CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Investment policy is the proper management of any fund or wealth to maximize value or to obtain the high or favorable returns with low risk considering the protection of the investment from the inflation and other possible harms. Investment policy is an important ingredient of overall national economic development because it ensures efficient also allocation of fund to achieve the materials and economic well being of the society as a whole. In general sense, investment means to payout money to get more. But in the broadest sense, investment means the sacrifice of current dollars for future dollars. The sacrifice takes place in the present and in certain. The reward comes later, if at all and magnitude is generally uncertain. Thus, Investment policies are the strategies, which find the answer of questions like who is going to invest? How much to invest? When to invest and why to invest? Investment promotes economic growth and contributes to nation's wealth."

In the study, the word investment conceptualized the investment of income, Savings or other collected fund. The term investment is only possible where there adequate savings. If all the incomes and savings are consumed to solve the problem of hand to mouth and to the other basic needs. Then there is no existence of investment. Therefore, both saving and investment are interrelated.

Commercial banks play an important part for economic development of a country as they provide capital for the development of industry, trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and their social life. They are the most important ingredients for integrated and speedy development of a country.

The primary objective of this commercial bank is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc.

Nowadays there is very much competition in banking market but less opportunity to make investment. In this situation joint venture banks can take initiation in search of new opportunities so that they can survive in the competitive market and earn profit. But Investment is a very risky job. For a purposeful, safe, profitable investment bank must Follow sound investment policy. The fundamental principles of investment must be followed thoroughly for profitable investment. Investment policy should ensure minimum risk and maximum profit. Good investment policy ensure maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market but there seems no profitable place to invest.

Flowing of money hundred times more than required when there were called by the banks and financial institution is the example of high liquidity in the money market. At the same time, the banks and financial institution are offering very low deposit interest rate. In the situation Nepalese joint venture banks are required to explore new opportunities to make investment if they want to survive in the competitive market.

The mobilization of domestic resources is one of the key factors in the economic development of a county. Commercial banks must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever it needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investments operation efficiently ensuring the maximum return with minimum exposures to risks, which ultimately leads the bank to the path of success.

1.1.1 Origin of Banking

The evolution of banking industry had started a long time back, during ancient times. There was reference to the activities of moneychangers in temple of Jerusalem in the New Testament. In ancient Greece, the famous temple of Delphi and Olympia served as the great depositories for people's surplus funds and these were the centre of money lending transactions. However as a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy. The Bank of Venice, founded in 1157 was supposed to be the most ancient bank. Following it were established the Bank of Barcelona and the bank of Geneva in 1401 and 1407 respectively. Subsequently Bank of Amsterdam set up in 1609, which was very popular activities in Northern Europe, there sprang up a number of private banking houses in Europe and slowly it spread throughout the world.

However, the development of banking in Nepal is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient time. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a Sundra merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. The establishment of “Tejarath Adda”during the year 1877A.D. was the first step in institutional development of banking sectors in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently, the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy .Reviewing this situation, the “Udyog Parishad” was constituted in 1936 A.D. One year after its formulation , it formulated the “company Act” and “Nepal Bank Act” in 1937 A.D. Nepal bank limited was established under Nepal Bank Act in 1937 A.D. as a first commercial bank of bank of Nepal with 10 million authorized capital.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However the stand of Nepal Bank Limited alone in total monetary and financial sector was sufficient and satisfactory. Thus Nepal Rastriya Bank was set up on 1956 A.D. (2013.01.14) as a central bank under Nepal Rastriya Bank Act 1956 A.D. (2012 B.S.) Similarly on 1966(2022.10.10) Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of Quality/competitive service because of excessive political and bureaucratic Interference. For industrial development, Industrial Development Centre was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal Industrial Development corporation (NIDC) in 1959 A.D. (2016 B.S.) Similarly Agricultural Development Bank (ADB) was established in 1976 A.D. (2024.10.07) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

In 1990 A.D. after the restoration of democracy in Nepal, the government took the liberal policy in banking sector. As an open policy of the HMG's to get permission to invest in banking sector from private and foreign investor under Commercial bank Act 1975 A.D. (2013 B.S.), different private banks are getting permission to establish with the joint venture of other countries. Nowadays, there are 32 commercial banks operating in Nepali financial Market

1.1.2 Commercial Bank

"Commercial bank deals with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets, which are not easily realizable. The depositors" confidence could be secured only if the bank is able to meet the demand for cash promptly and fully.

Commercial Bank Act 1975 A.D. (2031 B.S.) defined, “A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs. Commercial banking functions which are not a bank meant for co-operative, agriculture, industries or for such specific purpose.” (Commercial Bank Act 2013 B.S,)

The main function of commercial bank is the accumulation to the temporarily idle money of general public for trade and commerce. It’s main function are accepts deposits and grants loan, exchange, and purchase and discount bill for promissory Notes, exchange foreign currency, to provide loan, agency function, overseas trading services, information and other services. Commercial banks earn profit by proper mobilization of their resources .Many commercial banks have been established to provide a suitable service, according to their customers. The list of licensed commercial banks is as follows.

1.2 Focus of the Study

The main focus of the study is to highlight the financial analysis of commercial banks especially RBB and ADBL expecting that the study can be bridge the gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take corrective action. It's also helpful the investor as well as stakeholder.

1.3 Statement of Problem

The establishment of commercial banks enforcement of priority sector and productive sectors lending policies of NRB to financial institutions does not seem to have an appreciate impact. Nepal being listed among least developed countries, the commercial banks has played a catalytic role in the economic growth. Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They don’t have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way.

Thus, the present study will make a modest attempt to analyses financial position of Rastriya Banijya Bank and Agricultural Development Bank. The problem specially related to investment function of the joint venture banks and commercial banks of Nepal have been presented briefly as under.

1.4. Objectives of the Study

The basic objectives of the study are to examine and evaluate the financial analysis and strategies of RBB and ADBL of Nepal. The Specific objective of the study is as follows:

- To analyze liquidity, asset management and profitability ratio of RBB and ADBL. Also to evaluate various financial ratios.
- To find out the relationship between deposit and total investment, deposit and loans and advances and net profit.
- To analyze the trends of deposit utilization towards total investment and loan and advances and its projection for next five year.
- To offer suitable suggestions based on findings of this study of RBB and ADBL.

1.5. Significance of the Study

Nepal is a least developed country and rapid economic development is basic need of country. It is a poor country containing more than 82% of its population in the rural area 38% of its total population lies under the line of poverty. Poverty alleviation is major step to be taken to develop Nepalese overall economy. The basic foundation of development of Nepalese economy condition starts from such poorest sector.

The commercial bank is vital and powerful in situation serving as the back bone of the economy. It is very important to know how they are functioning in the development of trade, commerce, industry and poverty alleviation programs of the country. Especially this study is concern investment policy of such commercial bank. Thus, this study is owing a deep interest on the various aspect of the poverty focused investment policy programs to know how well the bank is utilizing its fund in the nation and their impact on Nepalese economy that will benefit the planners, policy makers, bankers, international donor agencies, economists who have been endeavoring day and night for the alleviation of poverty in Nepal Besides, this study can be important for the investors, customers (depositors, loan takers) and other public to know the performance of the bank as well as for the personal of the other bank to take various decisions regarding investment strategy. Due to all these, investment policy of RBB and ADBL limited can be considered to be much significant.

1.6. Limitations of the Study

This study is about the financial analysis of Rastriya Banijya Bank and Agricultural Development Bank Ltd. Every research has its own limitation, which are as follows:

- The study is mainly based on secondary data collected from the banks and some of the primary data.
- Research based on secondary data may be far from accuracy due to its inherent character.
- A whole study is based on the data of five years period i.e. from fiscal year 2006/07 to 2010/11 and hence the conclusion drawn confines only to the above period.
- Only two banks are taken for the study i.e. Rastriya Banijya Bank and Agricultural Development Bank Ltd.
- There are many factors that affect investment decision and valuation of the firm. However, this study concentrates on only those factors, which are Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Earning Price per Share related to investment.

1.7. Organization of the Study

This study is about the investment policy of Rastriya Banijya Bank and Agricultural Development Bank Ltd. This study has been divided into five chapters. They are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, focus of the study, problems of the study, objectives of the study and need or significance of the study and limitation of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter only gives presentation and analysis of various data's of ADBL and RBB.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement. Bibliography, appendix and other supporting documents have also been incorporated at the end of the study.

The list of bibliography and appendixes are given at the last for references.

CHAPTER - II
REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the financial analysis of commercial banks i.e. Agricultural Development Bank and Rastriya Banijya Bank. So, every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, magazines and concerned commercial banks. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk.

Reviewing and studying process has helped to take adequate feedback to broaden the information bases and inputs to this study. Here mainly two parts conceptual framework & review of related research work are included for the bases and to make the study more purposive.

- Conceptual Review
- Review of related studies

2.1 Conceptual Review

2.1.1 Concept of Banking

Bank plays a significant role in the development of country. It facilitates the growth of trade and industry of the national economy. However, bank is a resource for economic development, which maintains the self- confidence of various segments of society and extends credit to people.

According to Encyclopedia (1984), "A bank is a business organization that receives and holds deposits of funds from others makes loan or extends credits and transfers funds by written orders of depositors." The business of banking is one of collecting funds from the community and extending credit to people for useful purpose. Banks have played a vital role in moving money from lenders to borrowers.

In Nepalese context, there are four types of bank operated by performing their activities in different sectors, such as, Central Bank (Nepal Rastriya Bank), Commercial banks, Development banks and cooperatives.

A good investment policy can be effective on for the economy to attain the economic objective 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 deposit, loan and investment. The load provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society seen in this light, the study of investment policy of Agricultural Development Bank and Rastriya Banijya Bank. Assume special importance. In today's competitive market, it has become increasingly important for banks to know about investment policies to get success in competition.

2.1.2 Concept of Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of persons and institutions and giving loans against securities. They provide working capital needs of trade, industry even to agriculture sectors. Moreover, commercial banks also provide technical and administrative assistance to industries, trades and business enterprises.

The American Institute of banking has laid down the four major function of the commercial bank such as receiving and handing deposits, handling payments for its clients, making loans and investments and creating money by extension of credit. A commercial bank is one, which exchanges money deposit, accepts deposit, grants loan and performs commercial banking functions.

Under the Nepal Commercial Bank Act (2031 BS) that has been defined and emphasized about commercial banks they provide short term and long term loan whenever necessary for trade and commerce. They accept deposit from the public and provide loans in different forms. They purchase and discount the bills of exchange, promissory notes and exchange foreign currency.

American Institute of Banking (1972) states that "Commercial bank is a corporation, which accepts demand deposits subject to Cheques and makes short-term loans to business enterprises, regardless of the scope of its other services." A commercial banker is a dealer in money and substitute for money such as Cheques, bills of exchange. It also provides variety of financial services. Principally, commercial banks accept deposits and provide loans, primary to business firms. Commercial banks pool together the savings of the community under different account that seems they help in capital formation.

2.1.3 Concept of joint Venture Bank

A joint venture is an association of two or more people or parties undertaken to make the operation highly effective with their collective efforts. Joint venture bank plays an important role in the economic development of the country. Joint venture means the joining of forces between two or more enterprise for the purpose of carrying out a specific operation (Gupta, 1994).

In Nepal, the history of joint venture bank is not very old. About the history of foreign joint venture banks in Nepal, Nabil Bank Ltd. was established on July12, 1984 under a technical services agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank Ltd., Dubai. Joint venture banks are working under commercial Bank Act 2031B.S, which are backbones for the economic development of the country. Beside this, joint venture banks have been also creating completion for venture banks of Nepal are in a better position than local commercial banks in terms of profit making and services providing. Joint venture banks play vital roles in attracting foreign investment by familiarizing the foreign investors.

2.1.4 Concept of Investment

The banks are such types of institutions, which deal in money and substitute for money. They deal with deposit, credit and credit instrument. Good circulation of credit is very much important for financial institution and bank Unsteady and unevenly flow of credit harms the economy and profitability of commercial banks. Thus to collect fund and utilize it in good investment is the prime objective of commercial banks.

Investment is any vehicle into which funds can be place with the expectation that will preserve or increase in value and generate positive returns (Gitman and Joehank, 1999).

Investment is the employment of funds with the aim of achieving additional income for the growth in value (Singh, 1992). As per Dr. Singh, the investment is the key factor to achieve additional income for the growth of banks.

Investment, in its broadest sense, means the sacrifice of certain present value for (Possible uncertain) future value (Sharpe and Gordon, 1999). In the view of Sharpe and Garden the investment is the venture that the return is uncertain. So, they have presented their view in the books that bank should look for the safe and less risky investment.

An investment is the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time the funds are committed, for the expended rate of inflation and also for the uncertainty involved in the future flow of funds (Frank and Reilly, 1990)

From the above definitions, it is clean that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return or interest is expected because of uncertainty involved in expected future cash flow. The investment (credit or other investment) is the most important function of commercial banks. It is long-term commitment of bank in the uncertain and risky environment.

Investment is a very challenging task of commercial banks. So a bank has to be very careful while investing their funds in various sectors. The success of bank heavily depends upon the proper management of funds.

2.1.5 Meaning of Investment Policy

Investment management of a bank is guided by the investment policy adopted by the bank. Investment policies can be varied in bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk.

Investment policies of banks are conditioned, to great extent by the national policy framework; every banker has to apply his own judgment for arriving at credit decision, keeping of course, his banker's credit policy also in mind (Singh and Singh, 1983). According to the above definition, government and central bank have to make a sound policy about the investment of commercial banks. They further state, the field of investment is more challenging as is offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But his higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex.

Investment policy fixes responsibilities for the investment disposition of the bank's assets in terms of allocating funds for invest and loan, and establishing responsibility for day to day management of these assets (Baxley, 1987). It is assumed the management should be responsible for the investment decision of banks.

Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies are careful lending practice is essential in a bank to perform its credit creating function effectively and minimizing the risk inherent in any extension of credit (Crosse, 1963).

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a generous profit as well as it should be secured and can be converted in to cash whenever needed. Obviously, a firm that is being considered for commercial loan must be analyzed to find out why the firm need money, how much money the firm need and when and how it will be able to repay the loan. Project or business proposal must be carefully scrutinized. Investment policy provides several inputs to the bank through which they can handle their investment operation efficiently ensuring the maximum exposure to risk, which ultimately leads the bank to provide secured loans and investment.

2.1.6 Characteristics of Sound Investment Policy

Income and profit of the bank depends upon its lending procedure and investment of funds on different securities. The greater the credit by a bank, the greater will be profitability. A sound lending policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some main characteristics of sound lending and investment policies are given below.

a) Safety and Security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once or who may earn million in a minute also. The bank should accept that type of securities, which are commercial, durable, and marketable and have high marketable price.

b) Liquidity

People deposit money at bank in different account with confidence that the bank will repay their money when they are in need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities or at the same time of lending, So that it can meet current short-term obligation, when they become due for payment.

c) Profitability

Commercial banks can minimize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. The profit of commercial banks mainly depends on interest rate, volume of loan, its time period and nature of investment in different securities.

d) Purpose of Loan

The loan should be utilized in purposed plan. Everything related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will poses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

e) Tangibility

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

f) Legality

Every financial institution must follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of finance and other while issuing securities and mobilizing funds illegal securities will bring out many problems to the investors that may lose reputation and goodwill of the bank.

g) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and minimize profit, a bank must diversify its investment on different sectors or make portfolio investment. Diversification of loans helps to sustain loss as, if securities of some companies deprived then there may be appreciation in the securities of other companies.

2.2 Review of Related Studies

2.2.1 Review of Related Articles/ Journals

In this section, efforts have been made to examine and review of some related articles in different economics journals, World Bank discussion papers, magazines, newspapers and other related books.

Bajracharya B. (2047) in the article, "Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. Commercial Banks and financial intermediary for a accepting deposit of private sector and providing credit to the investor in different sectors of the economy. The writer added that the public deposit is the major resources of credit and investment of the commercial banks in Nepal.

Bista G.B. (2048), in the research paper, "Nepalma Adhunik Banking Byabastha" made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks in the field of commercial banks. At the end of the paper the researcher has concluded that the establishment of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation consortium investment in loan and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Shrestha S. (2055), in the article, “lending operation of commercial banks of Nepal and its impact on GDP" presented with the objectives to make an analysis of contribution of commercial bank’s lending to the gross domestic product (GDP) of Nepal. The researcher set hypothesis that there has been positive impact of lending of commercial banks to GDP. In research methodology, the researcher considered GDP as the dependent variable and various sectors of lending like agriculture, industrial, commercial, service and social sectors as independent variables. A multiple regression technique had been applied to analyze the contribution.

The multiple analyses had shown that all the variables except service sectors lending has positive impact on GDP. Thus, in conclusion the researcher accepted the hypothesis i.e. there had been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Shrestha R.L. (2055), has given a short glimpse on the “Portfolio Management in Commercial Bank, Theory and Practice,” The portfolio management becomes very important for both individual as well as institutional investors. Investors would like to select best mix of investment assets subject to following aspects.

1. Higher return which is comparable with alternative opportunities available according to the risk class of investors.
2. Good liquidity with adequate safety of investment.
3. Certain capital gains.
4. Maximum tax concession.
5. Flexible investment.
6. Economic, efficient and effective investment mix.

   In view of above aspects, following strategies should be adopted.

7. Do not hold any single security i.e. try to have a portfolio of different securities.
8. Do not pull all the eggs in the one basket i.e. to have a diversified investment.
9. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return but with added objective of wealth maximization.

The writer presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instrument. The writer suggested that banks having international network can also offer access to global financial markets. The writer pointed out the requirements of skilled Manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in any portfolio management and customer confidence. According to the writer, the portfolio management activities of Nepalese commercial banks at preset art in growing stage. However, on the other hand, most of banks are not doing such activities so far because of following reasons.

- Unawareness the clients about the service available.

- Hesitation of taking risk by the clients to use such fatalities.
- Lack of proper technique to run such activities in the best and successful manner.
- Less developed capital market and availability of few financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such service but because of above-mentioned problems, very limited opportunities are available to the banks for exercising the portfolio management. Mr. Shrestha has also explained and recommends the banks the following order to get success in portfolio management and customer's confidence.

- Should have skilled personnel.
- Should do strong and deep research and analysis.
- Should have proper management information system.
- Should make portfolio investment for their excess, funds or deposit collection or surplus money.

Pyakuryal B. (1987), in the article, "Workshop on Banking and National Development" writes "the present changing context of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits."

Thus is his paper, he has emphasize on proper utilization of mobilization resources and profitability increment. The researcher further indicates that under utilization of resources in an opportunity loss of the banks and commercial bank will not be motivated to collect public deposit.

Morris F. (1990), in the research paper on “Latin America’s banking system in the 1980’s” concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation (investment decision) and interest rates. While analyzing loan portfolio, quality, operating efficiency and soundness of banks investment management has largely been overlooked.

He further added that mismanagement in financial institutions has involved in adequate and overoptimistic loan appraisal, higher risk diversification of loan portfolio and investments, high- risk concentration, related parties lending, etc are major cause of the investment and loan that has gone bad.

Thapa G.B. (1994), views in research paper, “Financial system of Nepal” that the commercial banks including foreign joining venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds.

Out of all commercial banks (excluding two newly opened commercial banks), Nepal Bank limited and Rastriya Banijya Bank are operating with nominal profit or loss, the later turning towards negative from time to time.

Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operation, these banks have not able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overhead. Similarly, due to accumulated overdue and defaulting loans Profit positions of these banks have been seriously affected. On the other hand, the foreign venture banks have been functioning in all efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

At the end of his article, he concludes that by its very nature of public sector, the domestic banks couldn't compete with the private sector banks, as the government decided to hand over the ownership as well as the management of these banks to private sector.

Kishi D.L. (1996), in the article states," The changing face of the banking sector and the HMG/N recent budgetary policy" concludes that following an introduction of the reform in the banking sectors as an integrate parts of the liberal economic policy, more banks and finance companies have come up as a welcome measure competition.

However, because of poor investment polices and lack of internal control the two governments controlled banks. Nepal Bank limited and Rastriya Banijya Bank's non-performing assets have increased substantially. Now, Nepal Rastriya Bank has awarded the management contract to foreign companies to improve the conditions of non-performing assets. The policy of giving management to professional consultant is a part of the financial sector reform policy of NRB.

Sharma R.P. (2000) found same result that all the commercial bank are establishing and operating in urban areas. In this study, “Banking the future of competition”, the writer's achievements is:

1. Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Limited and Rastriya Banijya Bank Ltd. are running in these sectors.
2. Commercial banks are charging higher interest credit lending.
3. They have maximum tax concession.
4. They do not properly analyze the credit the credit system.

According to the writer, due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four or five years. He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

2.2.2 Review of Previous Thesis

Under the topic of Investment Policy, students have conducted several thesis works. Some of them, which are relevant for this thesis, are presented below.

Ojha K. (1997), has given conclusion in the thesis, “A study on priority sector investment of commercial banks (with reference to Rastriya Banijya Bank)” that bank was unable to meet the 12% of required lending in the priority sector as set under NRB directives. During the five years study period, the researcher further found that low interest rate in priority sector but increasing trend of overdue and miss-utilization. The researcher recommended in improving supervision and evaluation of borrowers paying capacity and reducing the overdue through integrated program of priority sector loan.

The researcher studied about investment on priority sector of RBB and showed that the bank is unable to invest as NRB directive percentage on priority sector. But is should be kept mind that commercial banks are profit oriented organization and they invest more on highly return sector to long life banking business and are responsible to develop economy. So they must invest on other sectors too.

Thapa S. (1999) has conducted a study entitled “A comparative study on investment policy of Nepal Bangladesh Bank Ltd. and other joint venture banks (Nepal Arab Bank Ltd. and Grindlays Bank Ltd.)”.The researcher’s main objective of study was to examine the fund mobilization and investment policy of NB Bank Ltd. through off balance sheet and on balance sheet activities in comparison to other two banks and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

Ms. Thapa has found that NBBL is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL and its does not seem to follow any definite policy regarding the management the management of its assets. The researcher has stated that

NBBL has maintained high growth rates on comparison to other banks though it is not successful to make enough investment and NBBL is success in increasing its sources of funds and its mobilization.

The researcher has concluded that the position of NBBL in regards to utilization of the funds to earn profits is not better in comparison to NABIL and NGBL, NBBL has collected funds in comparatively higher cost and playing 6% to 7.75% interest rate in various deposits. Further NBBL does not seem to have adequate recovery rate. The researcher has compared Nepal Bangladesh Bank Ltd. with other joint venture banks (NABIL & NGBL). Her study is based on five years period from 1994/95 to 1998/99. It would not be responsible to analyze investment policy of any bank as success or unsuccessful by study of only five years data.

Tuladhar U. (1999), has conducted a study entitled "A Study Investment Policy of Nepal Grindlays Bank Ltd. in comparison to other joint venture Banks (NABIL and HBL)." The researcher's main objectives of study was to evaluate liquidity, assets management, efficiency, profitability, and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL through off balance sheet and on balance sheet activities in comparison to the other two banks.

Through his research, Mr. Tuladhar found that NGBL had been successful to maintain in the best way both liquidity position and their consistency among three banks. NGBL had successful to maintain and manages assets towards different income generating activities. Income from loan and advance and total investment is the main income source of NGBL and it can affect the bank’s net profit. Profitability position of NGBL is better than NABIL and HBL.

The researcher concluded that joint venture banks of Nepal are not effectively informative to their clients. These banks have given first priority on education sectors while making investment. The poverty stricken and deprived sectors are given second priority. The study found that the reason behind not providing banking facilities to the rural areas is that these banks are profit oriented only.

He has performed a comparison on investment policy of NGBL with NABIL and HBL NABIL and HBL both are successfully operating from more than ten years. So it would not be reasonable to make decision about the condition of investment policy of NGBL only by comparing it with two successful banks.

Khadka A. (2000), conducted a study entitled” A study on Investment policy of NABIL in comparison to other joint venture banks of Nepal” The main objective of the study was to evaluate the liquidity, assets management, efficiency, profitability and risk position of NABIL in comparison to other JVBs and to study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on-balance sheet transaction.

The researcher found that liquidity position of NABIL is worse than that of Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd. NABIL have more portions of current assets as loan and advances but less portion as investment on government securities. NABIL is comparatively less successful in one balance sheet operation as well as off-balance sheet operation than that of other JVBs. NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL. The researcher has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. The researcher has strongly recommended NABIL to utilize its risky assets and shareholders fund to gain highest profit margin and reduce its expense and collect cheaper fund for more profitability. The researcher has recommended investing its funds in different sectors of investment and administering various deposit scheme, price bond scheme, gift cheque scheme, house building deposit scheme etc. The researcher has recommended following liberal lending policy and investment more percentage of total deposit as loan and advances.

This study is based on five years period 1992 to 1996. He has taken only two banks to compare the investment policy of NABIL with NGBL and NIBL among thirteen commercial banks of Nepal. It would not be to quote investment policy of NABIL as good or bad by only five years data.

Gautam S. (2001) conducted a study entitled “Investment analysis of the finance companies in context of Nepal.” The researcher has found the investment in government securities of finance companies is decreasing Major source of finance company is utilized as loan and advances. Use of fund towards the hire purchase loan is decreasing in finance companies and investment on housing loan is more.

The researcher has recommended that the overall investment policy of the finance companies should be concentrated on productive sector such as business and industry loan rather than consumer goods such as hire purchase and housing plan. This would contribute on the capital formulation for overall national development. Further, she said that the credit monitoring wind should be strong enough to ensure timely cash inflow from credit generated.

The researcher has tried to analyze the investment policy of finance companies. He study does not cover the investment analysis of commercial bank and other institution. Her study also analyzes the comparative study of the commercial banks and finance companies.

Parajuli S. (2003), in his dissertation "Credit management of joint venture banks" states that concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector.

Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which its on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit. The main objectives of his research are: procedures of granting loans, examine the level of nonperforming loan, relevancy of the financial sectors reform program, measure the comparative output of credit management in joint venture bank and government.

Regmi P. (2004), Entitled Thesis “Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu” states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3millions (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

The main statement of the problem of his research is the Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector. Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRB's, regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence, the principle "do not put all the eggs in basket" really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction.

The objectives of this research are to analyze the functions, objectives, activities, credits and advances procedure and recovery status of the NB bank and BOK.

Ghimire S. (2005), explored in his research "Non-performing Assets of Commercial Banks: Cause and Effect" and found that Nepalese banking sectors in recent days are facing several problems with increasing number of problems. With the level of increasing NPA profitability performances of the bank has been badly affected. To find out the causes of nonperforming assets increment with commercial banks basis of loan floating procedure follow up practice carried out by the bank for the recovery of overdue loan outstanding, internal responsible factor causing NPA growth have been tried to sort out.

Analysis shows that relationships of borrowers with top management as the most adopted basis for floating loan in Nepalese commercial banks. Similarly respondent identified portfolio management consideration the second basis for floating loan in the certain sectors. Monitoring and control, security offered and financial strength were given average emphasis. It was found that commercial banks are giving least weight on personal integrity of the borrower while giving loan.

In regarding to the internal responsible factor that contributes turning good loan into bad loan. It was found that bad intension, week monitoring and miss management are the most responsible factor for non performing assets. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan into bad. Some factors such as lack of portfolio analysis not having effective credit policy and shortfall on security were identified as having average effect on non performing assets growth. In connection to the external factors, it has been found that recession political and legal issues more relevant factors in turning good loan into bad, likewise, legal provision for recovery as a reason for increment in nonperforming loan in Nepalese banks was found the factor having least impact. Supervision and monitoring system have been identified as average factor. It is therefore can be generalized that economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major contribution for the increasing level of NPA.

Gurung A. K. (2006), explored in his research “lending policy and recovery management of Standard Chartered Bank Nepal ltd and Nabil bank ltd” has found out the following result.

The deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. This ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at the future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Gupta G.D. (2007) conducted a research study entitled 'Comparative Analysis of Financial Performance of Commercial Banks in Nepal'. The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal Standard Chartered Bank Limited as sample. The major objective of the study was to evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks. The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-Test in testing the hypothesis.

The researcher study concluded that among three samples bank BOK maintained the highest liquidity position during the research period in comparisons to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders.

The study further stated that there is no significance difference among the commercial banks in terms of net profit of total assets ratio, and dividend payout ratio. The review of above relevant thesis has no doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

Pyakuryal (2008) stated that that the central bank rocked the commercial banks with seven directives issued in two installments asking banks to start complying with the new strictures by mid-July 2007 or face grave consequences. NRB claims that these are based on the internationally accepted banking norms of Basel committee. Pyakuryal has opined that banks are expected to be disparate to meet the targets of capital adequacy norms since the consequences the banks have to face in case of noncompliance are very strict. And for this purpose they will have to issue additional shares, which is not possible for them in the short-run. Or they do not prefer to go for additional share issue simply because they will also have to pay the same dividend as the past to the holders of shares so issued. This becomes the more difficult as the business is not going to expand commensurately. The difficulty is understandable now when every banker is complaining of the lack of new investment projects.

Unstated problem: Here Pyakuryal has not talked about what it will be if the BASEL standard became weak to impose here in Nepalese economic context? Are we ready to face the new generic version of BASEL in future?

Rokka (2008) concluded that being the central bank of the nation, Nepal Rastra Bank has to be active by playing important role for monetary and financial stability. Central bank should always be eager to achieve the public faith towards bank and financial institutions enabling them being disciplined, well-organized, healthy and competent by providing effective regulation and supervision to appropriate utilization and mobilization of financial resources by increasing financial saving rate by raising financial stability. Also, central bank should always be willing to safeguard the interest of depositors and investors to accomplish the financial stability. Constant financial stability leads to the accomplishment of monetary stability. As the tools for monetary policy are applied through financial sector, the efficiency of monetary policy depends on effectiveness of financial sector. Balanced growth of financial sector helps monetizing of economy. Various drawbacks; like, managerial ineffectiveness, organizational difficulty, contrary financial situation; make the long-term stability of financial sector suspicious. Failure of any one financial institution leads the destructive impact to whole financial sector and such impact will be spread to other countries from the countries where capital accounts are fully convertible. So, the concept of financial system of the country should be boosting and healthy for achieving higher economic growth rate by steadying macroeconomic stability has been globally supported. The financial sector reform program in Nepal can also be taken in the same background. Since, it is not possible to achieve financial stability without the commanding role of regulation and supervision, new program of financial sector reform program should play role regarding structural Reformation/transformation and organizational structure in existing banks and financial institutions by clarifying the role of government and central bank.

Unstated problem: What will be the situation if there will be the chance to manipulate the capital account if it is convertible? The financial sectors are those area which need the macroeconomic support from the side of government. What is the next issue to rise in upcoming budgets?

Bhattrai (2009) enlightened that recent financial crisis have revealed a number of data deficiencies, notably in pledged assets, deposits held in financially weak domestic banks and their foreign affiliates, valuation practices leading to bank valuation of assets being significantly different from market values and complicating assessments of the realizable value of reserve assets. Similarly, public information is lacking in many countries on the off-balance-sheet activities of the authorities that can affect foreign currency resources. There was a lack of information on the authorities' financial derivatives activities. Also observed was the inadequate information of actual and potential foreign liabilities of the monetary authorities and central government. Financial sector reform envisages for measures for mitigating this information and data gap problem as well.

Bhattrai has further written that Nepal initiated financial sector reform back in 1980s with donor initiative and assistance. In this process, some progress was made in terms of re-capitalization of the government banks, divestment, branch consolidation, introduction of new regulatory and prudential norms and cleaning up the balance sheets of bad loan loaded banks. But the reform process was stalled in the later 1990s due to political instability and the government's priority in areas other than the financial system. In between, the country observed, from very close by, the financial crisis in the neighboring region. Keeping in mind the financial crisis and its effect in the Asian region, the Nepal Rastra Bank is now focusing its attention on the reform measures in the financial sector as a drive towards new financial architecture.

Bhattrai emphasized various reform majors. One of the measures was increasing capital base and revising capital adequacy. **Bhattrai** stressed that experience has shown that undercapitalized financial institutions are the ones that are first attacked by the speculators and hedgers at the time of crisis and create contagious effect on the other institutions as well. Besides, undercapitalized financial institutions cannot gain credibility and corporate growth even in normal times. This requires that financial institutions are adequately capitalized and possess resilience against attacks by dealers and customers. In this context, the capital adequacy norms are being revised upward as per the Basel Capital Accord. But increasing the capital base for loss making government owned financial institutions is not easy without involving private sector in the equity capital.

Unstated problem: The practice of off balance sheet item will lead the further manipulation in the banking industries indicator. What is the actual responsibility of monitory policy maker who has their own business house and make favorable bill for their own need.

Mahat (2009) stressed that one of the main objectives of a commercial bank is to safeguard the money of depositors. With the low capital adequacy rate, the banks were previously lending from the money of the depositors because the capital comprised a very small portion of the total risk-weighted assets. However, the returns the shareholders or promoters were reaping were quite high. The risk of the depositors was too high. **Mahat** further put forward that a good banking system is, therefore, a sine qua non for maintaining financial equilibrium in the country. And, NRB’s efforts in this direction are really praiseworthy.

Unstated problem: Why the governing authorities are not giving the preference to save the interest of normal depositor who has very low participation in balance sheet item? Who is liable if any bank go through the some difficulties like Gorkha Development Bank, Nepal Share Markets Pvt. Ltd .and Peoples Finance Limited faced last time?

Nohria (HBR, 2009) has mentioned that banks hold capital in excess of reserve requirements to provide a buffer against future, unexpected losses. Such losses are brought about by the credit, market, and operational risks inherent in the business of lending money.

Problems created by an insolvent bank are important enough that bank regulators enforce minimum capital standards on banks in an effort to safeguard depositors and ensure the ongoing viability of the financial system. However, from a bank's perspective holding idle capital is an expensive safeguard against risk because the bank's shareholders demand a return on their investment and idle capital provides no such return. For this reason bankers and regulators can have divergent opinions about the amount of capital a banks should hold making the problem of determining a bank's risk-based capital a complex and important question.

Unstated problem: No risk based capital planning is in practice here in Nepal where our capital market is very small and highly fluctuating with the singular business tycoon's decision.

Wadwa (2010) has written that the central bank has been described as "the lender of the last resort," which means that the central bank is responsible for providing its economy with funds when commercial banks cannot cover a supply shortage. In other words, the central bank prevents the country's banking system from failing.

However, the primary goal of central banks is to provide their countries' currencies with price stability by controlling inflation. A central bank also acts as the regulatory authority of a country's monetary policy and is the sole provide and printer of notes and coins in circulation. Time has proven that the central bank ca best function in these capacities by remaining independent from government fiscal policy and therefore uninfluenced by political concerns of any regime. The central bank should also be completely divested of any commercial banking interests.

Unstated problem: Increasing impacts of political party may be the positive jack for the boost of this industry. Why our central bank doesn't think about to diversify its supplementary work to the other autonomous institutions?

2.3 Research Gap

The review of above relevant literature has explored the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance, credit management and liquidity mobilization and investment practice of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. In the past research topic on financial analysis, the researcher has focused on the limit ratios which are incapable of solving the problems. Actually investment is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about investment aspect of and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study of Comparative Study on Financial Analysis of Commercial Bank Special Reference to ADBL & RBB is measuring by using various tools. Financial tools as well as statistical tool are used in this research. Financial tools like various liquidity ratio, activity ratio, profitability ratio, risk ratio and other ratio etc and in statistical tools, mean, standard deviation and correlation coefficient are analyzed. Here also done trend analysis of total deposit, investment, loan and advances and profit which are not found in some of previous thesis. Probably this will be the appropriate research in the area of liquidity mobilization of Bank and financial institutions.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Methodology

The topic of the study has been selected as the financial analysis of Rastriya Banijya Bank and Agricultural Development Bank Limited In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter, which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying.

A research design is a plan for the collection and analysis of data. If presents a series of guide posts of enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (I) selection of problem (II) methodology (III) data gathering (IV) data analysis and (V) report writing. Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The crux of the research is to analyze RBB and ADBL in relation to credit disbursement and recovery as well overall management.

3.3 Sources of Data

There are two sources of data collection. The research is based on secondary source of data. All the adequate data are collected from secondary sources. This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- Annual report of concern bank.
- Internet and E-mails.
- NRB directives.
- Economy survey of Government of Nepal and Ministry of finance Newspaper, journals, articles and various magazines.
- Dissertation of Central Library of T. U. and Library of Shanker Dev Campus.

3.4 Population and Sample

The objective of the research is to explore and describe the portfolio management in Nepal from the investor's point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector.

Here, the total 32 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, here Rastriya Banijya Bank and Agricultural Development Bank Ltd have been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

Sample Bank’s are

a. Rastriya Banijya Bank
b. Agricultural Development Bank Ltd

3.5 Data Collection Procedure

Different tools and techniques were adopted while collecting the data for this study. Collected secondary information was analyzed during the course of the deskwork. However, during the desk study, an information gap was found. This gap was fulfilled by the discussion with the thesis advisor and finance experts of the security board and the NEPSE.

3.6 Data Analysis Tools

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are-

1. Financial method.
2. Statistical method

3.7 Financial Tools

i) Liquidity Ratios:

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations. As a Financial Analytical tools, following liquidity ratios will be used.

a.) Current Ratio:

This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities which can be presented as:

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

Higher ratio indicates the strong short-term solvency position and vice versa.

b.) Cash and Bank Balance to Total Deposit Ratio:

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

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}}$$

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

c.) Cash and Bank Balance to Current Assets Ratio:

This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under;

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

d.) Investment on Government Securities to Total Current Assets Ratio:

This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. The ratio is stated as under;

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

ii) Assets Management Ratios:

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

a.) Loan and Advances to Total Deposit Ratio:

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

$$\text{Loan \& Advances to total deposit ratio} = \frac{\text{Loan \&advances}}{\text{Total Deposits}}$$

b.) Total Investment to Total Deposit Ratio:

Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares &debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

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

c.) Loan and Advances to Working Fund Ratio:

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

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

d.) Investment on Government Securities to Total Asset Ratio: This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

$$\text{Investment on Govt. Securities to total working fund} = \frac{\text{Investment to Govt. Securities}}{\text{Total Working Fund}}$$

e.) Total outside Assets to Total Deposits Ratio: Loans and advances and investment comprise the total outside assets of a bank. This ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits, which can be stated as under;

$$\text{Total outside assets to total deposits ratio} = \frac{\text{Total outside Assets}}{\text{Total Deposits}}$$

f.) Loan and Advances to Total outside Assets Ratio: This ratio measures the proportion of loans and advances of total outside assets. The proportion between investment and loans and advances measures the management attitude towards more risky assets and lower risky assets. This ratio is computed by dividing loan and advances by total outside assets as under:

$$\text{Loan and advances to total outside assets ratio} = \frac{\text{Loans \& advances}}{\text{Total Outside assets}}$$

g.) Investment on Government Securities to Total outside Assets Ratio:

This ratio measures the proportion of the bank's investment in risky and risk free areas. This ratio is computed by dividing investment on government securities by total outside assets as under;

$$\text{Investment on Govt. Securities to total outside assets ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Total outside assets}}$$

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h.) Total outside Assets to Total Assets Ratio:

Loans & advances and investment are total outside assets of commercial banks. This ratio is calculated by dividing total outside assets, which can be presented as under;

$$\text{Total outside assets to total assets ratio} = \frac{\text{Total outside assets}}{\text{Total assets}}$$

This is the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize the funds into income generating assets.

iii) Profitability Ratios:

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

a.) Interest Income to Total Income Ratio:

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

$$\text{Interest income to total income ratio} = \frac{\text{Interest Income}}{\text{Total Income}}$$

b.) Total Interest Earned to Total outside Assets Ratio:

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

$$\text{Total Interest Earned to Total outside Assets Ratio} = \frac{\text{Total interest earned}}{\text{Total outside assets}}$$

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

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

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

c.) Total Interest Paid to Total Working Fund Ratio:

This ratio depicts the percentage of interest paid on liabilities with respect to total working fund which can be presented as;

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{Total interest paid}}{\text{Total working fund}}$$

e.) Total Income to Total Expenses Ratio: The comparison between total income and expenses measures the productivity of expenses in generating income .The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indication of higher productivity of expenses and vice versa.

This ratio is computed by dividing total income by total expenses presented as;

$$\text{Total income to total expenses ratio} = \frac{\text{Total income}}{\text{Total expenses}}$$

f.) Total Income to Total Working Fund Ratio: This ratio measures how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets as stated here under;

$$\text{Total income to total working fund ratio} = \frac{\text{Total income}}{\text{Total working fund}}$$

g.) Return on Loan and Advances Ratio: This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

$$\text{Return on loan and advances ratio} = \frac{\text{Net profit or (loss)}}{\text{Total loans and advances}}$$

h.) Return on Total Working Fund Ratio (ROA): This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

$$\text{Return on total working fund ratio (ROA)} = \frac{\text{Net profit (Loss)}}{\text{Total working fund}}$$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

i.) Return on Equity (ROE): Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on Equity (ROE)} = \frac{\text{Net profit (loss)}}{\text{Total equity capital}}$$

Here, total equity capital includes shareholders" reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

j.) Loan Loss Provision to Total Loans and Advances Ratio:

This ratio describes the quality of assets that a bank is holding. Nepal Rastriya Bank has directed the commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful and loss on the basis of the maturity of principal to make the provision of 1, 25, 50, and 100 percentages respectively. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. This ratio is calculated by dividing the loan loss provision by total loans and advances as presented here under;

$$\text{Loan loss provision to total loans and advances ratio} = \frac{\text{Total loan loss provision}}{\text{Total loans loan loss \& advances}}$$

k.) Non-Performing Loans to Total Loans and Advances Ratio:

This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the non-performing loans by total loans and advances as under;

$$\text{Non-Performing Loans to Total Loans and Advances Ratio} = \frac{\text{Total Non-Performing Loans}}{\text{Total Loans and Advances}}$$

iv. Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the ADBL & RBB

a) Credit Risk Ratio/Non-Performing Loan to Total Loan Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan & Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan & Advances. Higher ratio indicates more risky assets in the volume of Loan & Advances of the bank and vice-versa.

b) Liquidity Risk Ratio: -

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

c) Asset Risk Ratio: -

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally Asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

$$\textit{Credit Risk Ratio} = \frac{\textit{Total investment} + \textit{Loans \& Advances}}{\textit{Total Assets}}$$

v. Other Ratios

a) Earning per Share (EPS):

EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total Number of Shares Outstanding}}$$

b) Dividend per Share:

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, and dividend so; each firm must announce the total dividend and dividend per Share which shows the position of the firm.

A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm’s activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm.

c) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

d) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Here, total equity capital includes shareholders‟ reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

3.8. Statistical Tools

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation and diagrammatic cum pictorial tools have been used under it.

I. Arithmetic Means (average):

Arithmetic mean is also called "the mean" or "average" as most popular and widely used measure of central tendency. Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole.

Arithmetic mean represents the entire data by a single value. It provides the gist and gives the birds "eye view of the huge mass of a widely numerical data. It is calculated as:

$$\bar{x} = \frac{1}{N}\sum_{i=1}^{n} Xi$$

Where

$\bar{X}$ = Mean value of arithmetic mean

$\sum_{i=1}^{n} Xi$ = Sum of the observation

N = No. of observation

II. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation, the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

$$\mathbf{rx1x2} = \frac{N\sum x1x2 - (\sum x1)(\sum x2)}{\sqrt{[N\sum x1^2 - (\sum x1)^2]}\ \sqrt{[N\sum x2^2 - (\sum x2)^2]}}$$

III. Coefficient of variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion, hence capable to compare two variables independently in term of variability**.**

$$\mathbf{C.V.} = \frac{\text{Ó}}{\bar{x}} * 100$$

Ó= Standard deviation
$\bar{X}$ = sum of the observation

IV. Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$\mathbf{P.E.\ r} = 0.6745 * 1 \quad r^2 / \sqrt{n}$$

Here, r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of ‘r’ is significant.

V. Trend Analysis

Time series is used to measure the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight-line trend of a series of data is represented by the following formula.

Y= a + bx

Where,

$a=\frac{\sum y}{N}$

$b=\frac{\sum xy}{\sum x^2}$

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV
PRESENTATION AND ANALYSIS OF DATA

Introduction review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed financial analysis of Agricultural Development Bank Ltd and Rastriya Banijya Bank Ltd Different tables and diagrams are shown to make the analysis simple and understandable.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed. Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks ADBL & RBBL. Some important financial ratios are only calculated in the point of view of fund mobilization and investment patterns. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to investment policy of banks.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

a. Current Ratio

Current ratio indicates the ability of the banks to meet its current obligation. This ratio measures the liquidity position of the financial institutions. It is calculated by dividing current assets with current liabilities. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case to banking and finance it is not applicable.

Table No. 4.1
Current Ratios

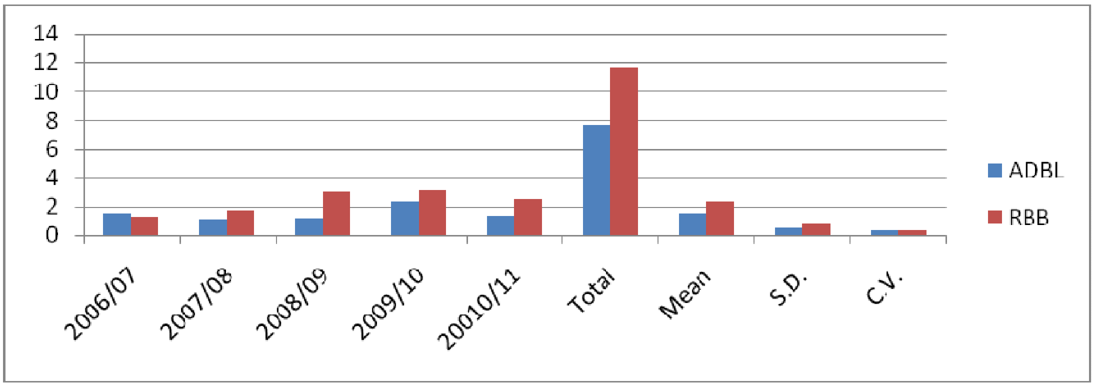
Fiscal year	ADBL	RBB
2006/07	1.57	1.28
2007/08	1.15	1.76
2008/09	1.22	3.02
2009/10	2.36	3.14
20010/11	1.35	2.47
Total	7.65	11.67
Mean	1.53	2.334
S.D.	0.4907	0.8029
C.V.	32.07%	34.40%

(Source: Banking and financial statistics Mid January 2011.)

From the above table the data of RBB is in increasing trend but last it is decreased because of the political and economical circumstances of the country, where as ADBL is in fluctuating trend. Mean of the RBB is greater than ADBL i.e. 2.334>1.53. It shows that RBB is sound in meeting short term obligation. Likewise the S.D. and C.V. of ADBL is less so that it is more consistent than RBB. It is presented by the graph below.

Figure No. 4.1

Current ratio



b. Cash and Bank Balance to Total Deposit Ratio

This ratio measures the availability of banks highly liquid or immediate funds to meet its unanticipated calls on all types of deposits, money at calls and short term notice and other deposits. It can be calculated by dividing the amount of cash and balance by the total deposits. Higher ratio indicates the greater ability to meet their deposits and vice-versa. Following table shows the cash and banks balance to total deposit ratios of ADBL & RBB.

Table No. 4.2

Cash and Bank Balance to Total Deposit Ratios

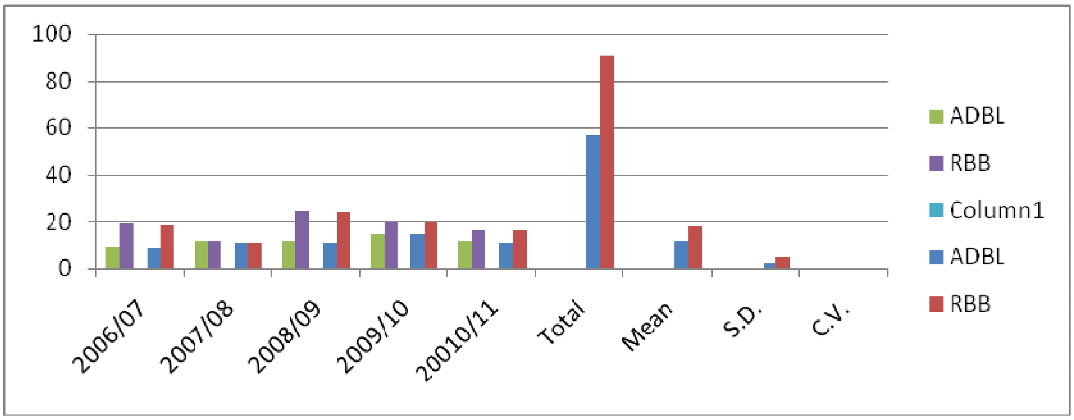
Fiscal year	ADBL	RBB
2006/07	8.94	19
2007/08	11	11
2008/09	11	24.31
2009/10	15	19.83
20010/11	11	16.47
Total	56.94	90.61
Mean	11.388	18.122
S.D.	2.2074	4.8845
C.V.	19.38%	26.95%

(Source: Banking and financial statistics Mid January 2011.)

From the above table the data of both of the bank are in fluctuating trend. Mean of the RBB is greater than ADBL i.e. 18.122>11.388 which shows that RBB has greater ability to pay depositors money as they want. Likewise the S.D. and C.V. of ADBL is less so that it is more consistent than RBB. It is presented by the graph below.

Figure No. 4.2

Cash and Bank Balance to Total Deposit Ratios



c. Cash and Bank Balance to Current Assets Ratio.

This ratio reflects the portion of cash and bank balance in total current assets. Cash and bank balance are highly liquid assets than other in current assets portion. So this ratio visualizes higher liquidity position than current ratio. It is computed by dividing cash and bank balance by current assets. Higher ratio shows the bank's ability to meet its demand for cash.

Table No. 4.3

Cash and Bank Balance to Current Assets Ratios

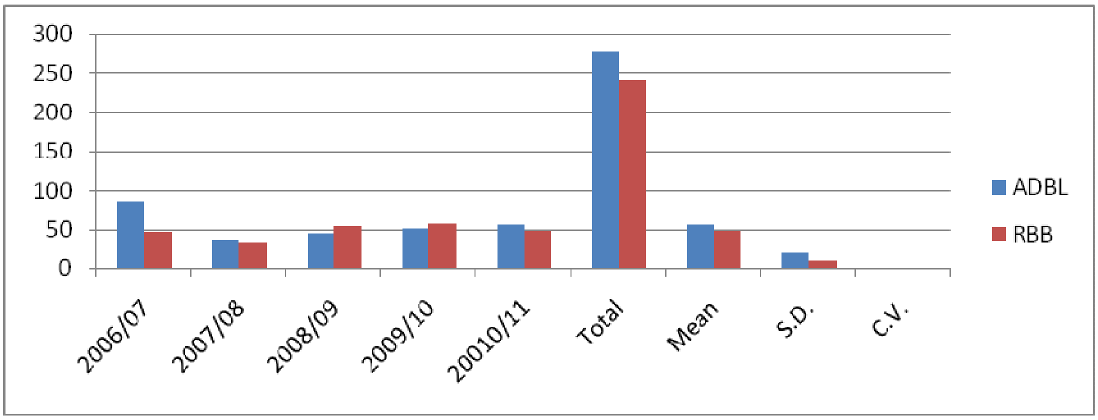
Fiscal year	ADBL	RBB
2006/07	87	45.98
2007/08	37	33
2008/09	45	55
2009/10	52	58.01
20010/11	56	48.74
Total	277	240.73
Mean	55.4	48.146
S.D.	19.0866	9.7304
C.V.	34.45%	20.21%

(Source: Banking and financial statistics Mid January 2011.)

The above table reveals that cash and bank balance to current assets ratio of both banks is in fluctuating trend. The mean ratio of ADBL is higher than RBB i.e. 55.4>48.146. The higher mean ratio shows that ADBL's liquidity position is better than RBB. Whereas S.D. and C.V of RBB is less than ADBL so it seems to be more consistent. It is also described by the following figure…

Figure No. 4.3

Cash and Bank Balance to Current Assets Ratios



d. Investment on Government Securities to Current Assets Ratio

This ratio examines that the position of commercial banks current assets, which is invested on different government securities, treasury bills and development bonds. This ratio can be calculated by dividing investment on government securities by current assets.

Table No. 4.4

Investment on Government Securities to Current Assets Ratio

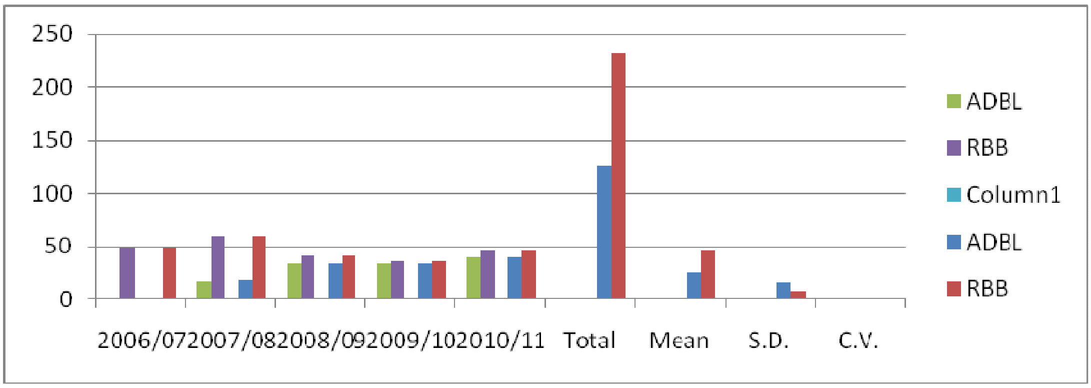
Fiscal year	ADBL	RBB
2006/07	0	49
2007/08	18	59.45
2008/09	33.83	41
2009/10	34	36
2010/11	40	47
Total	125.83	232.45
Mean	25.166	46.49
S.D.	16.2622	8.8699
C.V.	64.62%	19.08%

(Source: Banking and financial statistics Mid January 2011.)

In the above table the Data of ADBL is in increasing trend where as the data of RBB is in fluctuating trend. The mean ratio of RBB is higher than ADBL i.e. 46.49>25.61. This indicates that RBB has invested more money in risk free assets when compared to ADBL. In other words ADBL has emphasizes loan and advances and short term assets than investment in government securities. Similarly the S.D. and C.V of RBB is less than ADBL which means RBB is more consistent than ADBL.

Figure No. 4.4

Investment on Government Securities to Current Assets Ratio



4.1.1.2 Assets Management Ratios

Assets management or activity ratios are employed to evaluate the efficiently with the firms' managers and utilize its assets. These ratios generally indicate the speed with which assets are bank concerted or turnover. That is why these ratios are used to measure or indicate the bank's ability to utilize their available limited resources. The following ratios are used under the assets management ratios:

a. Loan and Advances to Total Deposit Ratio

This ratio used to find out, how successfully the banks are utilizing their total deposit on loan and advances for profit generation purpose. The higher ratio indicates the better utilization of loan and advances out of total deposit. It can be computed by dividing loan and advances by total deposits.

Table No: 4. 5

Loan and Advances to Total Deposit Ratio

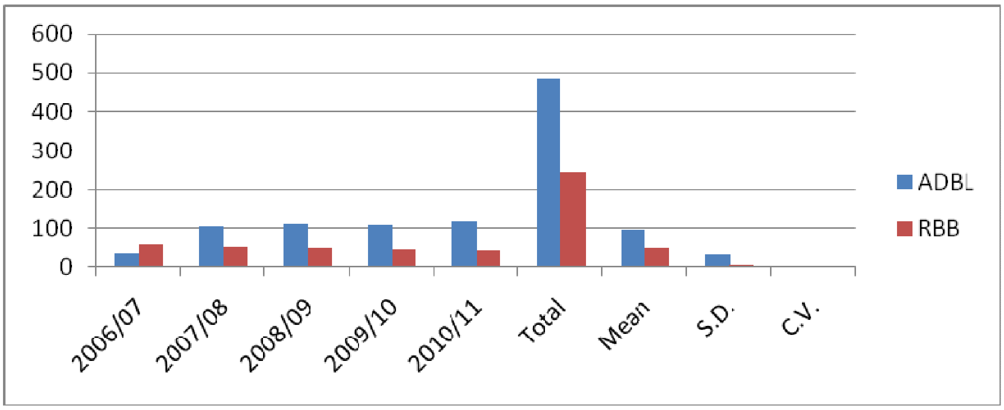
Fiscal year	ADBL	RBB
2006/07	37	59
2007/08	106	50
2008/09	112	47
2009/10	109	46
2010/11	120	41
Total	484	243
Mean	96.8	48.6
S.D.	33.8334	6.6558
C.V.	34.95%	13.70%

(Source: Banking and financial statistics Mid January 2011.)

In the above table loans and advance to total deposit ratio of ADBL is in fluctuating trend where as the data of RBB is in decreasing trend. The mean ratio of ADBL is more than RBB i.e. 96.8>48.6. Which indicates that better mobilization of deposit by ADBL, and also it reveals that the deposit of ADBL is quickly converted in to loan and advance to earn income. The S.D and C.V of RBB is less than ADBL so RBB is more consistent than ADBL.

Figure No. 4.5

Loan and Advances to Total Deposit Ratio



b. Total Investment to Total Deposit Ratio

This ratio shows how properly firms deposit has been invested on government securities and shares and debentures of other companies and banks. Generally, it reflects which the banks are successful in mobilizing the total deposit on investment. The higher ratio indicates the higher success to mobilize the banking funds as investment and vice-versa. This ratio can be computed by dividing total investment by total deposit.

Table No. 4.6

Total Investment to Total Deposit Ratios

Fiscal year	ADBL	RBB
2006/07	0	20
2007/08	5	20
2008/09	8	18
2009/10	10	12
2010/11	8	16
Total	31	86
Mean	6.2	17.2
S.D.	3.8987	3.3466
C.V.	62.88%	19.46%

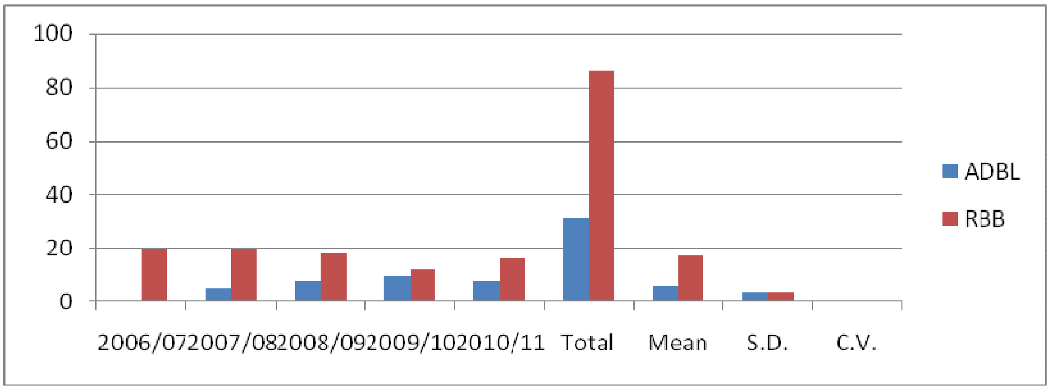
(Source: Banking and financial statistics Mid January 2011.)

From the above table the data of ADBL is in fluctuating trend where as the data of RBB is in decreasing trend. Mean of the RBB is greater than ADBL i.e. 17.2>6.2 which shows that RBB has successfully allocated its deposit in investment portfolio to get higher investment return. Likewise the S.D. and

C.V. of RBB is less so that it is more consistent than ADBL. It is presented by the graph below.

Figure No. 4.6

Total Investment to Total Deposit Ratios



C) Loa n & Advances to Total Assets Ratio

A commercial bank s working fund plays very active role in profit generation thro ugh fund mobilization. This ratio reflects t he extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose o f income generation. A high ratio indicates better mobilization o f funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of RBB and ADBL as follows.

Table No. 4.7

Loan & Advances to Total Assets Ratio

Fiscal year	ADBL	RBB
2006/07	33	33
2007/08	63.9	35
2008/09	117	32
2009/10	63	32
2010/11	67	33
Total	343.9	165
Mean	68.78	33
S.D.	30.2728	1.2247
C.V.	44.01%	03.71%

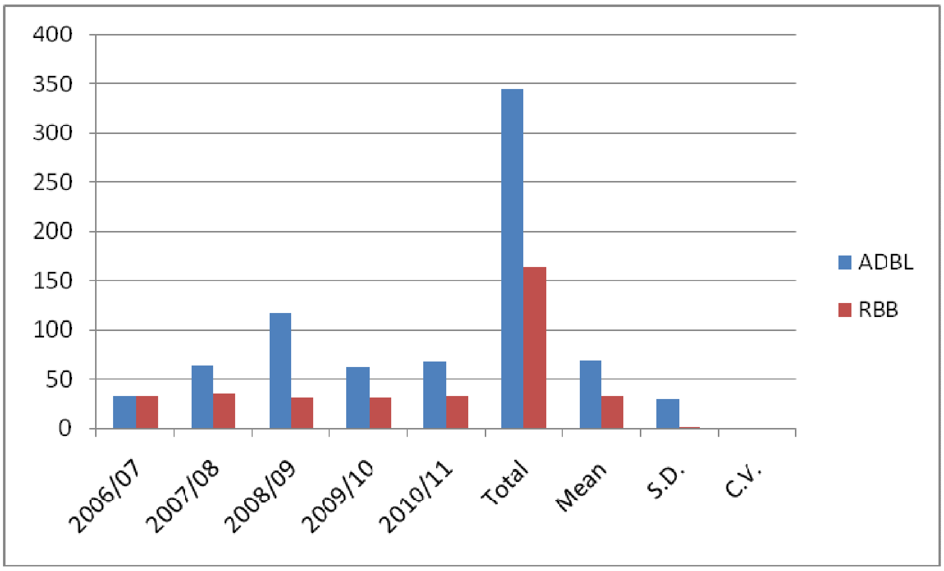
(Source: Banking and financial statistics Mid January 2011.)

From the above table the data of ADBL is in fluctuating trend where as the data of RBB is in normal trend. While observing their ratios ADBL is better utilizing their fund as loans and advances and it seems quite successful in generating higher ratio in each year in comparison of RBB.

Mean of the ADBL is greater than RBB i.e. 68.78>33 which shows that in total assets ADBL has higher proportion in loans and advance, or ADBL has utilized its total assets more efficiently in the form of loans and advance. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL. It is presented by the graph below.

Figure No. 4.7

Loan & Advances to Total Assets Ratio



D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have app lied their total assets on various forms of government securities in profit maximization and risk minimization point o f view. The higher ratio represents the better position of fund mobilization into investment o n government securities and vice-versa.

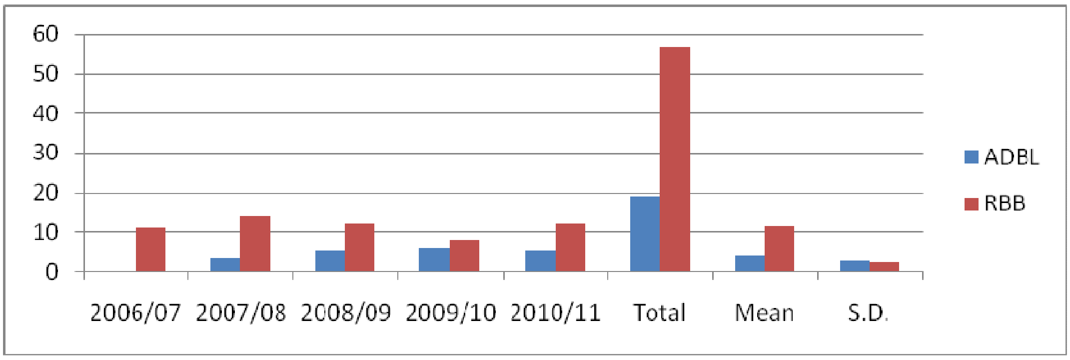
Table No. 4.8
Investment on Government Securities to Total Assets ratio

Fiscal year	ADBL	RBB
2006/07	0	11
2007/08	3	14
2008/09	5	12
2009/10	6	8
2010/11	5	12
Total	19	57
Mean	3.8	11.4
S.D.	2.3875	2.1909
C.V.	62.83%	19.22%

(Source: Banking and financial statistics Mid January 2011.)

From the above table the data of ADBL is in normal trend where as the data of RBB is in fluctuating trend. Mean and ratio of the RBB is greater than ADBL in every year. This shows that RBB has invested more money in risk free assets than ADBL. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL. It is presented by the graph below.

Figure No. 4.8
Investment on Government Securities to Total Assets ratio



4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire o f earning high profited which helps to survive the firm and indicates the efficient operation o f the firm. Profit is the essential part o f business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity o f RBB and ADBL.

a. Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. total assets. A firm has to earn satisfactory return o n working funds for its survival. The following table shows return on total assets ratio of selected banks.

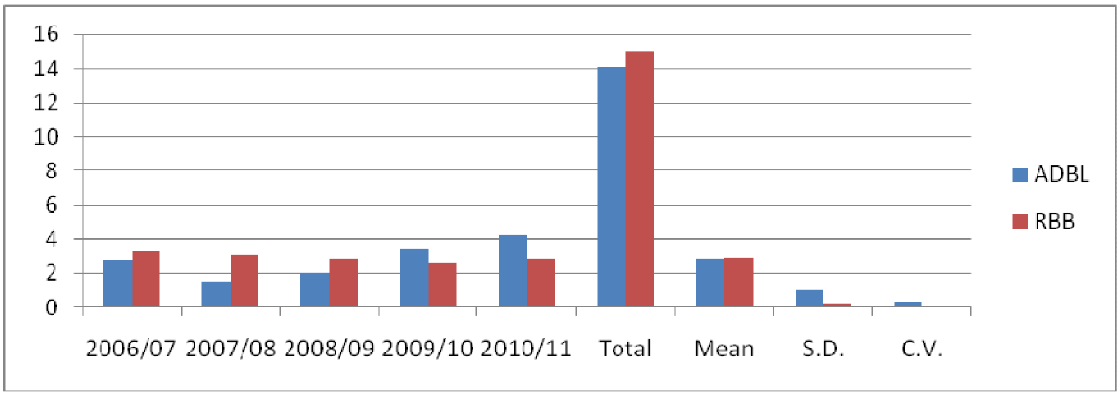
Table No. 4.9
Return on Total Assets Ratio

Fiscal year	ADBL	RBB
2006/07	2.77	3.37
2007/08	1.53	3.14
2008/09	2.04	2.91
2009/10	3.5	2.63
2010/11	4.26	2.94
Total	14.1	14.99
Mean	2.82	2.998
S.D.	1.0967	0.2762
C.V.	38.89%	9.2118%

(Source: Banking and financial statistics Mid January 2011.)

From the above table the data of ADBL is decreasing at first but from 2006/07 it is in increasing trend where as the data of RBB is in decreasing trend. This shows that ADBL's Profitability is increasing from year to year. But when we compare it on the basis of Average RBB is higher. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL. It is presented by the graph below.

Figure No. 4.9
Return on Total Assets Ratio



b. Earning Per Share (EPS)

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the banks earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

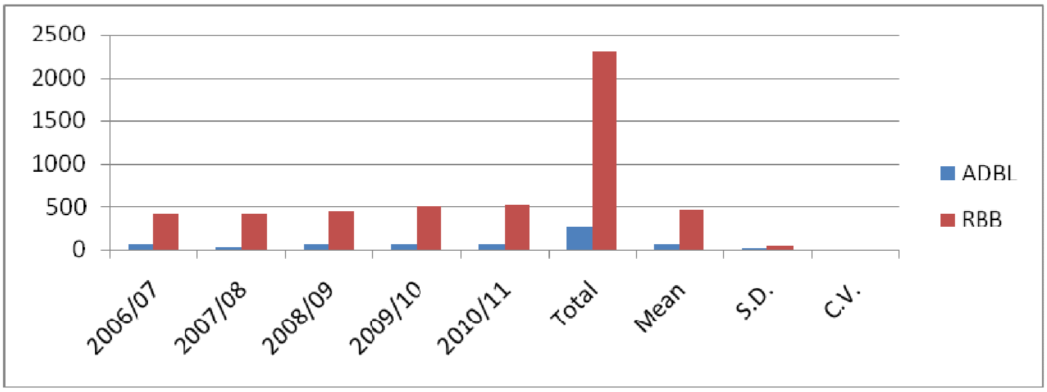
Table No. 4.10
Earning Per Share

Fiscal year	ADBL	RBB
2006/07	65.14	413.05
2007/08	32.21	419.65
2008/09	50.91	446.13
2009/10	62.3	499.26
2010/11	54.6	517.06
Total	265.16	2295.15
Mean	53.032	459.03
S.D.	12.9713	46.9502
C.V.	0.2446	0.1023

(Source: Banking and financial statistics Mid January 2011.)

By looking at glance the earning per share of RBB is much better when compared to ADBL. Because the mean and ratios are comparatively higher than ADBL but the S.D. and C.V. of ADBL is lower which shows ADBL is more Consistent.

Figure No. 4.10
Earning Per Share



4.2. Statistical Analysis

4.2.1 Correlation Coefficient Analysis

a. Correlation Coefficient between Deposit Loans & Advances

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

Table No. 4.11
Correlation Coefficient between Deposit Loans & Advances

Name of Banks	Evaluation			
	r	r^2	P.E.r.	6P.E.r
ADBL	0.864	0.7469	0.0764	0.458
RBB	0.854	0.729	0.082	0.489

(Source: Banking and financial statistics Mid January 2010.)

From the above table, it is found that coefficient of correlation between deposits and loan & advances of ADBL and RBB is 0.864 and 0.854. It refers to both of them have the positive relationship between these two variables also deposit and loan & advances of ADBL and RBB move together very closely. Moreover, the coefficient of determination of ADBL and RBB is 0.7469 and 0.729 respectively. This shows that 74.69% and 72.9% variance in loan & advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

b. Correlation Coefficient between Total Deposits and Total Investment

The coefficient o f correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table No. 4.12 shows the coefficient correlation between deposits and total investments i.e. r, P.Er., 6 P.Er. and coefficient of determination r^2 of ADBL and RBB during the study period.

Table No: 4.12

Name of Banks	Evaluation			
	r	**r^2**	**P.E.r.**	**6P.E.r**
ADBL	0.95099	0.90438	**0.029**	**0.175**
RBB	-0.18269	0.03337	**0.29**	**1.75**

(Source: Banking and financial statistics Mid January 2010.)

From the above table, it is found that coefficient of correlation between deposit and total investment of ADBL and RBB is 0.95099 and -0.18269. It refers to ADBL have positive correlation between deposit and investment. But RBB have negative correlation it shows that according to the deposit it is not investing properly or there is no relationship between deposit and investment. Moreover, the coefficient of determination of ADBL and RBB is 0.90438 and 0.03337 respectively. This shows that 90.438% and 3.337% of total investment is explained by total deposit.

c. **Correlation coefficient between Total Deposit of RBB and ADBL**
   Correlation Coefficient of total deposit between ADBL & RBB and shows their linear relationship.

Table No: 4.13

Evaluation				
	r	r^2	P.E.r.	6P.Er
Deposit	0.91153	0.830	0.051	0.306

(Source: Banking and financial statistics Mid January 2010.)

This table shows how the total deposit of ADBL & RBB is correlated. The value of r = 0.91153 indicates that there is highly positive correlation between these two banks in this regard. But this correlation coefficient is also significant because the correlation coefficient is high than 6 P.E.r. As the 0.830 of coefficient of determination, this shows the 83% of the degree of relationship. The degree of relationship between these two banks is also high.

d. Coefficient of correlation of Total Investment between RBB & ADBL

The coefficient of correlation of total investment between selected commercial banks is shown as follow:

Table No: 4.14

Evaluation				
	r	r^2	P.E.r.	6P.Er
investment	0.05858	0.0034	0.3006	1.803

(Source: Banking and financial statistics Mid January 2010.)

The above table reveals that there is poor positive correlation between ADBL & RBB in case o f total investment. It implies that the total investment of ADBL & RBB is good but in poor position. Here R < 6 P.E.r. Therefore, correlation coefficient is insignificant. This can be said that both ADBL & RBB increase its total investment but in moderate rate.

4.2.2 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general term, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms .

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit o f ADBL & RBB for further 5 year .

Where,

Y= a + bx

Y= dependent variable, (deposit)

a=Y-intercept,

Growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

RRB

$a=\frac{\sum y}{N} = $ 56974.32

32708.72

$b=\frac{\sum xy}{\sum x^2}$ = 5240.47

ADBL

$a=\frac{\sum y}{N} =$

$b= \frac{\sum xy}{\sum x^2} =$

Table No: 4.15

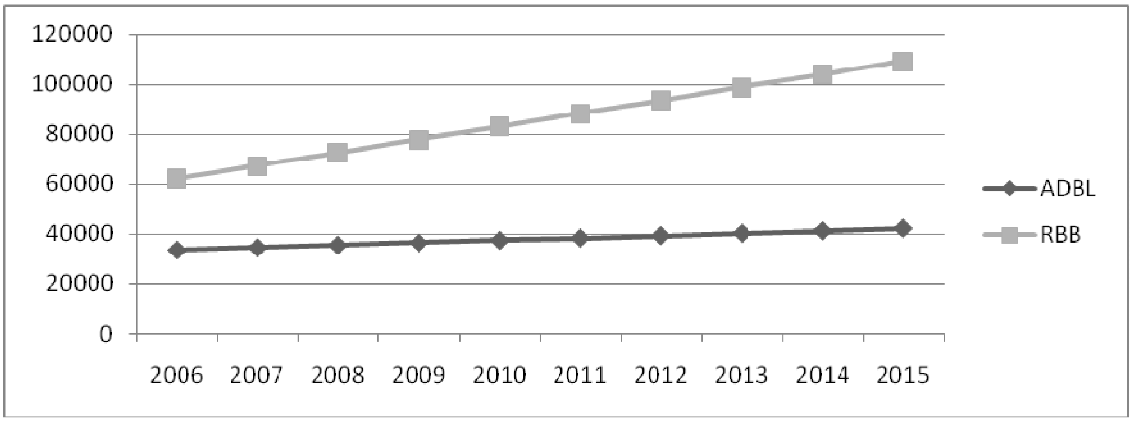
Linear Trend of Total Deposit

Trend analysis of Total Deposit of ADBL & RBB		
Year	**ADBL**	**RBB**
2006	33673.05	62214.77
2007	34637.38	67455.24
2008	35601.71	72695.71
2009	36566.04	77936.18
2010	37530.37	83176.65
2011	38494.7	88417.12
2012	39459.03	93657.59
2013	40423.36	98898.06
2014	41387.69	104138.5
2015	42352.02	109379

(Source: Banking and financial statistics Mid January 2010.)

Above table and figure shows that total deposit of ADBL and RBB is in increasing trend. The rate of increment of total deposit for RBB seems to be higher than that of ADBL. The increasing trend of total deposit of RBB is more aggressive and high rather than ADBL. It indicates RBB has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in year 2006 to 2015. From the above trend analysis it is clear that RBB has higher position in collecting deposit than ADBL.

Figure No. 4.15
Linear Trend of Total Deposits



B) Trend Analysis of Loan & advances

Here, the trend values of loan & advances Between ADBL & RBB been calculated for further 5 years. The following Table shows the actual and trend values of RBB and ADBL.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x…………………….. (I)

Where x = X - Middle year Here,

RBB	ADBL
$a=\frac{\sum y}{N} =$ 27888.82	$a=\frac{\sum y}{N} =$ 101835
$b=\frac{\sum xy}{}$	$b=\frac{\sum xy}{} =$

Table No: 4.16

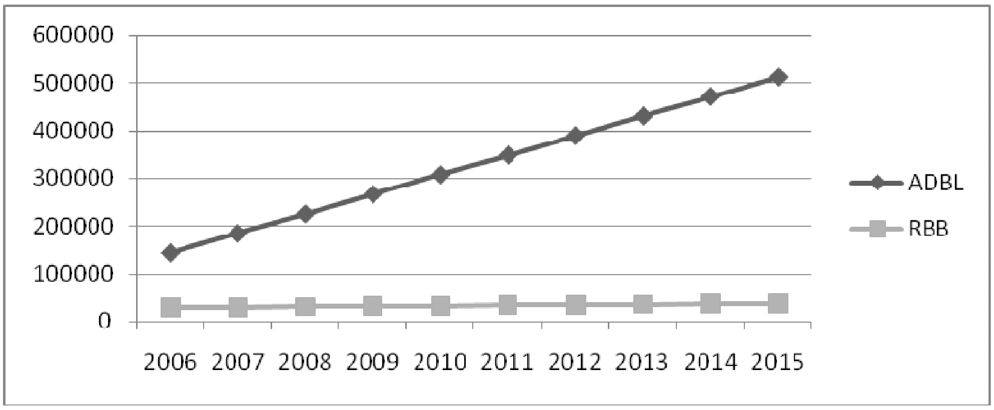
Trend analysis of Loans and Advance of ADBL & RBB

Year	ADBL	RBB
2006	142941.9	28848.93
2007	184048.8	29809.86
2008	225155.7	30770.79
2009	266262.6	31731.72
2010	307369.5	32692.65
2011	348476.4	33653.58
2012	389583.3	34614.51
2013	430690.2	35575.44
2014	471797.1	36536.37
2015	512904	37497.3

(Source: Banking and financial statistics Mid January 2010.)

Above table depicts that loan & advances of ADBL & RBB. Both Banks has in increasing trend. The increasing trend of RBB is higher than ADBL. From the above analysis, it is clear that both ADBL & RBB is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the ADBL is highly mobilizing loan & advances than the RBB.

Figure No. 4.16
Trend Analysis of Loans and Advance



C) Trend Analysis of Total Investment ADBL & RBB

Under this topic, an attempt has been made to analyze trend analysis total investment of RBB and ADBL for further 5 years

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope o f trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x…………………… (I)

Where x = X - Middle year

RBB	ADBL
$a=\frac{\sum y}{N} = 9655.8$	$a=\frac{\sum y}{N} = 2137.94$
$b=\frac{\sum xy}{\sum x^2} = 57.03$	$b=\frac{\sum xy}{\sum x^2} = 721.4$

Table No: 4.17
Trend Analysis of Investment of ADBL & RBB

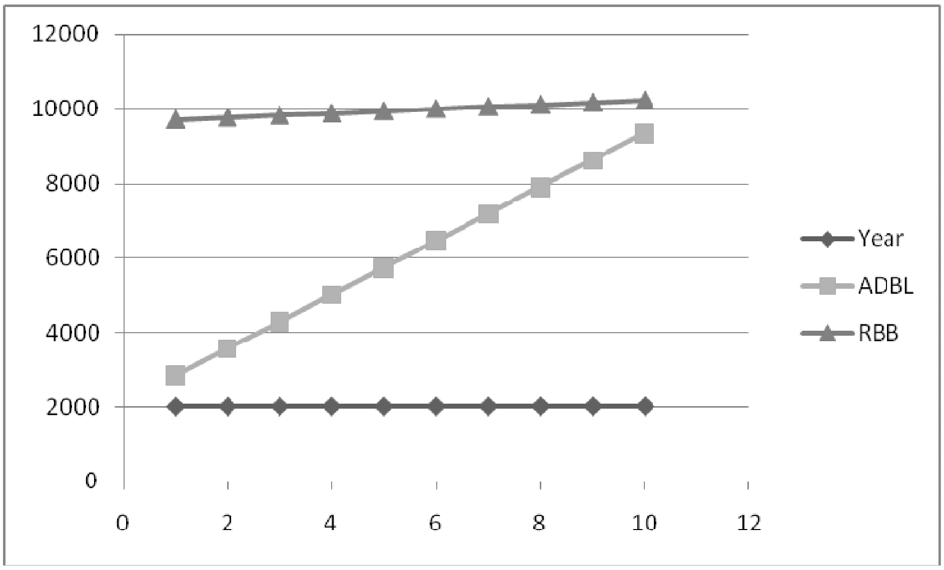
Trend analysis of Total Investment of ADBL & RBB		
Year	ADBL	RBB
2006	2859.34	9712.83
2007	3580.74	9769.86
2008	4302.14	9826.89
2009	5023.54	9883.92
2010	5744.94	9940.95
2011	6466.34	9997.98
2012	7187.74	10055.01
2013	7909.14	10112.04
2014	8630.54	10169.07
2015	9351.94	10226.1

(Source: Banking and financial statistics Mid January 2010.)

Above table shows the Trend of Total Investment of ADBL & RBB. Both Bank ADBL & RBB have increasing trend in making investment. RBB has moderate increasing trend of total investment, but ADBL is increasing faster. The forecasted trend projected that the ADBL has greater increment rate in total investment than the increment rate of RBB. The figure indicates ADBL has highly mobilized the total investment rather than RBB.

Figure No. 4.17

Trend Analysis of Investment of ADBL & RBB.



4.3 Major Findings

From the above data presentation and analysis, some main findings are summarized, which are below:

4.3.1 Financial Analysis

i. Liquidity Ratio

- The mean of current ratio of RBB is viewed higher than that of ADBL. It shows that RBB is sound in meeting short term obligation. Likewise the S.D. and C.V. of ADBL is less so that it is more consistent than RBB.
- The mean ratio of cash and bank balance to total deposit of ADBL is much less than RBB. It means that ADBL has better maintenance of its liquidity than RBB because higher liquidity indicates the inefficient utilization of liquidity. Where as in other sense it is good for bank to gain opportunity cost.

- The mean ratio of cash and banks balance to current assets of RBB is lower in comparison to ADBL. The higher mean ratio shows that ADBL's liquidity position is better than RBB. Whereas RBB is more consistent than ADBL in case of S.D. and C.V.
- The mean ratio of investment on government securities to current assets ratio of RBB is higher than ADBL. This indicates that RBB has invested more money in risk free assets when compared to ADBL. In other words ADBL has emphasizes loan and advances and short term assets than investment in government securities. Similarly the S.D. and C.V of RBB is less than ADBL which means RBB is more consistent than ADBL.

ii. Asset Management Ratio

- The mean ratio of loan and advances to total deposit of RBB is lower than ADBL. And its consistency is also less than ADBL. Which indicates that better mobilization of deposit by ADBL, and also it reveals that the deposit of ADBL is quickly converted in to loan and advance to earn income. The S.D and C.V of RBB is less than ADBL so RBB is more consistent than ADBL.
- The mean ratio of total investment to total deposit of RBB is higher in comparison to ADBL. This shows that RBB has successfully allocated its deposit in investment portfolio to get higher investment return. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.
- Mean of the ADBL is greater than RBB in case of Loans and advance

and total assets. This shows that in total assets ADBL has higher proportion in loans and advance, or ADBL utilize its total assets more efficiently in the form of loans and advance. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.

- The mean ratio of investment on government securities to total assets ratio of the RBB is greater than ADBL in every year. This shows that RBB has invested more money in risk free assets than ADBL. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.

iii. Profitability Ratio

- The mean ratio of return on total assets of RBB is slightly higher than ADBL which indicates RBB is earning more from total assets. But actually ADBL's return on total assets is increasing from year to year this is good for ADBL. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.
- EPS measure the efficiency of a firm in relative terms. By looking at glance the earning per share of RBB is much better when compared to ADBL. Because the mean and ratios are comparatively higher than ADBL but the S.D. and C.V. of ADBL is lower which shows ADBL is more Consistent.

4.3.2 Financial Analysis.

i. Coefficient of Correlation Analysis

- Coefficient of correlation between deposit and loan and advances of RBB and ADBL are positive. In this way, it has been found that there is significant relationship between deposit loan and advances. It means we can say both the banks are positively co-related.

- Coefficient of correlation between deposit and total investment of ADBL and RBB is 0.95099 and -0.18269. It refers to ADBL have positive correlation between deposite and investment. But RBB have negative correlation it shows that according to the deposite it is not investing properly or there is no relationship between deposite and investment.
- Correlation Coefficient of total deposit between ADBL & RBB i.e. r = 0.91153 indicates that there is highly positive correlation between these two banks .
- The Correlation Coefficient i.e. r = 0.05858 indicates that both of the bank have poor positive correlation in case of total investment.

ii. Trend Analysis

Trend values of deposit, loan and advances and total investment are projected for next five years of RBB and ADBL which are as follows

- Trend values of total deposit of both banks are found to be in increasing trend. The increasing trend on deposit of RBB is higher in comparison to ADBL.
- The trend values of loan and advances of both banks have to be found in increasing trend. But the trend of ADBL is much greater than RBB. It shows the ADBL is highly mobilizing loan & advances than the RBB.
- The trend values of total investment of both banks are in increasing trend. But RBB's growth seems to be less efficient than ADBL.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about financial position of Agricultural Development Bank Ltd and Rastriya Banijya Bank. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this research more precisely.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data Collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter fourth by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists current ratio, liquidity ratio, assets management ratio, profitability ratio and other ratios. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation and trend analysis, have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

5.2 Conclusion

The overall aspect of liquidity position of ADBL is comparatively better than RBB. However, the current ratio and investment on government securities to total assets of RBB is slightly higher than ADBL. This shows that ADBL has utilized its liquid assets in more profit generating sectors.

An asset management aspect of ADBL is better than RBB that is justified by little higher loan & advances to total deposit ratio, loan & advances to total assets ratio.

Overall profitability ratio shows that RBB is earning higher profit in relation to every aspect ADBL. But the increasing trend of ADBL is faster than RBB.

Both commercial banks RBB and ADBL have positive correlation between deposit and loan & advances, total deposit and total investment. But in case of deposit and investment the correlation coefficient between them seems to be negatively correlated. Comparatively both banks have strong relationship between these variables

Both the Banks seems to be in increasing trend in all the aspect. But in case of deposit RBB is higher than ADBL, in case of loans and advance ADBL is much greater than RBB and also in case of total investment ADBL seems to be higher.

By looking the overall both of the banks seems to be in good position, so both of them have good future. But overall ADBL seems to be more growth oriented than RBB because of the higher increment in rate of return. Whereas in average rate of return of RBB is higher because of the higher volume of amount.

5.3 Recommendations

This recommendation is the final output of the whole study. Generally, it helps to convey correct and good information of the improvement of concerned banks in future. Several analyses have been accrued to reach in this topic. The following recommendation and suggestions have been mentioned to overcome the weakness, inefficiency and improvement of present fund mobilization and investment policy of RBB and ADBL.

Liberal lending policy

To achieve success in this competitive banking environment, every bank must utilize their loan and advances. The loan and. advances is the main item of the bank in assets side. If it is medicated, it could be the main reason of liquidity crisis and bankrupt. From the analysis, it has been found that loan and advances to total deposit ratio of **RBB** is lower than **ADBL**. So, **RBB** is strongly recommended to follow liberal lending policy, invest more total deposit in loan and advances and maintain more stability on investment policy.

Expand investment on government securities

From the analysis, it has been found that **ADBL** has invested fewer amounts in government securities when compared to **RBB**. Investment on those securities issued by government (i.e. treasury bills, development bonds, saving certificates, etc) are free of risk and highly liquid such as securities yields the low interest rate of particular maturity lowest risk in future and it is more better in regard to safety that other means investment. So **ADBL** is strongly recommended to give more emphasis to invest on government securities.

Services to rural areas and lower level people

As we know that most of commercial banks have provided their services only in highly developed cities. They should extend their services towards rural areas and preserve the banking and saving habits of the lower level people of nation. As we know ADBL has invested more in rural as well as agricultural sector. But RBB is investing many more in Urban and Commercial sector. So it is highly recommended to RBB that they should provide cheap and best loan to the rural people, so they can earn bread and butter for themselves.

Effective portfolio management

Portfolio management is very much important for every investor. The term investment has included many parts of risk. So the effective portfolio management plays important role to divide total investment in different sectors so that risk is also divided into different secretors. It has been found that both banks have been increasing total investment every year. So both banks are strongly recommended to invest in different sectors and to follow a saying "Do not put all eggs in the same basket".

Innovative marketing system

In these competitive banking sectors, a well marketing system plays tremendous role in development of banks. Every commercial bank should be customer oriented. Marketing is the one of the best and effective tool to attract the customers. So it has to be sound and effective. Different marketing methods can be applied like advertisement through newspapers, magazine, audio-visual, websites, documentary, etc. Not only these but to draw the attentions of customers through new technology like E- banking , internet banking service, SMS banking, ATM, Debit Card, Visa and Master cards, etc. RBB and ADBL have provided such modem and advance service.

Expansion of Branches

Economic growth of a country depends upon the high growth of the commercial banks. If the product and services of commercial banks expands all over the nation, the idle money from different areas can be collected and utilized for income generation purpose. So commercial banks should expand their branches not only in urban area but also rural area of the nation. But here commercial banks are centralized in the capital.

5.4 Suggestions to Further Researchers

Here, I have used 5 fiscal years data but further researcher are suggested to use more than 5 fiscal year data and to use not only secondary data but also primary data. I have selected only two commercial banks they because of time and resource limitation. But the further researchers are recommended to study more than two banks and apply more useful financial and statistical tools. So that it will helpful to the sample bank to forecast their investment policy as well as to enhance our knowledge.

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Web Sites:

www.rbb.gov.np
www.adbl.gov.np
www.nrb.org
www.nepse.org.np
www.statistical highlights of nrb.
Various other banking and financial sites.

Appendix

Introduction of the Sample Bank

A. Introduction of the Agricultural Development Bank (ADBL)

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank, Nepal was established in 1968 under the ADBN Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADBN in 1973. Subsequent amendments to the Act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

Agricultural Development Bank Limited (ADBL) is an autonomous organization largely owned by Government of Nepal. The bank has been working as a premier rural credit institution since the last three decades, contributing a more than 67 percent of institutional credit supply in the country. Hence, rural finance is the principal operational area of ADBL. Besides, it has also been executing Small Farmer Development Program (SFDP), the major poverty alleviation program launched in the country. Furthermore, the bank has also been involved in commercial banking operations since 1984.

The enactment of Bank and Financial Institution Ordinance (BAFIO) in February 2004 abolished all Acts related to financial institutions including the ADBN Act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus, ADBL operates as a "A" category financial Institution under the legal framework of BAFIO and the Company Act, 2053

Source: www.adbl.gov.np

B. Introduction of the Rastriya Banijya Bank (RBB)

Rastriya Banijya Bank (RBB) is fully government owned, and the largest commercial bank in Nepal. RBB was established on January 23, 1966 (2022 Magh 10 BS) under the RBB Act. Now, the bank is running under bank and financial institute act 2063. RBB has been contributing to socio economic development of the country for the last four and half decades. The Bank has currently entered into 46 years of service. RBB provides various banking services to a wide range of customers they include elite to poor individuals, institutional customers, and the customers from industry / business communities.

RBB has Nepal's most extensive banking network with over 128 branches (101 ABBS Branches). Through its widest branch and ABBS network RBB has been catering modern Banking services to millions of customers.

The Bank was transformed in Company in 2063- 1-6 B.S. Following this historical transformation the bank has successfully completed its first year general assembly on 2067-05-31 BS.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and interbank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks.

The bank has played crucial role for the development of financial sector i.e. bank, insurance companies through its promoter's role. As a second commercial bank of the country, the bank has been contributing in the trade, industry and agricultural sector of the country. The bank has also contributed in the hydropower sector. Health and Education sector are also benefited through its disbursement.

As a government owned bank the bank is also contributing towards achieving national goals as per the government directives. The bank has made significant contribution in the development of private sector either by loan disbursement or by active participation in the fairs organized by industrial and business communities.

The bank is also in the frontline towards fulfilling corporate social responsibility. The bank has been working as a development partner by acting as a fund administrator of Poverty Alleviation Fund (PAF). Similarly, the bank has been working as a chief administrator in the Educational Assistance Project (run with the assistance of World Bank) aimed at assisting poor and diligent students learning at higher secondary and bachelor level.

Source: www.rbb.gov.np