research works, major articles published in journals and the related thesis are reviewed.

There is significant importance of review of literature in any types of research works. Some of which are:

- Identification of research problem and relevant variable.
- Avoidance of repetition.

- Synthesis of prior works.
- Determining meanings and relationship among variables.

This chapter of the study is basically concerned with conceptual framework and review of literature relevant to the investment analysis of commercial banks. Every study is much based on past data, knowledge and activities. The study of past knowledge should not be ignored as it provides foundation to the present study. So, the analysis and presentation of following parts define this chapter.

## **2.1 Concept**

Investment is a present sacrifice for the sake of future benefits. Therefore, investment always involves risk. Present decision about selecting the best alternatives should always take the future risk into consideration. The few alternatives of investment in the past have now expanded into hundreds. Hence, the complexity of investment has also been increasing day by day. To select the best alternative and to construct an efficient portfolio, a wise analysis and decision is required. Before making any decision on investment we must be well informed about the factors, which affect investment. Investment decision related with saving, capital formation, capital market, risk involve with it, return, inflation etc.

### **2.1.1 Features or Principle of Sound Lending & Investment Policy**

Sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial savings of an underdeveloped country like Nepal. It is universally known fact that the most important problem in banking administration is that of investing its deposits and paid up capital in various forms of earning assets. This is also known as portfolio policy. The bank's portfolio being nothing but an arranged and digested scheme of its assets. The funds of banks are generally invested either in those assets, which are non-profitable, or those, which are profitable. Non-profitable assets include cash reserve and the dead stock and profitable assets includes call money, investment, advances and loan, cash credits, overdrafts, discounting of bills and acceptances etc.

The guiding principal or features of sound Investment is as follows:

## **1. Profitability**

Commercial banks can maximize its wealth through maximization of return on their investment and lending. Therefore, these types of banks should invest their funds where they earn maximum profit. Generally the profit of commercial banks depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities. A good bank is one who invests most of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserves to meet day to day requirements of the depositors.

## **2. Safety and Security**

The bank must take care while investing funds. It should never invest its funds in those sectors, which are subject to too many fluctuations because a little difference may cause a great loss. Similarly, the businessman who is bankrupt at once or earns million in a minute should not be financed at all. Banks should accept that type of securities, which are commercial, durable, marketable and high market prices. For this purpose “MAST” should be applied for the investment. Where,

M- Marketability

A- Ascertain ability

S-Stability

T- Transferability

Bank must take care of the belonging of public while investing and providing loan received in the form of deposits. The risk and return involved must be analyzed thoroughly so that depositor’s money is advanced safely where the risk of loss does not exist.

## **3. Liquidity**

Liquidity refers to that state of position of bank that shows its capacity to meet all of its obligations. In other words, it refers to the capacity of bank to pay cash against deposits. In simple sense, liquidity refers to the cash or any assets that can be converted into cash immediately. People deposit their money at the banks in different accounts with confidence that the bank will repay their money when they need. Once the confidence is

lost in depositor's eye, they may withdraw all their money (deposits) within a short period without giving any chance to the bank to manage. To maintain such confidence of the depositors, the bank must keep this point in mind while investing in different securities or at the time of lending. Hence, the liquidity position of a bank is such an important factor that it must be able to meet its cash requirement either by its cash in vault or by the help of converting its assets into cash in case of demand for such from its customers. There is no sense of the banks has adequate assets but not liquid.

#### **4. Diversification of Risk**

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

#### **5. Marketability**

The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily realized. The bank must make sure that the securities, in which he invests his funds, are easily saleable without appreciable loss.

#### **6. Stability of Price**

The primary object of a bank in buying securities is not to gain by a possible rise in their prices, which is the aim of a speculating dabbler. Therefore the price of the securities should be liable to wide fluctuations.

#### **7. Stock Exchange Securities**

This consists of government securities as well as securities of the joint stock companies. These securities are easily and quickly realizable. As they are quoted on the stock exchanges so their value can be easily ascertained. In case of need, a bank can either sell them or pledge them without any hesitation. But before accepting them, the bankers should see that the shares of the companies are not partly paid, that sufficient margin has

been kept and they are negotiable. Speculative shares should not be accepted. (Mali (Dr.) Ram (1965), Currency and Banking)

## **8. National Interest**

The objectives of bank should not go against the national interest. The banks should follow the rules and regulations as well as policy, directions given time to time by Nepal Rastra Bank. The bank should make its investment, which is suitable to the national interest and carries benefit to the society.

## **9. Suitability**

Bank should always try to know that why a customer needs loan because if the borrower misuse the loan granted by bank he will never be able to repay loan. In order to avoid such circumstances, advances should be allowed to select the suitable borrowers.

## **10. Tangibility**

Though it may be considered that tangible property does not yield on income apart from direct satisfaction of possession of property, many times intangible securities may lose their value due to price level inflation. A commercial bank should prefer tangible security rather than intangible one.

### **2.1.2 Some Important 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.) Loan and Advances**

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

Funds borrowed from the banks 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 funds. 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 botheration to the general customers. Such loans from their institutions would be available on special request only and there is a 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, 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, advances and overdrafts have occupied a large portion.

#### **b.) Investment on Government Securities, Share and Debenture**

Though a commercial bank can earn some interest and dividend from the investment on government securities, share and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities bond and share for several reasons.

Some of them are given as:

- It may want to space its maturing so that the inflows of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if 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 bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors' may demand funds 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 volume.

#### **c.) Investment on Other Company's Share and Debenture**

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

#### **d.) Deposits**

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

- 1) Current Deposits
- 2) Saving Deposits
- 3) Fixed Deposits.

#### **e.) Other Use of Funds**

Commercial banks must maintain bank balance with NRB. 6% of fixed deposits and 8% percent of each current and saving deposit account in local currency .Similarly 3% percent of cash balance of local cash balance, in local currency accounts must be maintained in the vault of the bank. Again the part of fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computer, stationary, etc.

#### **f.) Off Balance Sheet Activities**

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation. These are not recognized as assets or liabilities on balance sheet. Some examples of this item are letter of credit, letter of guarantee, bills of collection etc. These activities are very important as they are good source of profit of bank through they have risk now days some economic and finance specialist to expand the modern transaction of a bank stressfully highlight such activities.

### **2.1.3 History of Banking in Nepal**

Similar to other countries goldsmith and landlords were the ancient bankers in Nepal. Tejarath Adda established during the tenure of the Prime Minister Rannodip Singh was the first step towards the institutional development of banking in Nepal though all the banking activities were carried out by it. Tejarath Adda did not collect deposits from the public but provided loans to government employees and public against bullions.

Banking in true sense terms started with the inception (established) of Nepal Bank Limited on 30th Kartik 1994 B.S. right from inception, it carried out functions of a commercial bank. Nepal Bank Limited had a herculean responsibility of attracting people towards banking sectors from predominant non institutional transactions as well as introducing other banking services. Being a commercial bank, it is upon the government to look into neglected sector too.

This is the main reason of establishing Nepal Rasta Bank as a central bank of Nepal in 2013 B.S. Since then it has been functioning as a government bank it has its own limitations and reluctances of NBL to go to the unprofitable sectors. To cope with these difficulties, government set up Rastriya Banijya Bank in 2022 B.S as a fully government owned commercial bank. Gradually, Agricultural Bank and Industrial bank came into existence. Despite all these efforts of the government, financial sector was found sluggish and banking service to the satisfaction of the customer's was a far cry.

However, the inception of Nepal Arab Bank Limited in 2041 B.S. as a first joint venture bank proved to be a milestone in the history of banking.

With evolution of globalization and liberal economic policies, Nepalese financial sector is also able to attract foreign investors as well as private investors within the country. The following are the date list of major commercial banks operating in Nepal.

### **2.1.4 Concept of Commercial Banks**

Commercial banks are those banks, which pool together the saving of the community and arrange them for the productive use. They accept deposits from the public and provide same deposits to the public as loan and advances. In fact, they circulate the money and create credit. The concept of the commercial banks made the economy strong, and now it's playing important role to make country economically strong. According to the

Black's law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes, and to provide similar services. Likewise section 2(a) of the Commercial Bank Act 2031 has defined that "Commercial Bank" means a bank which operates currency, exchanges transactions, accepts deposits, provides loan, perform dealings, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific object. (Bhandari Billi Raj, 2003: "Principle & practice of Banking & insurance")

Hence, the term commercial bank is used taking meaning of all banking habits. That's why joint stock banks, member banks, and credit banks are frequently used interchangeably with the term commercial banks. But it is different than central bank. Central Bank cannot be interchangeable with other banks. In this way, a commercial bank is different from a central bank. While the primary objective of a commercial bank is maximization of profit and central bank is primarily concerned with the effects of its operations on the functioning of the economy. Moreover, while there may certainly be many competing commercial banks, there exists only one central bank in a country. While the commercial banks compete against each other, the central bank comes out if any; ordinary banking business for the general public is incomplete. It confines itself mainly to controlling the operations of the banking system in country.

### **Regulatory functions of NRB**

#### **16 prudential regulations of Nepal Rastra bank are as follows:**

- Regulation regarding minimum capital fund.
- Regulation regarding Loan classification and provisioning.
- Regulation regarding single obligor limits and credit concentration.
- Regulation regarding Accounting policies and financial statements
- Regulation regarding Risk Management
- Regulation regarding Good corporate Governance.
- Compliance with supervision reports and reporting

- Regulation regarding Investments
- Financial reporting
- Buy and sale of promoter's share
- Regulation regarding consortium
- Regulation regarding interest rates, buy and sale of promoters share,
- Credit information and blacklisting etc.
- Regulation regarding CRR
- Regulation regarding expansion of Branches
- Regulation regarding Interest rates
- Regulation regarding resource Mobilization

(Source: Prudential Regulations, 2002 NRB)

### **2.1.5 Review of Legislative Provision**

Legislative environment has significant impact on the commercial banks it is established for mobilization and utilization of resources. All the commercial banks have to conform to the legislative provisions specified in the commercial bank act 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks. Under the provision in Nepal Rastra Bank, (NRB) Act 2002, the NRB has formulated and implemented monetary policies so far. The focus of monetary policy has been to insure price, external and financial sector stability so as to create the environment supportive for high and sustainable economic growth.

NRB issued new monetary policy on July, 2009 for fiscal year 2009/10. The provision under this policy as follows:

- i. The compulsory cash reserve ratio (CRR) has been kept unchanged at minimum 5.5 Percent on account.
- ii. The capital adequacy ratio (CAR) should have to maintain 11.0 percentages.

- iii. Export credit refinance facility in domestic currency has been kept unchanged at 2.0 percent. Commercial banks are allowed not to charge more than 5.0 percent to the concerned borrower on such facility.
- iv. The penal rate for SLF has been kept unchanged at 3.0 percent along with the existing cap of 90 percent and maturity period of 5 days.
- v. The existing provision of refinance facility of Rs. 2 billion to sick industries and the refinance rate at 1.5 percent will be continued for 2009/10.
- vi. The commercial banks, development banks and finance companies are now required to invest in government securities at a ratio of 6.0 percent, 2.0 percent and 1.0 percent of their total domestic deposit mobilization respectively by second quarter of 2009/10. Such ratio should be maintained at a rate of 8.0 percent, 3.0 percent and 2.0 percent respectively by the end of fourth quarter of 2009/10.

(Source: Monetary Policy for Fiscal Year 2009/10 NRB, Press Release on July 2009, Central office, Baluwatar, Kathmandu, Nepal)

## **2.2 Review of Articles**

Various articles were published on financial impact, which deals in the context of Nepalese commercial banks and financial sector of Nepal some of the articles are reviewed briefly.

Shrestha (1998), bank portfolio (loans and investments) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of NRB. So the investments are not made in professional manner. Investments planning of the commercial banks are not made in professional manner. Investment planning of the commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity and Social responsibility. To overcome this problem, she has suggested, commercial banks should take their Investment function with proper business altitude and should perform lending and Investment operation efficiently with proper analysis of the projects. (Leading Operation of Commercial Bank of Nepal and its impact on GDP: Shrestha, 1998)

Investment is the value of that part of economics output for any time period that takes the form of new structure, new producers, durable equipment and change in inventories. (Managerial Economic: Joshi, 2000)

Morris (1990), in his discussion on “Latin American Banking System in the 1980's” has Total risk of security can be divided into systematic and unsystematic components. Systematic risk is risk that cannot be diversified away for it affects all securities in the market. Unsystematic risk is unique to the particular securities and can be eliminated with efficient diversification. If the assumption of the CAPM or APT factor model holds this risk does not matter to investors. As a result, diversification of assets by a company in an effort to reduce volatility would not be a thing of value.

Investment is done usually to get some return from it in future. There is no use of Investment if there is no return. Even the parents invest on their children's education with a hope that their children will earn money in future with that education they received. Therefore, there must be return from Investment made on capital goods or financial goods. It's another thing that the return may be positive or negative.

Most people store their money with bank, which keeps an account of how much money is costumer deposit. People gain access to their money through cash machine, counter transaction or by writing cheques. Banks may provide interest when a certain amount of money is kept in the account, but will charge customers who borrow money. Banks also provide financial services, such as pensions and insurance policies. (The world Book Encyclopedia)

World Bank, “Banks are financial institutions that accept funds in the form of deposit repayable on demand or in short notice.” (An introduction to Economic Theory: Joshi, 1990)

The banks that collect deposits and advance loans are called commercial banks. According to these definition commercial banks accepts deposit and provide loans but other financial institutions also collect deposits. To differentiate commercial bank from other institution Dr. Shyam Joshi had defined it as a great institution that conducts the payment mechanism of a country. The individuals and institution make payment to each other through the mechanism of commercial bank. The commercial bank plays a leading

role in the smooth operation of an economy. It makes available all financial services to individuals and institutions. (An introduction to Economic Theory: Joshi, 1990)

World book (2000), 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 fund of various business companies. These firms, in return, may invest the money in new factories and equipment to increase their production. In addition to borrowing from the banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issue bonds to obtain funds to invest in such projects as the construction of dams, roads and schools. All such Investment by individuals, business and govt. involves a present sacrifice of income to get an expected future benefits. As a result, Investment raises a nation's standard of living. (The world Book Encyclopedia)

The above statement clearly specifies the importance of Investment and the role of banks for the development of the country. Banks is the major financial need for the various developments. The banks can play the vital role for the financing activities in the business. The saving and Investment is most necessary for the developing country, which can be managed by banks. Capital accumulation also plays vital to accelerate the economic marginal propensity of consumption. As a result, such countries are badly in trapped into the vicious circle of poverty. Therefore the basic problem of the developing of the countries is to raise the level of saving and thus Investment and the problem can be solved through well-established banks.

In general, bank means an institution that accepts deposits in different accounts and provides loans of different types. Bank can be defined according to the functions of a bank or the service it provide such as commercial bank, central bank and industrial bank. In the words of leaf a bank is a person or corporation which holds it out to receive from the public, deposits payable on demand by cheque.

With the title of 'Banking the future on competition' Mr. Sharma wrote in Business age that the commercial banks are establishing and operating mostly in urban areas. From his studies he found that:



- Commercial banks are establishing and providing their service in urban area only. They don't have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd. are running in those sectors.
- They have maximum tax concession.
- They don't properly analyze the credit system

He found that due to the lack of Investment avenues, banks are tempted to invest without proper credit appraisal and personal guarantee, whose negatives side effects would show colors only after four or five years. (Banking the future an competition: Shrama, 2000)

Pradhan and Yadav (2002), saving is income not consumed. It is one 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. Saving 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 percent annual Investment of GDP is considered necessary. As the country's current domestic saving are about 14%, the economic resources are short by nearly 11% in proportion of the GDP.

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 the people have limited opportunities for Investment. They prefer to spend saving 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 international, 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:

- i. Financial Investment and
- ii. 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 additional 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 and 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. (The Economic Journal of Nepal: Pradhan and Yadav, 2002)

Pant (2003), a bank is a service-oriented institution, which provides many kinds of services for its customer, all of which are equally important. Moreover, the quality of services should be up to the mark to meet the customer's requirement. Customers are the key players for a service organization, without whom such organization can ever exist. (Info Himalayan: Pant, 2003)

Panthi (2004), highlights on his article entitled "The importance of human resource management" published in souvenir of RBB where the banking services are only made by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer to achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled only if its human resources are perfect and suitable in quality. So, the selecting process of human resources should go through the

straightway of identifying workforce requirement recruiting-selecting-placing-promoting-appraising-training and retirement.

Another article published on The Kathmandu Post daily of 28th April 2004 entitled "Efficient Banking" by L.D. Mahat, in his article he has accomplished, the efficiency of banks can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

Mahat (2004), the analysis of operational efficiency of banks will help one in understanding the extent of vulnerability of banks under the changed scenario and deciding whom to bank upon. This may also help the inefficient banks to upgrade their efficiency and be winner in the situations developing due to slowdown in the economy. The regulators should also be concerned on the fact that the banks with unfavorable ratio may bring catastrophe in the banking industry.

### **2.3 Review of Thesis**

A lot of research have been performed on Investment policy of Commercial banks. The findings of some of the studies are presented below.

Tuladhar, U. (2000), " A study on investment policy of Nepal Grind lays Bank limited in comparison Joint venture Banks of Nepal" with the objectives of :

- To study the fund mobilization and investment policy with respect to fee based off- balance sheet transaction and fund based on balance sheet transactions.
- To study the liquidity, efficiency of assets management and profitability position.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

- To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture Banks.

The study is mainly based on Secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.

The research findings of the study are as follows:

- From the analysis of primary data concerning in which sector should JVB's invest 28.37% respondents emphasized on educational sector to be invested by these JVB's as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24%) ,whereas the industrial sector (18.44%), tourism sector (16%), agricultural sector (16%), and construction sector (4.25%) are given third, fourth, fifth and sixth priority respectively .

From the analysis of secondary data, following conclusions were drawn:

- Nepal Grindlays Bank Ltd. has maintained consistent and successful liquidity than NABIL Bank Ltd. and Himalayan Bank Ltd. Higher in foreign joint venture bank. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese Banks
- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
- Investment in various sectors has a positive impact on the national income
- From their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.
- Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increased with the low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and Treasury bill rate. Then investment of commercial bank on government securities has been observed to be affected by total deposit. Cash reserve requirements and Treasury bill and lending rates. Interest rate lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition.

Thapa, S. (2001), “comparative study on Investment policy of Nepal Bangladesh Bank Limited and other joint venture banks”. Her main objectives were as follows:

- To analyze the relationship between loan and advance and total Investment with other financial variable of NB bank and compare them with NABIL and NGBL.
- To evaluate the liquidity, asset management efficiency, profitability and risk position of NB bank in comparison to NABIL and NGBL.
- To study the various risks in Investment of NB bank in comparison to NABIL and NGBL.

From her study she found that NB bank has good deposit collections, it has better liquidity position, it has made enough loan and advances but it has made the negligible amount of Investment in government securities. She found that credit risk ratio, interest risk ratio, capital risk ratio, and profitability position of NB bank is comparatively worse than that of NABIL and NGBL. She also found that there is significant relationship between deposit and loan and advances, outside assets and net profit of NB bank. But there is no significant relationship between deposit and Investment of NB bank and the position of NB bank in regard to utilization of fund to earn profit is not better in comparison to NABIL and NGBL. She recommended NB bank to invest more in government securities, to implement sound credit collection policy, to upgrade its banking facilities, to implement sound and liberal lending policy to make more improvement in loan and advances.

Loudari, S. R. (2001), “A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.” with the objectives of:

- To examine the liquidity asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI Bank Ltd.
- To analyze relationship between deposit and investment, deposit and loans and advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

The study was conducted through secondary data.

The research findings of the study are as follows:

- Current ratios for both the Banks is satisfactory.
- Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and share and debenture than that of Nepal SBI Bank Ltd.
- The analysis of growth ratios shows that growth ratios of total deposits, loans and advances, total investment and net profit of Nepal Indosuez Bank Ltd. are less than that of Nepal SBI Bank Ltd.
- The trend value of loans and advances to total deposit ratio is decreasing in case of both the banks. The trend value of total investment to total deposits ratio is also decreasing in case of both the banks.

Ojha, L.P. (2002), “Lending Practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd.” with the objectives of:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.

- To measure the bank's lending strength.
- To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
- To measure the lending performances in quality, efficiency and its contribution in total income.

The study was conducted on the basis of secondary data.

The research findings of the study are:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- The loan and advances and investment to deposit ratio has shown that NABIL Bank Ltd. has developed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose.
- The ratio of investment to investment and loan and advances has measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks does not have deviated significantly.

Dhungana, P. (2002), “A Comparative Study on Investment Policy of Nepal, Bangladesh Bank and Other Joint Venture Banks”, tries to compare the Investment policy of NBBL with HBL and NSBI. His main findings and conclusion were as follows:

- NBBL has not good deposit collection, it doesn't have made enough cash and bank balance and it has made negligible amount of Investment in government securities.
- The Asset management ratios were highly variable which reveals NBBL has not followed stable policy.
- NBBL's ratio of OBS operation to loan and advances lower than that of HBL but its ratio is greater than that of NSBI.
- iv. The profitability position on NBBL is comparatively not better than that of HBL but better than that of NSBI.
- The credit risk ratios and interest risk ratios of NBBL is higher than that of HBL and NSBI. Banks profitability is solely depends on interest charged by a bank but the high interest rate risk of NBBL shows that bank is failure to maintain this.
- Trend of deposit collection, lending, investment and net profit were not better than HBL but better than NSBL.

He recommended increasing liquidity position of NBBL and making more Investment in government securities. He also suggested NBBL to implement a sound collection policy and more mobilization of interest bearing assets. He further suggested NBBL to have effective portfolio management, to have liberal lending policy and to upgrade the banking facility.

Raya, T.K. (2003), “Investment Policy and Analysis of Commercial Banks in Nepal” made a comparative study of SCBNL. With NIBL and NB Bank. His main objectives were as follows:

- To discuss fund mobilization and investment policy of SCBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction.
- To evaluate the quality, efficiency and profitability and risk position.



- To evaluate trend of deposit, investment, loan and advances and projection for next year.

His main findings were as follows:

- Mean current ratio of SCBL is slightly higher than that of NIBL and Nepal Investment bank.
- Mean ratio of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL.
- Liquidity position of SCBL is comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio. SCBL has a good deposit collection. It has made enough Investment on government securities but it has maintained low Investment policy on loan and advances.
- SCBL is comparatively average successful in it's on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.
- SCBL is comparatively higher position than that of other banks, as well as its use to provide interest to the customers for different activities.
- There is significant relationship between deposit of loan and advances and between asset and net profit of SCBL.

He has recommended the SCBL for effective portfolio management and for project oriented approach. He also suggested enhancing the Off Balance Sheet operation.

Shrestha, D. (2003), "Investment Analysis of Commercial Banks" a comparative study of HBL and Nepal SBI bank said that only joint venture commercial banks are running in profit. And HBL is one of the successful commercial bank of Nepal. Nepal SBI is still in developing period. HBL has made a great achievement within last 10 years period. It has also invested in different sectors. These commercial banks should take favorable step for the development of rural parts of the country.

Banks plays a crucial role in sustainable development of least developed countries. Because of bottlenecks inherent in the economics 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. They account almost 80 to 90% of the total lending to enterprise. This study is concerned with the Investment analysis of commercial banks of Nepal.

Silwal, K.S. (2004), "Investment Policy of Commercial Bank" a comparative studies of NABIL and SBI Banks" on the basis of analysis and findings of the study as follows:

- The liquidity position of a bank is affected by external as well as internal factors. The affecting factors may be interest rates, position of loan and advances and savings, investment situations, central banks directives, the lending policies, capability of management and so forth. As NABIL has maintained ratios of cash and bank balance to total. So, NABIL is recommended to increase cash and bank balance to meet current obligation and loan demand.
- To get success in competitive banking environment, depositor's money must be utilized as loan and advances. Negligence in administrating this asset could be one of the main reasons of a bank failure. It has been found from the study that SBI has greater ratios of all because its large portion of fund is invested as loan and advances but neglected to invest on other sectors. NABIL has not properly used its existing fund as loan and advances. To overcome this situation NABIL is strongly recommended to follow liberal lending policy.
- Commercial banks cannot move away from their target that is profit and customers satisfaction. They should be careful in increasing profit to maintain the trust of shareholders, investors and customers. SBI profitability position is worse than that of NABIL. So, SBI is recommended to utilize risky assets and shareholders fund to gain highest profit margin. Although the securities issued by government yields the lowest interest rates are considered to be risk free. From this study, it is found that SBI has maintained lowest in comparison to NABIL. Therefore, it is recommended to SBI that if it has idle funds it should invest them in government securities. It should always look from the "something is better than nothing" viewpoint.

- Most of the JVBs have focused their banking services especially to big clients such as multinational companies, large-scale industries and so forth. The minimum level of bank balance and the amount needed to open an account in banks are very high. So, small depositors are very far from enjoying the banking facilities provided by such JVBs. Therefore, these banks should open its door to the small depositors and entrepreneurs for promoting and mobilizing small investor's funds.
- The project oriented approach has be encouraged in lending business of the banks, in which security is not necessary, risk is high but the project is important from the point of view of national economy. So, it is recommended to both banks to follow the project-oriented approach. In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients.

Aryal, B.B. (2005), "Investment Policy of JVBs in Nepal" a comparative study of EBL with NABIL Bank and NB Bank Ltd. He found that;

- The liquidity position of EBL is comparatively better than NABIL and NBBL. It has higher cash and bank balance to total deposit and cash bank balance to current assets ratio. It has made enough investment on government securities but has maintained moderated investment policy on loan and advances.
- EBL is comparatively average successful in it's on balance sheet operation as well as off balance sheet activities in compared to NABIL and NBBL.
- Profitability ratio of EBL is comparatively worse than NABIL and NBBL.
- Risk ratio shows that EBL has maintained higher risk which indicates heterogeneous variability in its operation. Whereas there is moderate risk taken by NABIL and NBBL
- EBL has maintained high growth rates in total deposit, loan and advances but has moderate position in investment. EBL has less growth rate than NABIL and NBBL.

- EBL has the highest value of coefficient of correlation between deposit loan and advances that other compared banks. Likewise correlation coefficient between deposit and total investment is also higher than other compared banks. EBL is moderately successful in mobilization of fund and earn return i.e. net profit from such mobilized funds.
- The deposit of EBL, NABIL and NBBL are in increasing trend which leads its profit also to the increasing trend.
- There is no significance difference in between loan and advance to total deposit, no differences to current assets ratio likewise no significance difference in between loan and advances to current assets ratio of EBL, NABIL and NBBL.
- There is significant different between OBS operation to loan and advances of EBL, NABIL and NBBL. Likewise there is significant difference in between total interest earned to total outside assets of EBL, NABIL and NBBL.

Joshi, J. (2005), “Investment Policy of Commercial Bank of Nepal” a comparative study of EBL with NABIL Bank and BOK and she found that;

- EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.
- Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque scheme, house building deposit scheme, recurring deposit scheme, deposited linked life insurance scheme, monthly interest scheme, direct finance housing scheme, education loan and scheme, vehicle loan scheme, and many others.
- It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. EBL has invested it's more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture is very

nominal so, EBL is recommended to invest more its fund in share and debentures of different companies.

- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”. The bank should make continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.
- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor’s fund. So it is recommended that the bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositor’s.
- On the basis of above facts, it is seen that EBL has invested much of its fund in total outside assets but it has not achieved the desired result. So, it is hereby recommended that the EBL should play tactfully while investing its funds keeping in mind the interest rates so as to earn high returns from the investment.
- The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle. Rather, before taking any of the risk as stated above, EBL should carefully study it so as to achieve higher returns from the above risk.

## **2.4 Research Gap**

By the revision of above mentioned studies, it is found that different studies have different area of coverage. The researcher focuses this study in effectiveness on investment analysis of Nepal Investment Bank, Himalayan Bank, Everest Bank, Nepal SBI Bank, and Bank of Kathmandu Ltd, comprehensive manner considering the major items. Some researchers have not focused on financial analysis and some others have not considered statistical analysis such as correlation, trend analysis etc. Furthermore, some researchers have made their studies on one or two simple only, in this contest, present study is different from these previous studies as researcher has used statistical tools (correlation coefficient, trend analysis) of five simple banks and tried to indicate the

effectiveness of investment analysis of concern banks. Most of previous researcher has used secondary data but in this study, researcher has used both primary and secondary types of updated data are used as per required. In sum this study is different than the others related studies according to sampling procedure and size, methodology and mainly objectives.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Research methodology describes the methods and process applied in the entire subject of the study. This chapter attempts to have an insight into the Investment policy adopted by HBL, NIBL, NSBI, EBL and BOK.

##### **3.1.1 Research Design**

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. (Foundation of Behavioral Research: Kerlinker, 1996)

According to Wolff and Pant (2003) by research design we mean an overall framework or plan for the collection and analysis of data. (Social Science Research and Thesis Writing: Wolff and Pant, 2003)

To achieve the objectives of this study, descriptive and analytical research design and descriptive techniques have been adopted to evaluate Investment performance of HBL, NIBL, NSBI, EBL, and BOKL.

##### **3.1.2 Sources of Data**

Mainly, the study is conducted on the basis of the secondary data. The data required for the analysis are directly obtained from the balance sheet and the P/L account of the concerned bank's annual reports. Supplementary data and information are collected from the number of institutions and regulating authorities like NRB, SEBON, NEPSE, Economic Survey and National planning commission etc. 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 banks 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.

### **3.1.3 Population and Sample**

The limitation of time and unavailability of the relevant data has forced me to make research on the HBL, NIBL, NSBI, EBL and BOKL only even though there are 32 commercial banks established in Nepal which is selected from the population.

## **3.2 Methods of Data Analysis**

In the study, various financial, accounting and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage, graph, Karl Pearson's Coefficient of correlation, trend analysis are used in the study. Likewise, some financial tools such as ratio analysis have also been used for financial analysis. The various tools applied in this study, have been briefly presented as under.

### **3.2.1 Financial Tools**

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

#### **Ratio Analysis**

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 decision. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to itself. The qualitative financial performance of a firm can be done with help of ratio analysis. Even though, 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.

#### **1. Ratio of Commercial Banks Investment to Sample Bank Investment.**

Total commercial banks Investment to sample banks Investment ratio is used to analyze how much investment has been covered by the sample bank Investment. It is derived by following equation.



Total Commercial Banks Investment to Sample Banks Investment ratio =

$$\frac{\text{Sample Bank Investment}}{\text{Total Commercial Banks}}$$

## 2. Segregation of Total Investment of Sample Banks.

It is used to analyze how the sample banks have invested its collected funds. Banks generally invest in government securities, share and debentures of other companies and NRB bond. An attempt is made to analyze how much percentage is invested by the banks in different sectors. The following equation is used for this purpose.

$$\text{I. Total Investment to govt. sec. Investment} = \frac{\text{Investment on Government Security}}{\text{Total Investment}}$$

$$\text{II. Total Investment to share \& Debenture} = \frac{\text{Investment on Share \& Debenture}}{\text{Total Investment}}$$

$$\text{III. Total Investment to NRB Bond} = \frac{\text{Investment on NRB Bond}}{\text{Total Investment}}$$

$$\text{IV. Total Investment to Other} = \frac{\text{Investment on Other Sector}}{\text{Total Investment}}$$

## 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 assets management ratio.

### a. 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. The ratio can be calculated by dividing total Investment by total deposit. It can be expressed as follows

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

Total Investment consists of Investment on government securities, Investment on share and debentures, bond of other companies and other Investment.

### **b. Investment Plus Loan and Advances to Total Deposit Ratio**

Loan and advances can also be regarded as Investment of banks. Investment as well as loan and advances both are done to generate income for the bank. Investment plus loan and advances to Total deposit ratio is calculated out to know how successfully the banks are utilizing their total deposits on loan and advances for profit generating purpose. Greater ratio implies the better utilizing of total deposits. This ratio can be obtained by dividing Investment plus loan and advances by Total deposits, which can be stated as,

Investment plus Loan & Advances to Total Deposit Ratio =

$$\frac{\text{Investment+Loan \& Advances}}{\text{Total Deposit}}$$

### **c. Total Investment to Total Asset Ratio**

Investment is major component in the total working fund which indicates the ability of bank to channelize its deposits in the form of loan and Investment to earn high return. Investment and loan & advances are the only income generating source of bank. This ratio can be computed by dividing total of Investment, Loan and advances by total Assets. This can be stated as follows:

$$\text{Total Investment to Total Assets ratio} = \frac{\text{Total Investment}}{\text{Total Assets}}$$

Here, total Investment includes Investment on government securities, share and debentures of other company, other Investment and loan and advances. And total assets includes all assets of balance sheet, in other words, this includes current assets, net fixed assets, loans and development banks and other miscellaneous assets but exclude off balance sheet items like letter of credit, letter of guarantee etc.

### **d. Investment on Government Securities to Total Assets Ratio**

Government securities are the safest place to invest the collected fund. Most of the commercial banks invest on securities issued by the government. Some banks do not invest sufficient funds in government securities. Others borrow frequently and thus lower the liquidity ratio.

Investment on government securities to total assets is calculated to find out the percentage of assets invested in government securities. This ratio is calculated by dividing Investment on government securities by Total assets. This is presented as,

$$\text{Investment on government securities to total assets ratios} = \frac{\text{Investment on Govt. Securities}}{\text{Total Assets}}$$

### **3.2.2 Statistical Tools**

Some important tools are used to achieve the objective of this study. The statistical tools that are used for data analysis in this study are:

#### **1. Trend Analysis**

Trend analysis describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It is an analysis of a firm's financial ratios over time. This measures the change of data over a period of time. This reveals whether the firm's ratio are improving or deteriorating over time.

#### **2. Co-efficient of Variations (C.V.)**

The co-efficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which defines as the ratio of the standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to command the variability of variation is greater, is said to be more variable or conversely less consistent, less uniform, less stable, or less homogeneous. on the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogenous. We can denote this by following formula:

$$\text{Coefficient of Variation} = \frac{\text{Standard deviation}}{\text{Mean}} \times 100$$

#### **3. Co-efficient of Correlation (r)**

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1, when  $r = +1$ , it means there is

perfect relationship between two variables and vice versa. When  $r=0$ , it means there is no relationship between two variables. The Pearson's 1 formula is:

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}}$$

Where,

$r$  = coefficient of correlation

$x$  = independent variable =  $(x - \bar{x})$

$y$  = dependent variable =  $(y - \bar{y})$

$n$  = no. of periods

#### **4. Coefficient of Determination ( $r^2$ ):**

The coefficient of determination is a measure of the degree of linear association or correlation between two variables one of which happens to be independent and other being dependent variable. In other words, coefficient of determination measures the percentage total variation independent variables explained by independent variables. Zero to one is the ranging measurement of this coefficient of multiple determinations. If  $r^2$  is equal to 0.75, which indicates that the independent variables used in, regression model explained 75% of the total variation in the dependent variable. If the regression line is a perfect estimator  $r^2$  will be equal to +1, when there is no correlation, the value of  $r^2$  is zero.

#### **5. Arithmetic Mean**

Arithmetic mean is the sum of all observations divided by the number of observations. The arithmetic mean is denoted by  $(\bar{X})$ . It is computed as:

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

Arithmetic Mean is calculated to find the mean of the financial ratio.

## 6. Standard Deviation

Standard Deviation is calculated to measure dispersion. It is computed as:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x - \bar{x})^2}{N}}$$

## 7. Co-Variance (C.V.)

Co-Variance is calculated to find variance from the mean. It is computed as:

$$\text{C.V.} = \frac{\sigma}{\bar{x}}$$

## CHAPTER-IV

### DATA PRESENTATION AND ANALYSIS

This chapter is concerned with financial analysis and statistical analysis that is concerned about comparative analysis and interpretation of available data. Various financial and statistic tools have been used in this part. Necessary figures and tables are also presented in this part to describe about the investment mechanism of the banks.

#### 4.1 Financial Analysis

Here in, appropriate ratios are calculated and proper interpretations are made. The analysis of the financial ratios verifies the performance of the concerned banks.

##### 4.1.1 Ratio of Total Sample Banks Investment to Individual Sample Banks Investment

This ratio indicates the portion of Investment made by EBL, BOK, HBL, NIBL and NSBI Bank to total investment made by sample commercial banks of Nepal.

The below table no 4.1 and figure no 4.1 shows the investment made on total sample banks investment by individual bank investment. It shows that portion of investment made by EBL is fluctuating every year. The highest ratio of EBL is 15.41% in f/y 2010/11 and the lowest ratio is 2.70% in f/y 2007/08. The mean ratio is 9.19 during the study period when SD is 5.90 and CV is 20%.

Summarily from the below table 4.1 and figure 4.1 it shows that portion of investment made by BOK is in fluctuating trend and increasing in 2001/02 to 2004/05. The highest ratio of BOK is 13.59% in f/y 2008/09 and the lowest ratio is 1.04% in f/y 2001/02. The mean ratio is 5.13 during the study period when SD is 4.50 and CV is 87.66%.

Again from the below table 4.1 and figure 4.1, it shows that portion of investment made by HBL is decreasing from 2001/02 to 2006/07 and increasing from 2007/08 to 2010/11. The highest ratio of HBL is 22.69% in f/y 2001/02 and the lowest ratio is 5.81% in f/y 2006/07. The mean ratio is 14.09 during the study period when SD is 5.41 and CV is 38.41%.

**Table: 4.1**

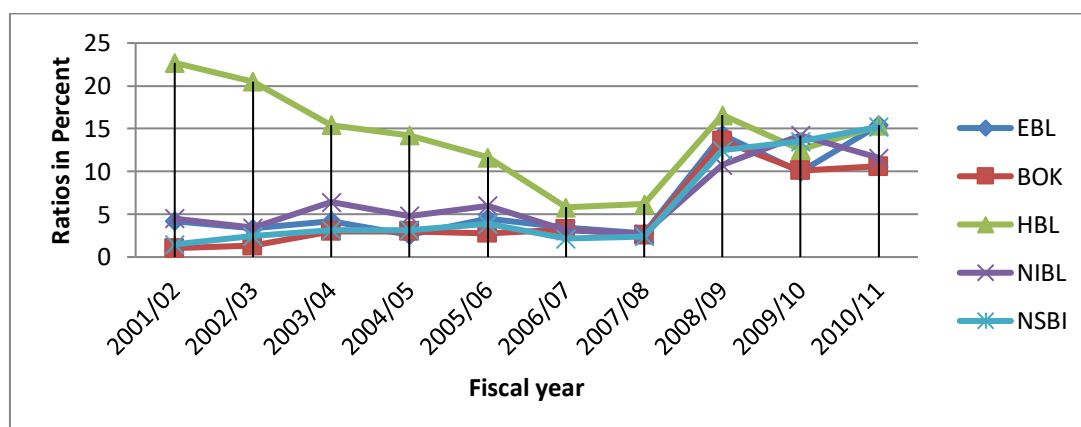
**Total Sample Banks Investment to Individual Investment Ratio (in Percentage)**

Banks F/Y	EBL	BOK	HBL	NIBL	NSBI
2001/02	4.19	1.04	22.69	4.51	1.48
2002/03	3.33	1.34	20.49	3.43	2.43
2003/04	4.21	3.02	15.44	6.42	3.17
2004/05	2.59	3.01	14.23	4.79	3.17
2005/06	4.49	2.78	11.64	5.99	3.86
2006/07	3.45	3.23	5.81	3.11	2.13
2007/08	2.80	2.59	6.19	2.73	2.39
2008/09	14.30	13.59	16.58	10.74	12.45
2009/10	9.97	10.11	12.55	14.21	13.51
2010/11	15.41	10.61	15.34	11.57	15.20
Total	64.74	51.32	140.96	67.50	59.79
Mean	6.474	5.13	14.09	6.75	5.979
S.D	4.89	4.50	5.41	4.01	5.42
C.V	75.53	87.66	38.41	59.41	90.66

Source: Annual Report of sample banks & Appendix 1 & 2

**Figure: 4.1**

**Total Sample Banks Investment to Individual Investment Ratio**



So on from the above table no 4.1 and figure 4.1, shows that portion of investment made by NIBL is fluctuating trend in every year. The highest ratio of NIBL is 14.21% in f/y

2009/10 and the lowest ratio is 2.73% in f/y 2007/08. The mean ratio is 6.75 during the study period when SD is 4.01 and CV is 59.41%.

At last it shows that portion of investment made by NSBI is increasing in 2001/02 to 2005/06 and in 2006/07 it is decreasing and after then it is in increasing trend. The highest ratio of NSBI is 15.20% in f/y 2010/11 and the lowest ratio is 1.48% in f/y 2001/02. The mean ratio is 5.97 during the study period when SD is 5.42 and CV is 90.66%.

So, the above table and figure shows that HBL has good investment policy but due to changing time it is falling down and NSBI has used better investment policy because the ratio of individual investment is increasing every year which examine the better investment policy.

#### 4.1.2 Segregation of Investment

##### A) Segregation of Investment of EBL Bank

EBL invests its collected funds in different sectors. Most of commercial banks are found to invest in government securities, share and debentures of other companies and other sector. Here an attempt is made to segregate the investment made by EBL.

**Table: 4.2**

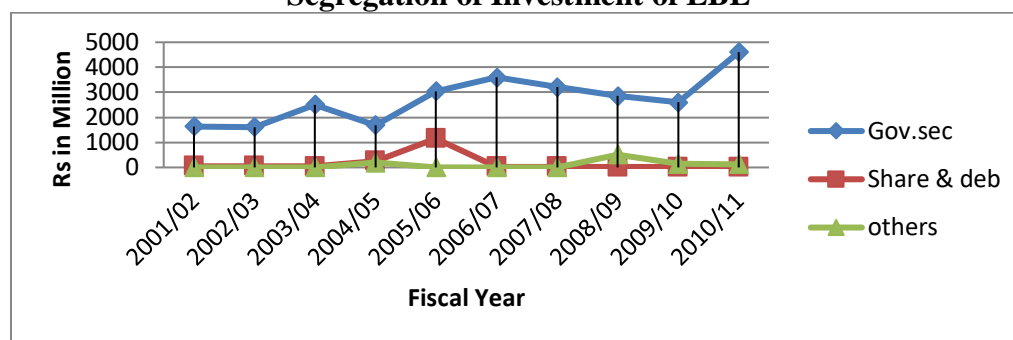
#### **Segregation of Investment of EBL**

Year	investment	Gov.sec	%	Share & deb	%	others	%
2001/02	1693	1636.63	96.67	56.37	3.33	-	-
2002/03	1654	1608	97.24	46	2.76	-	-
2003/04	2536	2501	98.64	35	1.36	-	-
2004/05	2129	1683	79.08	257.38	12.06	188.62	8.86
2005/06	4201	3047	72.53	1154	27.47	-	-
2006/07	3614.54	3589.97	99.32	24.57	0.68	-	-
2007/08	3237.98	3207.54	99.06	30.44	0.94	-	-
2008/09	3371.42	2848.18	84.48	15.85	0.47	507.40	15.05
2009/10	2745.28	2591	94.38	10.97	0.40	143.31	5.22
2010/11	4745.5	4602.19	96.98	8.79	0.32	129.56	2.73

Source: Banking and Financial Statistics, NRB



**Figure: 4.2**  
**Segregation of Investment of EBL**



The above table 4.2 and figure 4.2 show the investment made by EBL in different sectors. EBL is found to invest its fund in Government securities, shares and debenture of other industries. Most of its fund is invested in government securities and less in share debenture of other industries. EBL has started to invest in other sectors from f/y 2004/05 but it regularly from the FY 2008/09. It can be concluded that EBL has started to increase and investment in other sector too but still less investment in share and debentures.

#### **B) Segregation of Investment of HBL Bank**

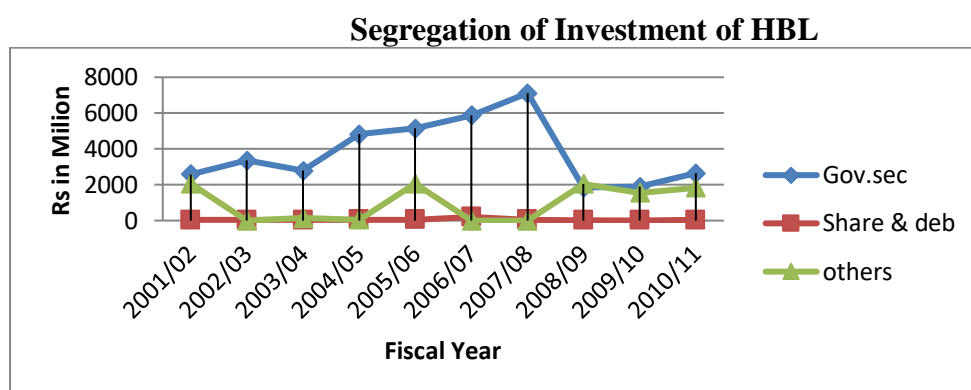
HBL invest its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies and other sector. Here an attempt is made to segregate the Investment made by HBL.

**Table: 4.3**  
**Segregation of Investment of HBL**

Year	investment	Gov.sec	%	Share & deb	%	others	%
2001/02	9157	2589	28.27	34	0.37	2060	50.45
2002/03	10175	3347	32.89	34	0.33	-	-
2003/04	9292	2782	29.94	34	0.37	141	1.39
2004/05	11692	4820	41.22	40	0.34	50	0.54
2005/06	10889	5144	47.24	40	0.37	2060	50.45
2006/07	6079.37	5876.93	96.67	202.44	3.33	-	-
2007/08	7166.53	7114.22	99.27	52.31	0.73	-	-
2008/09	3907.34	1845.83	47.24	14.46	0.37	2047.06	52.39
2009/10	3455.03	1886.45	54.60	21.08	0.61	1547.51	44.79
2010/11	4725.58	2646.80	56.01	31.67	0.67	1838.73	38.91

Source: Banking and Financial Statistics, NRB

**Figure: 4.3**



The below table 4.3 and figure 4.3 show the investment made by HBL in different sectors. HBL is found to invest its fund in Government securities, shares and debenture of other industries and others. From the FY 2001/02 to 2010/11 the most of investment in Government Securities and least of investment in share and debentures of other companies but HBL has invested its fund from the FY 2001/02 in other sector. It can be concluded that HBL is increasing its investment in different sectors.

**C) Segregation of Investment of BOK Bank**

BOK invests its collected funds in different sectors. Here an attempt is made to segregate the investment made by BOK.

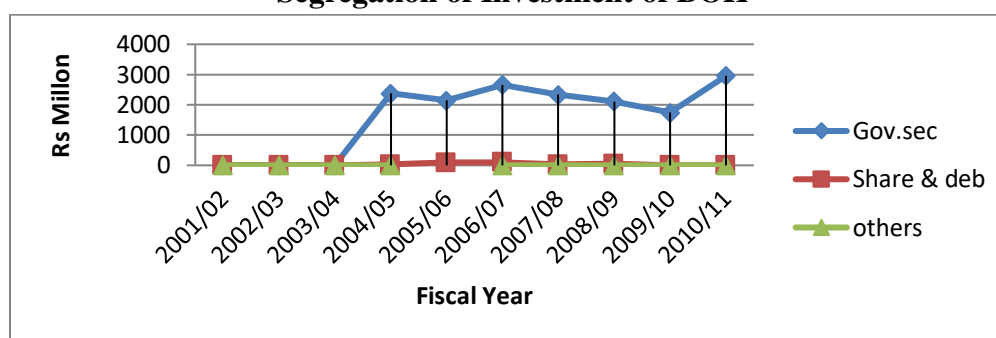
**Table: 4.4**

**Segregation of Investment of BOK**

Year	investment	Gov.sec	%	Share & deb	%	others	%
2001/02	420	-	-	-	-	-	-
2002/03	667	-	-	-	-	-	-
2003/04	1816	-	-	-	-	-	-
2004/05	2477	2372	95.76	23	0.93	-	-
2005/06	2598	2147	82.64	93	3.58	-	-
2006/07	3375	2658	78.76	97	2.87	-	-
2007/08	2992	2332	77.94	26	0.87	-	-
2008/09	3204	2113	65.95	45	1.40	-	-
2009/10	2784	1745	62.68	-	-	-	-
2010/11	3269	2955	90.39	-	-	-	-

Source: Banking and Financial Statistics, NRB

**Figure: 4.4**  
**Segregation of Investment of BOK**



The above table 4.4 and figure 4.4 shows the investment made by BOK in different sectors. BOK is found to invest its fund in Government securities, shares and debenture of other industries but not in other sectors. Most of its fund investment in government securities and less in share debenture of other industries. It can be concluded that BOK is increasing its investment in government securities and share and debenture only but still needs to invest in other sector too.

#### **D) Segregation of Investment of NIBL Bank**

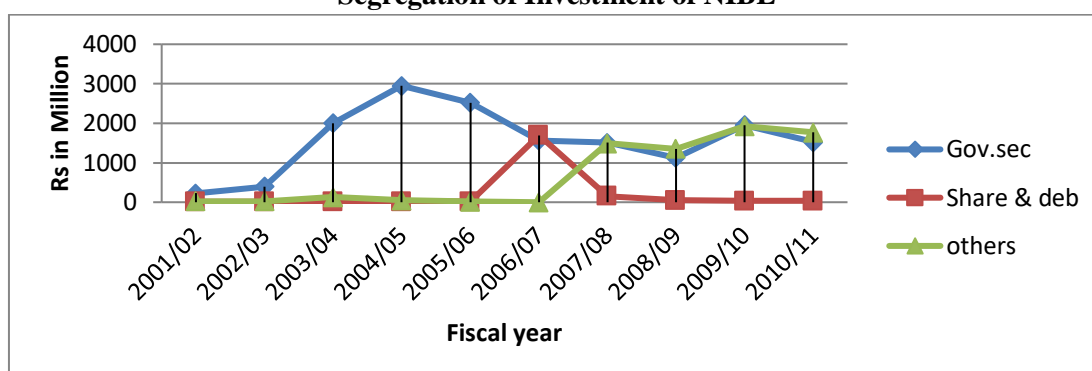
NIBL invest its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies. Here an attempt is made to segregate the investment made by NIBL.

**Table: 4.5**  
**Segregation of Investment of NIBL**

Year	investment	Gov.sec	%	Share & deb	%	others	%
2001/02	1822	224	12.29	14	0.77	24	1.32
2002/03	1705	400	23.46	14	0.82	21	1.23
2003/04	3862	2001	51.81	14	0.36	132	3.42
2004/05	3934	2949	74.96	18	0.46	46	1.17
2005/06	5603	2522	45.01	18	0.32	20	0.36
2006/07	3256.4	1561.78	47.96	1694.64	52.04	-	-
2007/08	3155	1508.41	47.81	158.06	5.01	1488.53	47.18
2008/09	2531.3	1125.42	44.46	48.09	1.90	1355.26	53.54
2009/10	3911.85	1953.98	49.95	32.86	0.84	1924.65	49.20
2010/11	3564.6	1519.95	42.64	28.88	0.81	1765.55	49.53

Source: Banking and Financial Statistics, NRB

**Figure: 4.5**  
**Segregation of Investment of NIBL**



The below table 4.5 and figure 4.5 shows the investment made by NIBL in different sectors. NIBL is found to invest its fund in Government securities, shares and debenture of other industries and others. From the FY 2001/02 to 2010/11 investment in Government Securities fluctuating and investment in share and debentures of other companies decreasing but in other sector is in fluctuating trend. It can be concluded that NIBL is increasing its investment in different sectors but still less investment in share and debentures.

**E) Segregation of Investment of NSBI**

NSBI bank invests its collected funds in different sectors. Here an attempt is made to segregate the investment made by NSBI bank.

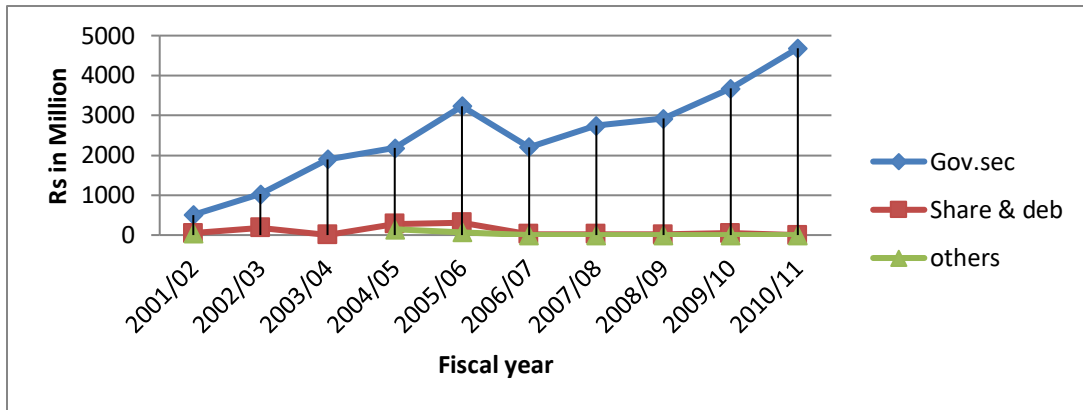
**Table: 4.6**  
**Segregation of Investment of NSBI**

Year	investment	Gov.sec	%	Share & deb	%	others	%
2001/02	599	507	84.64	50	8.34	42	7.02
2002/03	1207	1028.60	85.22	179.40	14.78		
2003/04	1908	1897	99.47	10	0.53		
2004/05	2608	2184.20	83.75	278	10.66	145.79	5.59
2005/06	3611	3230	89.45	308.74	8.55	72.22	2
2006/07	2227.74	2206.58	99.05	21.16	0.95	-	-
2007/08	2762.82	2741.55	99.23	21.27	0.77	-	-
2008/09	2933.84	2918	99.46	15.84	0.54	-	-
2009/10	3720.59	3670.37	98.65	50.22	0.84	-	-
2010/11	4682.11	4682.11	100	-	-	-	-

Source: Banking and Financial Statistics, NRB

**Figure: 4.6**

**Segregation of Investment of NSBI**



The above table 4.6 and figure 4.6 show the investment made by NSBI in different sectors. NSBI is found to invest its fund in Government securities, shares and debenture of other industries. The most of its fund investment in government securities and less in share debenture of other industries. It can be concluded that NSBI is increasing its investment in government sector as well as in share and debenture but still needs to invest in other sector too.

It can be concluded that the investment made by the commercial banks in different sectors are increasing. It is found that mostly commercial banks are investing its fund in Government securities, share and debenture of other industries and other sectors.

### **4.1.3 Asset Management Ratio**

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.

#### **1. Ratio of Total Investment to Total Deposit**

A commercial bank may finance its deposit fund to small industries building up of bank credit depends upon mutual connections and relationship between the banks and the customers. Banks need to satisfy themselves regarding the technical knowledge and capacity for hard and sustained work on the part of borrows and the quality and marketability of the goods produced by them. Therefore commercial banks may mobilize its bank deposit by investing its fund in different securities issued by government and

other financial or non-financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on Investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement, central bank's norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as Investment and vice versa. This ratio is calculated by dividing total Investment by total deposit.

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of sample banks are calculated and presented below.

**Table: 4.7**

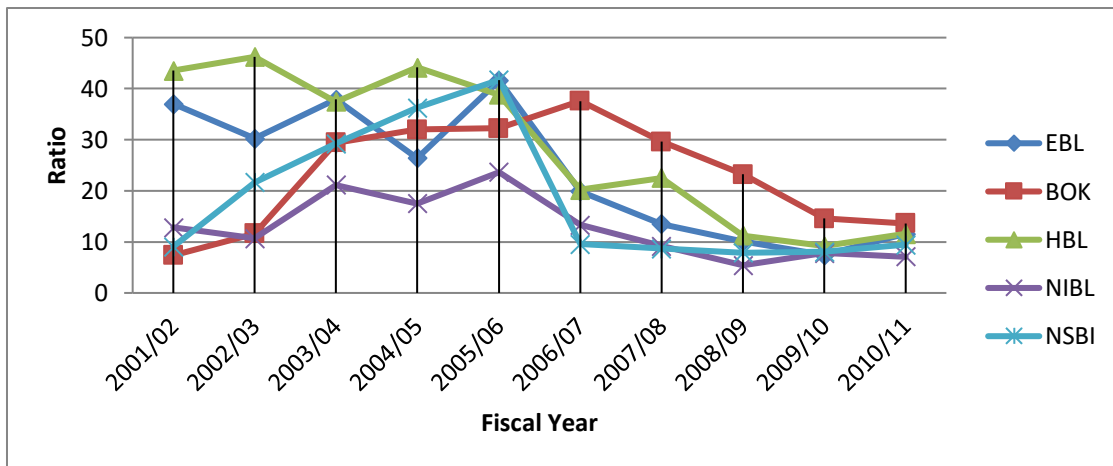
**Total Investment to Total Deposit**

Banks F/Y	EBL	BOK	HBL	NIBL	NSBI
2001/02	37.01	7.35	43.51	12.78	9.06
2002/03	30.25	11.65	46.23	10.71	21.66
2003/04	37.88	29.43	37.45	21.12	29.25
2004/05	26.40	31.99	44.14	17.52	36.23
2005/06	41.60	32.22	38.82	23.64	41.72
2006/07	19.88	37.60	20.23	13.30	9.54
2007/08	13.50	29.63	22.51	9.16	8.66
2008/09	10.12	23.21	11.27	5.42	7.86
2009/10	7.43	14.58	9.19	7.81	8.02
2010/11	11.54	13.63	11.55	7.11	9.42
Total	235.61	231.30	284.88	128.56	181.42
Mean	23.56	23.13	28.49	12.86	18.14
S.D	12.75	10.52	15.03	6.13	13.12
C.V	54.14	45.49	52.75	47.71	72.33

Source: Annual Report of sample banks & Appendix 8

**Figure: 4.7**

**Total Investment to Total Deposit**



From the above table 4.7 and figure 4.7 shows that the mean ratio of EBL, BOK, HBL, NIBL and NSBI are 23.56%, 23.13%, 28.49%, 12.86%, and 18.14% respectively so HBL has higher ratio. It signifies HBL has successfully allocated its deposit in investment portfolio. The C.V. is also higher than others.

The above table 4.7 and figure 4.7 shows the investment and deposit ratio of EBL. The average ratio of total investment to total deposit is 23.56, standard deviation is 12.75 and co-efficient variation is 54.14 percent.

The table 4.7 and figure 4.7 shows the investment and deposit ratio of BOK. The average ratio of total investment to total deposit is 23.13, standard deviation is 10.52 and co-efficient variation is 45.49 percent. Again that the above table shows the investment and deposit ratio of NIBL. The average ratio of total investment to total deposit is 12.86, standard deviation is 6.13 and co-efficient variation is 47.71 percent.

The above table 4.7 and figure 4.7 shows the investment and deposit ratio of NSBI. The average ratio of total investment to total deposit is 18.14, standard deviation is 13.12 and co-efficient variation is 72.33 percent.

Here Above tables 4.7 and figure 4.7 reveal that NIBL has the lowest investment to deposit ratio whereas HBL has maintained highest investment to deposit ratio among these five banks. Therefore, it is clear that HBL's capacity to mobilize its deposits on Investment is better than that of other banks.

## 2. Ratio of Total Investment plus Loan and Advance with Deposits

Loan and Advancement is also another type of Investment of banks. Since the major functions of commercial banks are of deposits collection and lending, it is very important to have a look at the credit to deposit ratio. Lending is a high risk Investment for a bank and the main income source of the bank is also the interest earned from loan and advances. This ratio actually measures the extent to which the banks are successful to mobilize the total deposits on Investment plus loan and advances for the purpose of profit generation. A high ratio of Investment plus loan and advancement indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio may not be better from its liquidity point view. This ratio is calculated by dividing total Investment plus loan & advances by total deposits. The following table exhibits the ratio of total Investment plus loan and advancement to total deposits of NIBL, HBL, EBL, BOK and NSBI.

**Table: 4.8**

### **Total Investment plus Loan and Advancement to Deposits ratio**

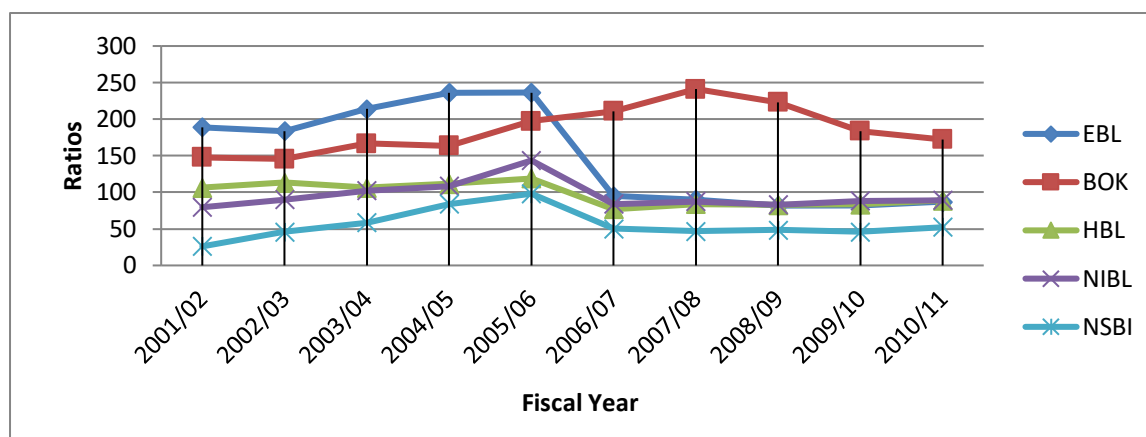
Banks F/Y	EBL	BOK	HBL	NIBL	NSBI
2001/02	189.14	147.82	106.32	79.59	26.04
2002/03	183.70	145.61	113.30	90.22	45.76
2003/04	213.97	166.47	106.41	102.14	58.44
2004/05	236.16	163.51	111.34	108.46	84.04
2005/06	236.43	197.14	118.81	143.56	98.08
2006/07	95.01	210.79	76.80	83.89	50.07
2007/08	89.99	241.21	83.74	87.52	46.61
2008/09	81.79	223.10	82.75	83.03	48.37
2009/10	82.05	183.54	83.58	88.29	45.68
2010/11	87.05	172.27	88.69	89.07	52.41
Total	1495.29	1851.45	971.74	955.76	555.51
Mean	149.53	185.15	97.17	95.58	55.55
S.D	67.91	32.19	15.49	19.002	20.72
C.V	45.42	17.39	15.94	19.88	37.30

Source: Annual Report of sample banks & Appendix 8



**Figure: 4.8**

**Total Investment plus Loan and Advancement to Deposits ratio**



Above table 4.8 and figure 4.8 shows that the ratio of total investment plus loan and advances to deposit. BOK has maintained higher ratio than other banks likewise NSBI, HBL and NIBL have got less ratio. A higher ratio of Investment plus Loan & Advances indicates the better mobilization of its collected deposit & vice-versa. From point of view of liquidity, EBL is higher than other banks likewise BOK, HBL and NIBL. The average ratio of EBL is 149.35, BOK is 185.13, HBL is 97.17, NIBL is 95.58 and NSBI is 55.55 percent. C.V of EBL is higher than other banks which means that ratio of EBL is more variable than other banks.

Above table shows that total investment plus loan and advance to total deposit ratio of EBL, BOK, HBL, NIBL & NSBI. These banks have fluctuating trend of Total Investment plus Loan and Advancement to Deposits ratio. Higher ratio of EBL is 236.43 percent in FY 2005/06 and lowest ratio is 95.01 percent in FY 2006/07 and in the same way the highest ratio of BOK 241.21% percent in FY 2007/08 and lowest ratio is 145.61% percent in FY 2002/03. Likewise higher ratio of HBL is 118.81 and lower is 76.80 in 2006/07, NIBL higher ratio is 143.56% in 2005/06 and lower is 79.59% in 2001/02 and at last NSBI higher ratio 98.08% in 2005/06 & lower is 26.04% in 2001/02. Investment volume of NSBI is lower than that of other banks.

The S.D and C.V of EBL is 67.91 and 45.42, BOK is 32.19, HBL is 15.49 and 15.94, NIBL is 19.002 and 19.88 and NSBI is 20.71 and 37.30 respectively so EBL and BOK has higher ratio.

### 3. Ratio of Total Investment to Total Assets

A commercial bank's working fund should play very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on Investment for the purpose of income generation. A high ratio indicates a better mobilization of fund as Investment and vice-versa. This ratio is calculated by dividing total Investment by total assets i.e. total working fund. The following table exhibits the ratio of Investment to total assets of EBL, BOK, HBL, NIBL and NSBI.

**Table: 4.9**

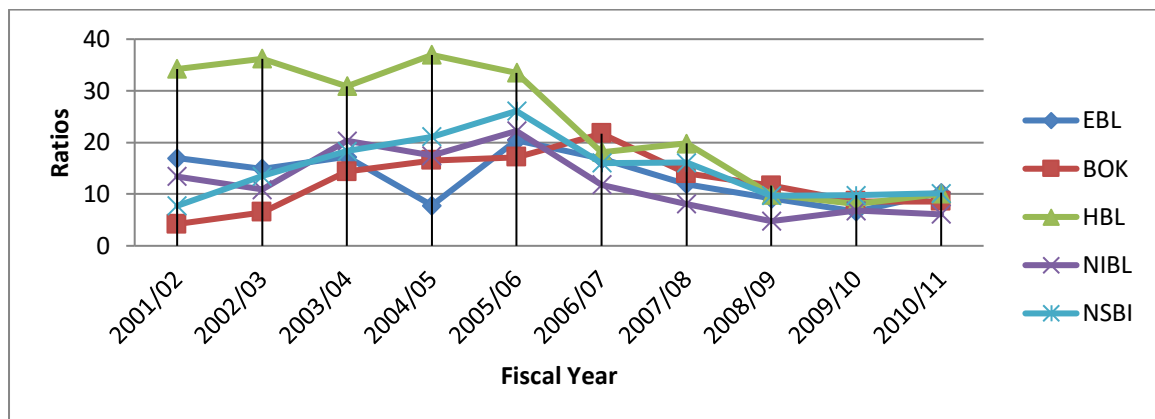
#### **Total Investment to Total Assets**

Banks F/Y	EBL	BOK	HBL	NIBL	NSBI
2001/02	16.99	4.22	34.23	13.43	7.74
2002/03	14.94	6.51	36.21	10.90	13.50
2003/04	17.23	14.34	30.91	20.32	18.30
2004/05	7.79	16.52	36.95	17.43	21.10
2005/06	20.43	17.14	33.48	22.23	26.10
2006/07	16.86	21.71	18.14	11.80	16.03
2007/08	11.93	14.00	19.81	8.12	16.07
2008/09	9.13	11.61	9.93	4.78	9.73
2009/10	6.63	8.63	8.09	6.83	9.78
2010/11	10.26	8.59	10.11	6.11	10.16
Total	132.20	123.27	237.85	121.94	148.50
Mean	13.22	12.33	23.78	12.19	14.85
S.D	4.70	5.41	11.80	6.10	5.84
C.V	35.52	43.88	49.63	50.03	39.32

Source: Annual Report of sample banks & Appendix 8

**Figure: 4.9**

**Total Investment to Total Assets**



Above table 4.9 and figure 4.9 Shows that the ratio of Total Investment to Total Assets. The average ratio of HBL is higher than other banks likewise NIBL, BOK, NSBI and EBL. The average ratio of HBL is 23.78, NIBL is 12.19, BOK is 12.33, NSBI is 14.85 and EBL is 13.22 percentages. It means HBL has used more assets for investment and NIBL has used fewer assets for investment than other banks. C.V of NIBL is higher and EBL is lower than other banks which means that ratio of EBL is more variable than other banks. Similarly S.D of HBL's ratio is greater than other banks which show that HBL is operating in higher risk than other banks.

Therefore it can be said that, HBL has been able to mobilize its more assets by investing on government securities whereas NIBL has mobilized less assets on investing on government securities.

**4. Investment on Government Securities to Total Assets Ratio**

The commercial banks mostly invest its funds collected in various government securities issued by government because they consider them most liquid, that is, they can realize cash at short notice and without must loss in capital invested. And also such securities would serve as the basis for loan from the central bank at the bank rate. The government securities are the safest place to invest the funds. They can be easily sold in the market or they can be converted into the cash in other ways. But they are not so much liquid as cash and bank balance.

Here an effort is made to examine the position of a bank's total assets that is invested on different government securities. This ratio is very important to know the extent of which

the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. All the deposits of the bank should not be utilized in loan and advances and other credit from security and liquidity point of view. Therefore, to some extent, commercial banks seem to be interested to utilize their deposits by purchasing government securities. A high ratio indicates better mobilization of fund as Investment on government securities and vice-versa.

This ratio is calculated by dividing Investment on government securities by total assets. The following table shows the ratios of Investment on government securities to total working fund of EBL, BOK, HBL, NIBL and NSBI.

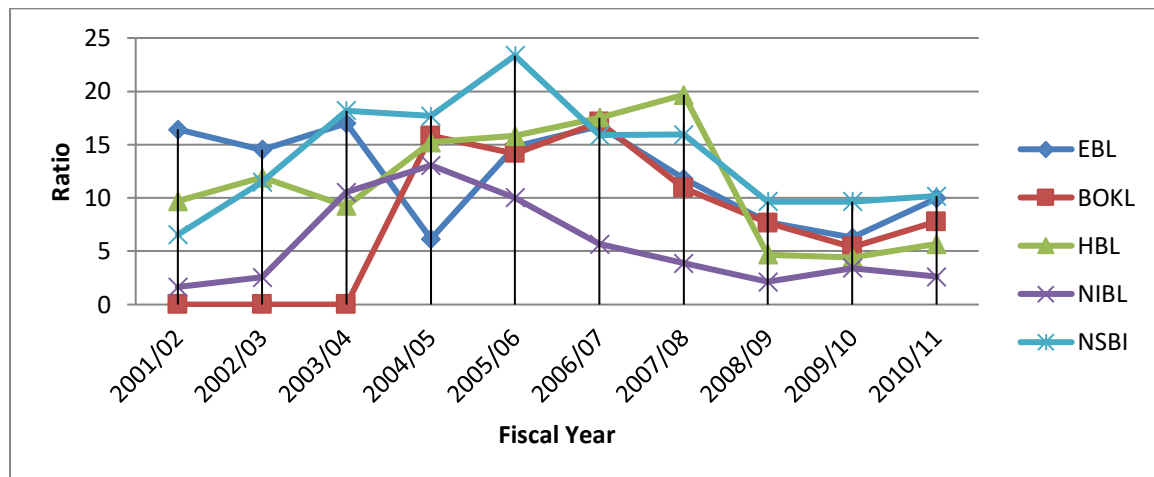
**Table No. 10**  
**Investment on Government Securities to Total Assets Ratio**

Banks F/Y	EBL	BOK	HBL	NIBL	NSBI
2001/02	16.42	-	9.68	1.65	6.55
2002/03	14.53	-	11.91	2.56	11.50
2003/04	17.00	-	9.25	10.53	18.19
2004/05	6.16	15.82	15.23	13.06	17.67
2005/06	14.82	14.16	15.81	10.01	23.35
2006/07	16.75	17.10	17.53	5.66	15.87
2007/08	11.81	10.92	19.67	3.88	15.95
2008/09	7.72	7.66	4.69	2.12	9.67
2009/10	6.26	5.41	4.42	3.41	9.65
2010/11	9.95	7.77	5.66	2.60	10.16
Total	121.41	78.83	113.86	55.48	138.57
Mean	12.14	11.26	11.39	5.55	13.86
S.D	4.36	4.52	5.52	4.12	5.16
C.V	35.89	40.17	48.51	74.32	37.25

Source: Annual Report of sample banks & Appendix 8

**Figure: 10**

**Investment on Government Securities to Total Assets Ratio**



Above table 4.10 and figure 4.10 Shows that the ratio of Investment on government securities to total assets. The average ratio of NSBI and EBL is higher than other banks, likewise BOK, HBL and NIBL. It means EBL and NSBI has mobilized their assets as investment in government securities more than other banks. C.V of NIBL is higher than other banks, likewise HBL, EBL and NSBI. It shows that NIBL ratio is more variable than other banks. NIBL ratio is less variable than other banks.

Therefore it can be said that, NSBI and EBL has been able to mobilize its more assets by investing on government securities whereas NIBL has mobilized less assets by investing on government securities.

## 4.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as, trend analysis and co-efficient of correlation analysis between different variables.

### 1. Coefficient of Correlation Analysis and T-Test of Investment plus loan & advances and Deposits

Under this topic, Karl Person's coefficient of correlation has been used to find out the relationship between Deposit and Investment plus loan & advances. The main objective of the correlation analysis between deposit and investment plus loan & advance is to find out whether deposit is significantly used as investment plus loan & advance or not. It is

already mentioned that Investment is dependent upon saving i.e. deposit. Longer the duration of deposit, higher the banker's ability to acquire long term asset. In other words, banker can't invest more on long asset if duration of deposit is short. In this sense it can be said that Investment is the function of deposit. Theoretically it is assumed that long-term asset yield higher return. It means longer the duration of deposit, higher would be the profitability of the bank. But Investment may not be the function of deposit only. Sometimes Investment is made from the funds raised from the sources. In such situation Investment is not dependent upon deposit only co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis deposits is independent variable (x) and Investment plus Loan and Advances is dependent variable (y).

The detail calculations in this regard are done in Annex-4 and the following table shows the value of r, r<sup>2</sup> and t-cal and t-tab between those variables of EBL, BOK, HBL, NIBL and BOK during the study period 2001/02 to 2010/11.

**Table no.4.11**

**Correlation between Investment plus Loan & Advances and Deposits**

Evaluation criteria	r	r <sup>2</sup>	t-cal	t-tab	Result
EBL	-0.7380	0.5446	0.1346	2.101	Insignificant
BOK	-0.6407	0.4105	0.1655	2.101	Insignificant
HBL	-0.7735	0.5983	0.0327	2.101	Insignificant
NIBL	-0.6335	0.4013	0.02871	2.101	Insignificant
NSBI	0.4687	0.2197	0.0032	2.101	Insignificant

Source: Annual Report of sample banks & Appendix 4

From the above table shows, coefficient of correlation between Investment plus loan & advances and deposit of NSBI is 0.4687 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination (r<sup>2</sup>) is 0.2197. Which means 21.97% Investment plus loan & advances is depending on deposit i.e. independent variable. And it's t-cal is 0.0032 and similarly t-tab is 2.101. It means correlation of coefficient between deposit and Investment plus loan & advance of all other banks are insignificant though there is negative relation between them. This indicates that NSBI is successful to mobilize its deposit appropriately.

Again in the case of other sample banks, coefficient of correlation between Investment plus loan & advances and deposit of EBL is -0.7380 which shows that there is a negative correlation between deposit and Investment plus loan & advances and the value of coefficient of determination ( $r^2$ ) is 0.5446. And its t-cal is 0.1346 and t-tab is 2.101 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of EBL is also insignificant though there is negative relation between them.

Again in the case of HBL, coefficient of correlation between Investment plus loan & advances and deposit of HBL is -0.7735 which shows that there is a negative correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination ( $r^2$ ) is 0.4013. Its t-cal is 0.0327 and t-tab is 2.101.

Similarly in the case of NIBL, coefficient of correlation between Investment plus loan & advances and deposit of NIBL is -0.6335 which shows that there is a negative correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination ( $r^2$ ) is 0.5983. Its t-cal is 0.02871 and t-tab is 2.101.

Likewise in the case of BOK, coefficient of correlation between Investment plus loan & advances and deposit of BOK is -0.6407 which shows that there is a negative correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination ( $r^2$ ) is 0.4013. And its t-cal is 0.02871 and similarly t-tab is 2.101.

In conclusion, we can say that there is negative relationship between deposit and investment plus loan & advances of four banks. This means if deposit increases then investment plus loan & advances of the bank will decrease. It is clear from the table that correlation of coefficient and coefficient of determinant of NSBI is higher than that of other sample banks. This shows that NSBI is at the better position in mobilizing deposit and investment plus loan & advances in comparison to other banks. Calculation of correlation between investment plus loan & advances and deposit is shown in Annex-4

## **2. Trend Analysis and Projection for Next 5 Years**

The objective of this topic is to analysis trend of Investment, Deposit of EBL, BOK, HBL, NIBL and NSBI. To utilize investment and Deposit of a commercial bank may grant loan and advances and invest in government securities and shares and debentures of other companies. Under this topic an attempt is made to analyze trend of Investment and

Deposit of EBL, BOK, HBL, NIBL and NSBI also forecast their trend for next five years. The projections are based on the following assumptions:

- a. The main assumption is that other things will remain unchanged.
- b. The bank will run in present position.
- c. The economy will remain in the present stage.
- d. Nepal Rastra Bank will not change its guidelines to commercial banks.

### **Trend analysis of total investment to total deposit ratio of Sample Banks**

Calculate the trend values of total investment to total deposits ratio of EBL, BOK, HBL, NIBL and NSBI for five years from 2006/07 to 2010/11 and forecast for next five years from 2010/11 to 2015/2016. The following table shows the trend value of total investments to total deposits ratio of EBL, BOK, HBL, NIBL and NSBI bank.

**Table: 4.12**

#### **Trend analysis of total investment to total deposit ratio of Sample Bank (%)**

Banks F/Y	EBL	BOK	HBL	NIBL	NSBI
2006/07	0.17	3.55	0.21	0.112	0.194
2007/08	0.147	2.555	0.18	0.099	0.169
2008/09	0.124	1.56	0.15	0.086	0.144
2009/10	0.101	0.565	0.12	0.073	0.119
2010/11	0.58	-0.43	0.09	0.06	0.094
2011/12	0.055	-1.425	0.06	0.047	0.069
2012/13	0.032	-2.42	0.03	0.034	0.044
2013/14	0.009	-3.415	0	0.021	0.019
2014/15	-0.014	-4.41	-0.03	0.008	-0.006
2015/16	-0.037	-5.405	-0.06	-0.005	-0.031

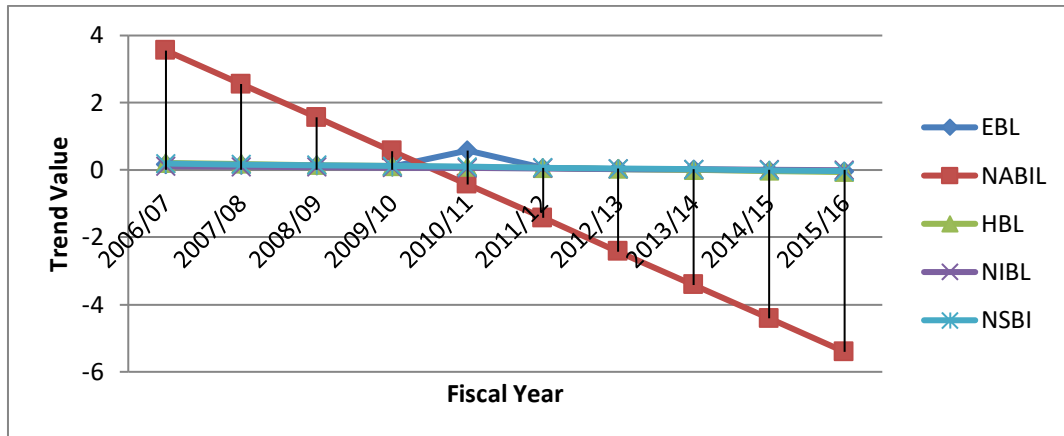
Source: Annual Report of sample banks



The calculated and projected trend values of total investment to total deposits of EBL, BOK, HBL, NIBL and NSBI are fitted in the following trend line.

**Figure: 4.11**

**Trend analysis of total investment to total deposit ratio of sample banks**



From the table no.4.12 and figure 4.11 shows that the ratio of total investment to total deposit ratio of EBL, BOK, HBL, NIBL and NSBI. All the sample banks are in decreasing trend and it will be negative value at end of the study period i.e 2015/16. If other things remaining the same it shows that the value of ratio decreasing by negatively. The negative trend value means the banks ratio is less than par value. If our assumption is applied the ratio of total investment to total deposit of BOK in 2015/16 will be -5.4%, which is lower than other banks.

From the analysis it can be concluded that NIBL and NSBI decreasing trend ratio has less decreasing ratio than other sample banks. Above analysis only mention when it meet the above assumption and if other things remaining same but in real life it is different.

**4.3 Major Findings of the Study**

From the analysis of financial data and statistical data the main findings are as follows:

**1. Findings from ratio of Sample banks to Total Commercial banks**

Mean ratio of HBL Investment to total commercial banks investment is 14.09% which is extremely higher than that of other banks to total commercial banks. The portion of HBL Investment is increasing every year in the total investment of commercial banks rather than other. The ratio of BOK is 5.13% which is less than other banks.

## **2. Findings from the Investment pattern of Sample banks**

Most of the commercial bank had invested their fund in government securities. Likewise all sample banks had started to invest in other sector. All the banks had invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.

## **3. Ratio of Total Investment to Total Deposit**

The mean ratio of Total Investment to Total Deposit of EBL, BOK, HBL, NIBL and NSBI are 23.56%, 23.13%, 28.49%, 12.86%, and 18.14% respectively so HBL has higher ratio. It signifies HBL has successfully allocated its deposit in investment portfolio. The C.V. also higher than other two sample banks.

## **4. Ratio of Total Investment plus Loan and Advance with Deposits**

Ratio of Total Investment plus Loan and Advance with Deposits shows that BOK has maintained higher ratio than other banks likewise NSBI, HBL and NIBL have got less ratio. A higher ratio of Investment plus Loan & Advances indicates the better mobilization of its collected deposit & vice-versa. From point of view of liquidity, EBL is higher than other banks likewise BOK, HBL and NIBL. The average ratio of EBL is 149.35, BOK is 185.13, HBL is 97.17, NIBL is 95.58 and NSBI is 55.55 percent. C.V of EBL is higher than other banks which means that ratio of EBL is more variable than other banks.

## **5. Ratio of Total Investment to Total Assets**

The average ratio of HBL is higher than other banks likewise NIBL, BOK, NSBI and EBL. The average ratio of HBL is 23.78, NIBL is 12.19, BOK is 12.33, NSBI is 14.85 and EBL is 13.22 percentages. It means HBL has used more assets for investment and NIBL has used fewer assets for investment than other banks. C.V of NIBL is higher and EBL is lower than other banks which means that ratio of EBL is more variable than other banks. Similarly S.D of HBL's ratio is greater than other banks which show that HBL is operating in higher risk than other banks.

## **6. Investment on Government Securities to Total Assets Ratio**

The average ratio of NSBI and EBL is higher than other banks. Likewise BOK, HBL and NIBL, it means EBL and NSBI has mobilized their assets as investment in government securities more than other banks. C.V of NIBL is higher than other banks. Likewise HBL, EBL and NSBI, it shows that NIBL ratio is more variable than other banks. NIBL ratio is less variable than other banks.

## **7. Findings from Correlation Coefficient Analysis and t-test**

In conclusion, we can say that there is negative relationship between deposit and investment plus loan & advances of five banks. This means if deposit increases then investment plus loan & advances of the bank will decrease. It is clear from the table that correlation of coefficient and coefficient of determinant of NSBI is higher than that of other sample banks. This shows that NSBI is at the better position in mobilizing deposit and investment plus loan & advances in comparison to other banks.

## **9. Findings from Trend Analysis**

Trend analysis shows that the total investment to total deposit ratio of EBL, BOK, HBL, NIBL and NSBI. All the sample banks are in decreasing trend and it will be negative value at end of the study period i.e 2015/16. If other things remaining the same it shows that the value of ratio decreasing negatively. The negative trend value means the banks ratio is less than par value. If our assumption is applied the ratio of total investment to total deposit of BOK in 2015/16 will be -5.4%, which is lower than other banks.

From the analysis it can be concluded that NIBL and NSBI decreasing trend ratio has been in less decreasing ratio than other sample banks. Above analysis only mention when it meet the above assumption and if other things remaining same but in real life it is different.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

The last chapter of this study is summary, conclusion and recommendation developed from the analysis of various aspects of the investment of commercial banks by using some financial as well as statistical tools. After completing the basic analysis required for the study the final and the most important task of the researcher is to summarize the study and recommendation for the future importance.

#### **5.1 Summary**

The economic development of country depends upon the development of commerce and industry and there is no doubt that banking promotes the development of commerce because bank in itself is the part of commerce. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development.

The economic growth was very slow in earlier years. It has caught its full swing after restoration of democracy in the country. At present, overall economic growth rate is still declining year by year. Reasons behind this decline are insecure situation faced by industry, decrease in the tourist arrival, and drop in the production and export of carpet, garment and pashmina industry and political situation.

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. It involves uses of funds to long term assets that would yield benefits in the future. The beginning and establishment of 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

enterprise. But there is still a big gap between demand for and supply of financial resources and gap seems ever widening over the years. Globalization and freeing up of 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 who can respond to these challenges and mobilize necessary financial resources 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 bank depends heavily upon its Investment policy. A sound and variable 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. Establishment of commercial banks has continued in response to economic liberalization policies of the government. So, now in Nepal there are 32 commercial banks competition with each other in their business. These banks are mainly concentrated themselves on financing foreign trade commerce and industry.

The main objective of the study is to evaluate the Investment Analysis of Commercial Banks in Nepal and to suggest measures to improve the investment policy of the banks. The study is based on secondary data from fiscal year 2001/02 to 2010/11. The data which were employed in this research are secondary in nature. They are obtained from annual report and financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master degree thesis. Beside this personal contact with the banks personnel have also been made.

Financial as well as statistical tools have been developed in order to analyze and interpret the data information, under financial analysis, various financial ratios related to investment function of commercial banks i.e ratio of Sample banks to Total Commercial banks, Investment pattern of Sample banks, Ratio of Total Investment to Total Deposit Ratio of Total Investment plus Loan and Advance with Deposits, Ratio of Total Investment to Total Assets, Investment on Government Securities to Total Assets Ratio ratios have been analyzed and interpreted. Under statistical tools like percentage, mean,

standard deviation, coefficient of variation, coefficient of correlation, t-test and trend analysis have been used for the analysis and interpretation of the data. This analysis gives clean picture of the performance of the banks with regard to investment operation.

## **5.2 Conclusion**

After study and analysis of given data we conclude that banking is one of business sector. All the banks are running in profit and they invest in different sectors. EBL is running successfully and the growth rate of deposit, investment and loan and advance is higher than that of other banks. It means EBL collected more deposit and invested in different sector. From the analysis of data NIBL is also running successfully. It has collected more deposit and investment than that of other banks. HBL and BOK are also increasing their deposit, investment and loan and advance.

Mean ratio of HBL Investment to total commercial banks investment is 14.09% which is extremely higher than that of other banks to total commercial banks. The portion of HBL Investment is increasing every year in the total investment of commercial banks rather than other. The ratio of BOK is 5.13% which is less than other banks.

Most of the commercial bank had invested their fund in government securities. Likewise all sample banks had started to invest in other sector. All the banks had invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.

The mean ratio of Total Investment to Total Deposit of EBL, BOK, HBL, NIBL and NSBI are 23.56%, 23.13%, 28.49%, 12.86%, and 18.14% respectively so HBL has higher ratio. It signifies HBL has successfully allocated its deposit in investment portfolio. The C.V. also higher than other two sample banks.

Ratio of Total Investment plus Loan and Advance with Deposits shows that BOK has maintained higher ratio than other banks likewise NSBI, HBL and NIBL have got less ratio. A higher ratio of Investment plus Loan & Advances indicates the better mobilization of its collected deposit & vice-versa. From point of view of liquidity, EBL is higher than other banks likewise BOK, HBL and NIBL. The average ratio of EBL is 149.35, BOK is 185.13, HBL is 97.17, NIBL is 95.58 and NSBI is 55.55 percent. C.V of

EBL is higher than other banks which means that ratio of EBL is more variable than other banks.

The average ratio of HBL is higher than other banks likewise NIBL, BOK, NSBI and EBL. The average ratio of HBL is 23.78, NIBL is 12.19, BOK is 12.33, NSBI is 14.85 and EBL is 13.22 percentages. It means HBL has used more assets for investment and NIBL has used fewer assets for investment than other banks. C.V of NIBL is higher and EBL is lower than other banks which means that ratio of EBL is more variable than other banks. Similarly S.D of HBL's ratio is greater than other banks which show that HBL is operating in higher risk than other banks.

The average ratio of NSBI and EBL is higher than other banks. Likewise BOK, HBL and NIBL, it means EBL and NSBI has mobilized their assets as investment in government securities more than other banks. C.V of NIBL is higher than other banks. Likewise HBL, EBL and NSBI, it shows that NIBL ratio is more variable than other banks. NIBL ratio is less variable than other banks.

In conclusion, we can say that there is negative relationship between deposit and investment plus loan & advances of five banks. This means if deposit increases then investment plus loan & advances of the bank will decrease. It is clear from the table that correlation coefficient and coefficient of determinant of NSBI is higher than that of other sample banks. This shows that NSBI is at the better position in mobilizing deposit and investment plus loan & advances in comparison to other banks.

Trend analysis shows that the total investment to total deposit ratio of EBL, BOK, HBL, NIBL and NSBI. All the sample banks are in decreasing trend and it will be negative value at end of the study period i.e 2015/16. If other things remaining the same it shows that the value of ratio decreasing negatively. The negative trend value means the banks ratio is less than par value. If our assumption is applied the ratio of total investment to total deposit of BOK in 2015/16 will be -5.4%, which is lower than other banks.

### **5.3 Recommendation**

On the basis of analysis of finding of study, the following recommendation and suggestion are forwarded:

- The average ratio of investment plus loan and advance to total deposit ratio of BOK is higher than that of other banks, it means it has invested more than deposit so that its liquidity position is not good. So, it decreases its investment.
- The commercial banks have been established gradually after the commercial banks act 2031 B.S. With the passage of time so many commercial banks, as a joint venture, have been established gradually because of the liberal and market friendly economic policy of government of Nepal. But banks should provide some social response by expanding their operation in rural areas rather than urban areas. And banks can give response to poor and disadvantage groups. By establishing the branches in rural areas, minimum amount for opening accounts and interest rate should be reduced for creditors.
- In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients.
- Diversification of investment is highly suggested to the selected bank as they have given priority to invest in government securities only. All banks seem risk avoider as they have invested highest amount in risk free securities. Higher the risk higher will be the profit. Hence, all banks are recommended to diversify their investment in NRB bond, govt. non financial institution, other non-financial institution etc.
- Majority of commercial banks have been found to be profit oriented ignoring their social responsibility, which is not a proper strategy to sustain in long run. So all the banks are suggested to render their serves even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.
- The Economic Liberalization policy adopted by Nepal government has created an environment of strict competition even in the banking sectors. In the context, all the banks are suggested to formulate and implement some sound and attractive financial; and non-financial strategies to meet required level of profitability as well as the social responsibility.
- The commercial banks i.e. Nepal Investment Bank, Nepal SBI Bank, Himalayan Bank, Everest Bank and Bank of Kathmandu Limited should go for some new areas



of investment like hydro electricity and infrastructure development of the economy as well as bank's operation.

- Nepal Investment Bank, Himalayan Bank, Everest Bank, Nepal SBI Bank and Bank of Kathmandu Limited should target their business segment on the middle family. For this they have to keep the affordable minimum balance to open the account. So that they can earn more customer and generate more deposit amount.
- All five banks should support the social welfare event to promote the business. The bank should formulate new strategies of serving customers in a more convenient way.

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## APPENDICES

### Appendix: 1

#### Computation of Total Sample Banks Investment to Individual Investment Ratio of EBL & NIBL

Year	EBL		NIBL		Ratio of EBL	Ratio of NIBL
	EBL Investment	Total Sample Banks Investment	NIBL Investment	Total Sample Banks Investment		
2001/02	1693	40363	1822	40363	4.19	4.51
2002/03	1654	49669	1705	49669	3.33	3.43
2003/04	2536	60181	3862	60181	4.21	6.42
2004/05	2129	82174	3934	82174	2.59	4.79
2005/06	4201	93531	5603	93531	4.49	5.99
2006/07	3614.54	104631.3	3256.4	104631.3	3.45	3.11
2007/08	3237.98	115720	3155	115720	2.8	2.73
2008/09	3371.42	23570.27	2531.3	23570.27	14.3	10.74
2009/10	2745.28	27535.75	3911.85	27535.75	9.97	14.21
2010/11	4745.5	30798.99	3564.6	30798.99	15.41	11.57

Sources: Annual Report of Sample Banks 2001/02 to 2010/11

### Appendix: 2

#### Computation of Total Sample Banks Investment to Individual Investment Ratio of HBL & BOK

Year	HBL		BOK		Ratio of HBL	Ratio of BOK
	HBL Investment	Total Sample Banks Investment	BOK Investment	Total Sample Banks Investment		
2001/02	9157	40363	420	40363	22.69	1.04
2002/03	10175	49669	667	49669	20.49	1.34
2003/04	9292	60181	1816	60181	15.44	3.02
2004/05	11692	82174	2477	82174	14.23	3.01
2005/06	10889	93531	2598	93531	11.64	2.78
2006/07	6079.37	104631.3	3375	104631.3	5.81	3.23
2007/08	7166.53	115720	2992	115720	6.19	2.59
2008/09	3907.34	23570.27	3204	23570.27	16.58	13.59
2009/10	3455.03	27535.75	2784	27535.75	12.55	10.11
2010/11	4725.58	30798.99	3269	30798.99	15.34	10.61

Sources: Annual Report of Sample Banks 2001/02 to 2010/11

### Appendix: 3

#### Computation of Assets management Ratio

Year	NIBL		HBL		Ratio of NIBL	Ratio of HBL
	INVEST	deposit	INVEST	deposit		
2001/02	1822	14255	9157	21045	12.78	43.51
2002/03	1705	15927	10175	22010	10.71	46.23
2003/04	3862	18289	9292	24814	21.12	37.45
2004/05	3934	22452	11692	26491	17.52	44.14
2005/06	5603	23698	10889	28048	23.64	38.82
2006/07	3256.4	24488.85	6079.37	30048.41	13.30	20.23
2007/08	3155	34451.72	7166.53	31842.78	9.16	22.51
2008/09	2531.3	46698.1	3907.34	34682.3	5.42	11.27
2009/10	3911.85	50094.72	3455.03	37611.2	7.81	9.19
2010/11	3564.6	50138.12	4725.58	40920.62	7.11	11.55

Sources: Annual Report of Sample Banks 2001/02 to 2010/11

### Appendix: 4

#### Computation of Assets management Ratio

Year	BOK		NSBI		Ratio of BOK	Ratio of NSBI
	INVEST	deposit	INVEST	deposit		
2001/02	420	5713	599	6612	7.35	9.06
2002/03	667	5723	1207	5572	11.65	21.66
2003/04	1816	6171	1908	6523	29.43	29.25
2004/05	2477	7742	2608	7198	31.99	36.23
2005/06	2598	8064	3611	8655	32.22	41.72
2006/07	3375	8976	2227.74	23342.3	37.60	9.54
2007/08	2992	10098	2762.82	31915	29.63	8.66
2008/09	3204	13803	2933.84	37348	23.21	7.86
2009/10	2784	19098	3720.59	46411	14.58	8.02
2010/11	3269	23976	4682.11	49696	13.63	9.42

Sources: Annual Report of Sample Banks 2001/02 to 2010/11

### Appendix: 5

#### Computation of total investment to total assets ratio

Year	NIBL		HBL		Ratio of NIBL	Ratio of HBL
	Total investment	Total assets	Total investment	Total assets		
2001/02	1822	13565	9157	26751	13.43	34.23
2002/03	1705	15638	10175	28103	10.90	36.21
2003/04	3862	19007	9292	30065	20.32	30.91
2004/05	3934	22573	11692	31646	17.43	36.95
2005/06	5603	25206	10889	32527	22.23	33.48
2006/07	3256.4	27590.84	6079.37	33519.14	11.80	18.14
2007/08	3155	38873.3	7166.53	36175.53	8.12	19.81
2008/09	2531.3	53010.8	3907.34	39330.13	4.78	9.93
2009/10	3911.85	57305.41	3455.03	42717.12	6.83	8.09
2010/11	3564.6	58356.82	4725.58	46736.2	6.11	10.11

Sources: Annual Report of Sample Banks 2001/02 to 2010/11

### Appendix: 6

#### Computation of Investment on Government Securities to total Assets Ratio of EBL & NIBL

Year	EBL		NIBL		Ratio of EBL	Ratio of NIBL
	gov sec	tot asst	gov sec	tot asst		
2001/02	1636.63	9967	224	13565	16.42	1.65
2002/03	1608	11069	400	15638	14.53	2.56
2003/04	2501	14715	2001	19007	17.00	10.53
2004/05	1683	27335	2949	22573	6.16	13.06
2005/06	3047	20566	2522	25206	14.82	10.01
2006/07	3589.97	21432.57	1561.78	27590.84	16.75	5.66
2007/08	3207.54	27149.34	1508.41	38873.3	11.81	3.88
2008/09	2848.18	36916.84	1125.42	53010.8	7.72	2.12
2009/10	2591	41382.76	1953.98	57305.41	6.26	3.41
2010/11	4602.19	46236.21	1519.95	58356.82	9.95	2.60

### Appendix: 7

#### Computation of Investment on Government Securities to Total Assets Ratio of HBL & NSBI

Year	HBL		NSBI		Ratio of HBL	Ratio of NSBI
	gov sec	tot asst	gov sec	tot asst		
2001/02	2589	26751	507	7742	9.68	6.55
2002/03	3347	28103	1028.6	8943	11.91	11.50
2003/04	2782	30065	1897	10429	9.25	18.19
2004/05	4820	31646	2184.2	12359	15.23	17.67
2005/06	5144	32527	3230	13833	15.81	23.35
2006/07	5876.93	33519.14	2206.58	13901.2	17.53	15.87
2007/08	7114.22	36175.53	2741.55	17187.44	19.67	15.95
2008/09	1845.83	39330.13	2918	30166.43	4.69	9.67
2009/10	1886.45	42717.12	3670.37	38047.67	4.42	9.65
2010/11	2646.8	46736.2	4682.11	46088.23	5.66	10.16

Sources: Annual Report of Sample Banks 2001/02 to 2010/11

### Appendix - 8

#### Calculation for Mean value, Standard Deviation, CV, Correlation & t-test between Total deposit and Loan & Advance of EBL

Year	Total deposit (X <sub>1</sub> )	Loan & Advance (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2006/07	18186.25	13664.08	-12522.9	-9236.3	115665137	156822824	85309164
2007/08	23976.3	18339.08	-6732.84	-4561.3	30710485	45331161	20805421
2008/09	33322.95	23884.67	2613.808	984.294	2572755.5	6831992.3	968834.68
2009/10	36932.31	27556.36	6223.168	4655.984	28974971	38727820	21678187
2010/11	41127.9	31057.69	10418.76	8157.314	84989080	108550518	66541772
N <sub>1</sub> = 5 N <sub>2</sub> = 5	$\sum X_1$ =153545.7	$\sum X_2$ =114501.9			$\sum x_1 \cdot x_2 =$ 262912429	$\sum x_1^2 =$ 356264316	$\sum x_2^2 =$ 195303378



For Total Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{153545.7}{5} = 30709.14$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum (X_1 - \bar{x}_1)^2}{N_1}} = \sqrt{\frac{356264316}{5}} = 9437.48$$

For Loan & Advance,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{114501.9}{5} = 22900.38$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum (X_2 - \bar{x}_2)^2}{N_2}} = \sqrt{\frac{195303378}{5}} = 6987.54$$

Correlation between Total deposit and Loan & Advance of EBL,

$$\begin{aligned} (r_{12}) &= \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}} \\ &= \frac{262912429}{\sqrt{356264316 \times 114501.9}} = 0.997 \end{aligned}$$

For Hypothesis,

Test statistic under  $H_0$ ,

$$t = \frac{(\bar{X}_1 - \bar{X}_2)}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{(30709.14 - 22900.38)}{\sqrt{86182340.01 \left( \frac{1}{5} + \frac{1}{5} \right)}} = 0.0023$$

$$S^2 = \frac{n_1 s_1^2 + n_2 s_2^2}{n_1 + n_2 - 2} = \frac{5 \times 9437.48^2 + 5 \times 6987.54^2}{5 + 5 - 2} = 86182340.01$$

## Appendix - 9

### Calculation for Mean value, Standard Deviation & Correlation between Total deposit and Total Investment of EBL

Year	Total deposit (X <sub>1</sub> )	Total Investment (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
063/64	18186.25	3614.54	-12522.9	71.596	-896589	156822824	5125.987
064/65	23976.3	3237.98	-6732.84	-304.964	2053274	45331161	93003.04
065/66	33322.95	3371.42	2613.808	-171.524	-448331	6831992.3	29420.48
066/67	36932.31	2745.28	6223.168	-797.664	-4963997	38727820	636267.9
067/68	41127.9	4745.5	10418.76	1202.556	12529140	108550518	1446141
N <sub>1</sub> = 5 N <sub>2</sub> = 5	$\sum X_1$ =153545.7	$\sum X_2$ =17714.72			$\sum x_1 \cdot x_2$ = 8273498	$\sum x_1^2$ = 356264316	$\sum x_2^2$ = 2209958

For Total Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{153545.7}{5} = 30709.14$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum (X_1 - \bar{x}_1)^2}{N_1}} = \sqrt{\frac{356264316}{5}} = 8441.14$$

For Total Investment,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{17714.72}{5} = 3542.944$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum (X_2 - \bar{x}_2)^2}{N_2}} = \sqrt{\frac{2209958}{5}} = 664.82$$

Correlation between Total deposit and Total Investment of EBL,

$$\begin{aligned} (r_{12}) &= \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}} \\ &= \frac{8273498}{\sqrt{356264316 * 2209958}} = 0.2949 \end{aligned}$$

For Hypothesis,

Test statistic under  $H_0$ ,

$$t = \frac{(\bar{X}_1 - \bar{X}_2)}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{(30709.14 - 3542.944)}{\sqrt{25.72 \left( \frac{1}{5} + \frac{1}{5} \right)}} = 0.002$$

$$S^2 = \frac{n_1 s_1^2 + n_2 s_2^2}{n_1 + n_2 - 2} = \frac{5 \times 8441.14^2 + 5 \times 664.82^2}{5 + 5 - 2} = 25.72$$