CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the under developed landlocked country due to the lack of political stability, illiteracy, political and non political insurgency. Our country is economically backward to the world. In Nepal growth is not possible without development of agricultural technology, industrialization, banking sector etc.

The onward movement of the country solely depends upon its economic condition. The farsighted infrastructure and well developed financial system of the country plays a key role to meet the expected goal for the betterment of the country as a whole. Financial institution gathers scattered financial resources form the mass and distributed fund from commercial and economic activities to develop trade, industry and facilitate a process of economic development.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channel zing the available resources in the needed sector. They provide capital for the development of industry, trade and business and other resources. In this way it is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or indirectly channeled through these banks.

A bank is an institution, which deals with money and credit. It accepts deposits from the public and mobilizes the fund to productive sectors. A commercial bank is a bank, which deals in exchanging currency, accepting deposits giving loans and doing commercial transaction. Commercial bank is a financial intermediary accepting deposits and granting loans. It offers the widest menu of services of any financial institution.

Commercial Banks are those Banks who pool together the saving of the community and arrange for their productive due. They supply the financial needs of modern business by various means. They accept deposit from the public on the condition that they are repayable on demand or on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital, financing. They can't finance in fixed assets. They grant loans in the form of cash credit and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables financing advising etc to their customers.

According to **Section 2(a) of the Commercial Bank Act 2031 (1974)**, "Commercial Bank means a Bank which operates currency, exchange transaction, accepts deposit, provide loan; Performs, dealing relating to commerce except the Banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives."

According to **Black's Law Dictionary**, "Commercial Bank means a Bank authorized to receive both demand and time deposit, to engage in trust services, to issue letter of credit, to rent time deposit boxes and to provide similar services."

Hence the term Commercial Bank, Joint Stock Bank and credit Banks are frequently used inter changeably. For e.g. in the context of English Banking system the terms "Joint Stock Banks" and "Commercial Bank" as distinguished from investment Banks although this distinction if often bussed in practice.

In this way, commercial Bank is different from central Bank and the distinction between the two terms is essentially based on their objects, while the primary objective of a commercial Bank is the maximization of profit, the central Bank is primarily concerned with the effects of its operation on the functioning of commercial Bank, their may central Bank comes out it any ordinary Banking business for the general public in complete. It confines it self mainly for controlling the operation of the Banking system in a country.

People keep their surplus money as deposits in the bank and hence bank can provide such funds to finance the industrial activities in the form of loans and advances. Commercial bank renders numerous services to their customer to increase their economic and social life. People are interested to invest in the bank for their wealth safety, good return and liquidity convenience.

An investment policy has played very important role in the development of the organization. Investment is the implementation of financial management decision, which is basically to operate in the financial sector. Investment always involves a certain amount of risk that is there is the chance that an investment will yield not a profit but a loss.

A good investment policy attracts both the borrowers and lenders which help to increase the volume and quality of the deposits, loans and investment. The bankers have the responsibilities of safe guarding the interest of the depositors, share holders and the society they are serving.

Commercial banks should formulate the sound investment policies to ensure maximum amount of investment to the entire sector with proper utilization and can be able to achieve its own objectives of profit maximization and social welfare.

1.2 Focus of the Study

Commercial banks are in the vast numbers, presently. There are altogether 26 commercial banks operating in the country. The large numbers of commercial bank is leading them to huge competition. There are various factors that can make a commercial bank leader in the market, but the commercial bank having a sound investment policy can lead the market. This study focuses on the investment policies of the commercial banks. The limited resources and time has lead to make this study, a comparative study of investment policy between two leading commercial banks of Nepal. This study focuses on the investment policy of Nepal SBI Bank Limited, and Everest Bank Limited

The large numbers of commercial bank is leading them to huge competition. There are various factors that can make a commercial bank leader in the market, but the commercial bank having a sound investment policy can lead the market. This study focuses on the investment policies of the commercial banks. The limited resources and time has lead to make this study, a comparative study of investment policy between two leading commercial banks of Nepal. This study focuses on the investment policy of Nepal SBI Bank Limited, and Everest Bank Limited

Nepal SBI Bank Limited

Nepal SBI Bank Limited (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Limited (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 with an Authorized Capital of Rs.120 Millions and was licensed by Nepal Rastra Bank on July 6, 1993. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbarmarg, Kathmandu. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006.

The Authorized and Issued Capitals have been increased to Rs. 2 Billions and Rs. 877.5 Million, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team, Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager (Credit) oversees the overall banking operations in the Bank.

ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public.

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential. Bank has also set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), is joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India With its presence virtually in all the important centers at India, Punjab National Bank has offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

1.3 Statement of Problem

The numbers of commercial bank are growing day by day. In this context due to crisis in the political stability and other insurgencies had led down the economic growth, many business sectors are not doing well. There is high flow of fund in the market but the people are scared of investing their fund or saving due to unreliable and unsafe investment opportunities and projects.

Today new banks are being established and existing is opening their branches in the different areas. There is vast competition among the commercial banks. Commercial banks are at high time to focus their eyes for the better productive management for survival and growth.

Commercial banks also have lot of deposits and in comparison to it less good investment opportunities. Currently commercial are facing problem of investment being default. The political instability, poor management, recession, strikes and

insurgencies are liable for the investment being default and in some cases credit clients are intentional defaulters. The central bank, Nepal Ratra Bank have been helping the commercial banks in this context and protecting their investments but in the same way commercial banks too must have good plans for their investments. The investment policies of commercial banks must be in the favour of the nation's economic growth and their institutional growth.

The main problem areas of the study are:

- Liquidity and Profitability of the Banks,
- Relation between Investment, Loan and Advances, Deposits, Net Profit and Outside Assets,
- Trends of Deposit utilization on Investment,
- Investment Decisions and Profitability,

1.4 Theoretical Framework

The variables considered for the study of the investment policy of the commercial banks are the Current Assets, Current Liabilities, Cash and Bank Balance, Total Deposit, Investments (Govt. Securities, Loans and Advances and Other Investment), Working Funds, Total Interest Income and Expenditure, Net Profit, Total Equity Fund, Central Bank Policies and Other Financial Factors.

Hypothesis for the study formulated are mentioned as under:

- Investment policy of NSBL is profitable,
- Investment policy of EBL is profitable,
- Investment policy of both the banks exceeds the NRB Standards,
- Investment policy of both the banks meets the NRB Standards,
- Investment policy of both the banks does not meet the NRB Standards,

Above mentioned are the main hypothesis formulated for the study of the investment policy of the commercial banks, in context of the Nepal SBI Bank Limited and Everest Bank Limited.

1.5 Objectives of the Study

Commercial Banks are established with the intention of earning profit and economic development of the country through providing investment facilities. Financial Analysis is tools for measuring the success of any business performance. All the detail financial information of bank is shown by the financial analysis. The basic objectives of the study are to examine and evaluate the investment policy of Nepal SBI Bank Limited and Everest Bank Limited.

- To analyze the investment policy of concern banks and discuss the fund mobilization of these two banks,
- To examine the liquidity, asset management efficiency, profitability and risk position of Nepal SBI Bank Limited and Everest Bank Limited,
- To analyze the growth rate of bank in terms of deposit, loan and advances investment and profitability of the banks,
- To provide suitable suggestion and recommendation for the improvement of the banks performance,

1.6 Limitations of the Study

This study has some limitations due to the time boundness. Limitations of the study are mentioned as below:

- Study has been limited to the investment policy of Nepal SBI Bank Limited and Everest Bank Limited among all the 26 Commercial Banks,
- Study analyzes data of last Six annual reports of the respective banks,
- Data used in this study are mostly secondary data which have been retrieved from the annual reports and other sources,
- Study is limited to the numerical data and the numerical values for measuring the investment policy, keeping the thought and intensions away,

1.7 Organization of the Report

The study will be organized in five chapters. The titles of each chapter are as follows

Chapter 1	:	Introduction
Chapter 2	:	Review of Literature
Chapter 3	:	Research Methodology
Chapter 4	:	Data Presentation and analysis
Chapter 5	:	Summary, Conclusion and Recommendation

Chapter one contains: Introductory matters, which describes the introduction, focus of the study, statement of the problem, theoretical framework, objectives of the study, limitations of the study and organization of overall study.

Chapter two deals with review of literature related to the concern thesis. It has organized into two different sections. One contains conceptual framework and the other section contains the review of related studies.

Chapter three contains methodology employed in the study. It includes the introduction, research design, nature, source of data and different tools of analysis.

Chapter four contains the presentation and analysis data through the way of design methodology. From analysis interpretation, major findings have been deduced.

Chapter five lastly contains summary, conclusion based on the major findings and policy recommendations.

CHAPTER II

REVIEW OF LITERATURE

Review of Literature is the study of previous research, article or book previous thesis in the related field or topics for finding the past studies conclusion and deficiencies that may be known for further research.

2.1 Conceptual Framework

2.1.1 Evolution of Bank

The evolution of banking industry had started a long time back, during ancient times. As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 AD was the first public banking institution. The later the bank of Barcelona and the Bank of Genoa have been established in 1401 AD and 1407 AD respectively. The bank of Venice and the Bank of Genoa continued to operate until the eighteenth century, with the expansion of commercial activities. In Northern Europe there sprang a number of private banking houses. Slowly it spread through out the world.

2.1.2 Development of Banking Industry in Nepal

Establishment of banking industry in Nepal is very recent. In the ancient time, there are money transaction but were not much regularized due the lack of banking concept among the people and administrators. In the year 1877 AD the government established “Tejarath Adda” which played vital role in the banking development and banking system of Nepal. This institution named “Tejarath Adda” helped general public to provide credit facilities at a very low rate of 5 percent interest rate. “Tejarath Adda” distributed credit facilities to the public especially on the collateral of gold and silver.

Several branches were open in different part of the country. Hence the establishment of Tejarath Adda could be regarded as pioneer foundation of banking in Nepal. It was running smoothly for few decades.

The main defect of this institution was that there were no efforts to expand the services, and no other financial institution has set up. Tejarath Adda also don't accept any deposits from public on the absence of saving money the Adda faces the financial crisis to provide the credit and other services, after that again several unorganized and money lender are flourishing their credit and services to the general public, the government started to do the trade with India and Tibet. In the year 1936 AD, Udyog Parisad (Industrial Development Board) was been established.

In the year 1937 AD Udyog Parisad have reformed its name in to Nepal Bank Limited and formulated the company act. This was the first commercial bank in Nepal. Rastriya Banijiya Bank was established in the year 1965 AD as the second bank of the country.

Rastriya Banijiya Bank being the largest commercial bank plays the major role in the economy. The financial shape of the two old banks has a tremendous impact on the economy. The modern banking practice began between the First and Second World Wars.

Nepal Bank Limited was the first commercial bank and was also the first joint venture bank of the government and the private sector. Earlier banks were different from modern commercial banks in many respects. The banks which operated in the past combined central banking function such as issue of currency with commercial banking operation like accepting deposit and financing business.

2.1.3 Commercial Bank

Commercial banks are the major component in the financial system. They work as intermediary between depositors and lenders and facilitate in overall development of the economy of the country and earning profit for the wealth maximization of all its stake holders.

Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing overall economic development. The bankers have the responsibility of safe guarding the interest of the depositors, the share holders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation, and transformations, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers.

According to Nepal Company Act 2031 BS, "A commercial bank refers to such types of bank which deals in money exchange accepting deposits, advancing loans and commercial transaction except specific banking related to co-operative, agriculture, industry and other objective."

"Commercial Bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its service." Principle of Bank Operations, American Institute of Banking, USA-1972.

The operation of commercial bank is one of the economic activities of a country. In terms of income generation activity, it may be compared with any other venture of business. However the banking business is very distinct as compared with any other business. The main function of commercial bank is the accumulation to the temporarily idle money of the general public for trade and commerce. Its main function is to accept deposits, advancing loans, act as an agency services, exchange and purchase currency, overseas trading services and other service. The lists of licensed commercial banks currently providing service in the Nepalese market are detailed in annexure 1.

2.1.4 Profile of Sample Banks

- **Nepal SBI Bank Limited**

  Nepal SBI Bank Limited (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State

Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Limited (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 with an Authorized Capital of Rs.120 Millions and was licensed by Nepal Rastra Bank on July 6, 1993. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbarmarg, Kathmandu. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006. The Authorized and Issued Capitals have been increased to Rs. 2000 Millions and Rs. 877.5 Millions, respectively.

In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team, Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager (Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public.

- **Everest Bank Limited**

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies

which offer large business potential. Bank has also set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), is joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India With its presence virtually in all the important centers at India, Punjab National Bank has offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

2.1.4.1 Investment

In general sense investment means to pay out 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 is certain. The reward comes later, if at all and the magnitude is generally uncertain. It is commonly known fact that an investment is possible only when there is adequate saving therefore, both saving and investments are interrelated.

Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and factors some scholars have given the actual meaning of investment, which are as below:

J. K. Francies, “An investment is a commitment of money that I expected to generate additional money. Every investment entail some degree of risk, it requires a present certain sacrifice for a future uncertain benefit.”

The World Book Encyclopedia, “Investment buy individual, business and government involve a present sacrifice of income to get an expected future, benefit as a result investment raises a nation standard of living.”

From the above definitions we can conclude that investment means use of rupee of amount today by expectation of more income in future. It is clear that investment is the utilization of funds with expected additional return in future.

The saving done by the investor may be affected by taxes, inflation, depression, labor relation, government action plan and other social phenomena. Some time we may get negative return also, if wrongly invested without sound knowledge of investment and their related factor.

Investment has to undergo various types of risk of business risk. Possibility of being wane in earning power of investment due to competition, uncontrollable costs, change in demand, market risk possibility of strong change in market price and collateral value of securities and real properties, therefore making investment is not sufficient one should follow sound investment policy.

Above mentioned definition of different authors about investment clarify that investment means to trade money for expected future stream of payment of benefits that will exceed the current cash outflow which is the benefit to the investors for sacrificing the time and commitment or due to uncertainty and risk factors. Financial institutions must be able to mobilize their deposit collection funds in profitable, secured and marketable sector so that they can earn good return on their investment.

2.1.5 Features of Investment Policy

The success of the bank is measure by its income and profit, which depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credits created by the bank, the higher will the profitability. A sound lending and investment policy is not only pro-requisite for bank's profitability but also crucial significant for the promotion of commercial saving of an economically backward nation like Nepal.

Some necessities for sound lending and investment policies which most of the banks must consider can be explained as under:

- **Safety and Security**

Every bank must take care while investing its fund. It should never invest its fund in those securities, which are subject to too much depreciation and fluctuation because a small change causes a great loss. So, bank must not invest funds into speculative business, enterprise or entrepreneur who may be bankrupt at any time or have intension of being bankrupt. Bank should accept those types of securities which are durable, marketable and high market price. In this case, “MAST” theory must be applied for the investment.

Here,

M stands for Marketability
A stands for Ascertain Ability
S stands for Stability
T stands for Transferable

- **Liquidity**

Liquidity refers to the capacity of bank to pay cash against deposits. People deposit money at the bank and the bank will repay their money when they need to maintain such confidence of the depositors, the bank must keep this doing in mind while investing its excess fund in different securities or at the time of lending so that it can meet current or short-term obligations when they become due to payment.

- **Profitability**

The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. It is a fact a commercial bank can maximize its volume of investment and lending. So they must invest their fund where they get maximum profit.

- **Purpose of Loan**

This is very important question for any banker that, why is the customer is in need of loan? If borrower misuses the loan granted by the heavy bad debts? Detailed information about the scheme of the project or activities should be examined before lending.

- **Diversification**

"A bank should not lay all its egg on the same basket." It is very much important for a bank to diversify it loan investment for the diversification of their risk of investment. The loan granted should be diversified in various sectors of business and industry.

Diversification of loan helps to sustain loss according to the law of average because, if the investment in one sector is deprived and becomes Non Performing Assets than there are sectors where the bank can sustain the loss from. This helps in maintaining the loan loss risk in the current competitive market.

- **Tangibility**

Though it may be considered that tangible property doesn't yield in income apart from direct satisfaction of possession of property, many times intangible securities have lost their value due to price level, inflation, a commercial bank should prefer tangible security to intangible one.

- **Legality**

Illegal securities will bring our money problems for the investor, a commercial bank must follow the rules and regulation as well as different directions issued by the Nepal Rastra Bank. Ministry of Finance, Ministry of Law and other concerned authorities.

2.1.6 Some Important Terms

In the study of banking sector we need to have knowledge of some important and daily banking terms, for which efforts has been made to clarify the meaning of the terms mentioned below:

- **Deposits**

Deposit means the amounts deposited in different accounts as term deposit, saving deposit, current deposit, call deposit and other deposits as offered by the concerning bank. It is the main source of fund for the financial institution. For a commercial bank deposit is the most important source of liquidity. It is the barometer for measuring the strength of the financial institution. Deposits are the funds collected by bank from account holders for the security and transaction motives. It is the amount of money or a valuable item that is received into bank as security against possible loss. Deposits are the foundation upon which banks thrive and grow. They are a unique item on a bank's balance sheet that distinguishes it from other types of business firms. The ability of a bank's management and staff to attract checking and saving accounts from business and consumers is an important measure of the bank's acceptance by the public.

- **Loan and Advances**

Loan is the sum lent to others for certain time period with the agreement to charge interest on principal. The interest is charged calculating certain percentage on the principal. When money belonging to one is advanced to another to be used for certain time period, it is called Loan or Advance. The basic objective of loan advancement is to earn interest as the reward for lending the sum for specific period.

Commercial banks are organized institutes providing loans for the needed. The loan advancement is the main function of commercial banks.

Similarly, interest on loan has become their main source of income. Banks do deposit accepting and lending business.

- **Investment on Government Securities, Shares and Debentures**

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

Some of them are:

- It may be required to spare its maturates so that the inflow of cash coincide with expected withdrawals of depositors or large loan demand of its customers,
- It may be required to have high grade marketable securities to liquidate if its primary reserve becomes inadequate,
- It may be required because of the decrease in the demand of good loan and/or excessive long term deposits,

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

- **Investment on Shares and Debentures (Other Companies)**

Commercial banks invest their excess fund to the share and debenture of the other financial and non financial companies. Due to excess funds but least opportunities to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank directives. Now-a-days commercial banks purchase share, debenture and other securities of regional development banks and other public enterprises.

- **Use of Funds**

Commercial banks must maintain bank balance with Nepal Rastra Bank as 6% of Fixed Deposit Accounts and 8% of each Current and Saving Accounts in the local currency i.e. NPR (Nepalese Rupee). Similarly 3% of the overall cash maintained by a commercial bank must be deposited at the Nepal Rastra Bank. Again apart of fund should be used for bank balance in foreign bank and to purchase fixed assets like land and building, furniture, computer, stationery etc.

- **Off Balance Sheet Activities**

Activities involving contracts for future purchase or sale of assets and all these are contingent obligation and are also the Off Balance Sheet activities. These are not recognized as assets or liabilities on balance sheet. Some examples of this item are Letter of Credit. Letter of guarantee and bills of collection etc., These activities are very important as they are main source of profit of bank though they have risk now a days, some economist and financial experts highlight such activities for the expansion of transaction of modern bank successfully.

2.2 Review of Related Studies

2.2.1 Review of NRB Act

There is various acts of the study, which those basically involved in this section; the review of acts framework (environment) under which those basically involved in this section; the review act, environment has significant impact on the commercial banks establishment, their mobilization and utilization of resources. All the commercial banks have to perform to the act, provisions specified in the commercial banks have to conform to the act, previous specified in the commercial Bank Act 2031(1964 A.D.) and the rules and regulation to facilitated the smooth running of commercial

banks. The preamble of Nepal Bank Act 2031 clearly states the need of commercial banks in Nepal,

"In the absence of any bank in Nepal the therefore, with the objective of fulfilling that need by providing services to the people and for the betterment of the country,
this law is hereby promulgated for the establishment of the bank its operation."

Central Bank NRB has established a legal framework by formulating various rules and regulation to mobilize or invest the deposit of the bank in different sectors of the different parts of the nation, to prevent them from the financial problems. This directive mush has direct or indirect impact while making decisions. Those rules and regulation are discuss which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CCR. Loan loss provision, capital adequacy ratio, interest spread and productive sector investment. Commercial bank is directly related to the fact that how much find must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch and counters, but we discuss only those which are related to investment function of the commercial bank. The provisions established by the NRB in the form of prudential norms are as follows:

i. Provision for maintaining Minimum Capital Fund:

As per the Unified Directives (Ashar End 2066) issued by NRB, the licescened institutions are instructed to maintain the minimum capital with respect to the minimum capital as under:

Provision for maintaining minimum capital fund

Institution	**Minimum Capital to be maintained as per the Risk Weight Asset**	
	Core Capital	Capital
"A" Class	6.0 %	10.0 %
"B & C" Class	5.5 %	11.0 %
"D" Class	4.0 %	8.0 %

Source: NRB Unified Directive 2066 Table 2.1

ii. Provision for investment in productive sector:

Being a developing country, Nepal needs to develop its infrastructure and other primary productive sectors likes' agricultural, industrial, etc. NRB has directed commercial banks to extent at least 40% of its credit to productive sector.

iii. Provision for investment in priority sector:

NRB has directed commercial banks to extent least 12% of its total outstanding credit to priority sector. Commercial bank's lending to deprived sector is also a part of priority sector. Credit to agriculture, cottage and small industries, services business (Computer, Tourism) and other business.

Table 2.2

Provision for Investment in Priority Sector

Fiscal year	Percentage
2003/04	6% of total loan
2004/05	4%of total loan
2005/06	2%of total loan
2006/07	2%of total loan
2007/08	0 %(not necessary)
2008/09	0 %(not necessary)

Source: www.nrb.org.np

iii. Provision for investment in deprived sector:

The deprived sector credit limit is determined by NRB from 0.25% to 3% of the total outstanding credit from bank to bank. Investment in share capital of rural Development banks, advances of Rural Development Banks and other development banks engaged in poverty alleviation programs advances to co-operative, non-government organizations and small farmer co- operative approved by NRB for carrying out banking transaction are included under deprived sector credit program. Commercial banks are required to disburse credit to the deprived sector at the following stipulated ratio:

Table 2.3

Provision for investment in Deprived sector

Name of the Bank	**Required Deprived sector lending as % of total outstanding credit**
NIBL, NBL, RBB, NABIL, SCBNL, HBL	3%
BOK, EBL, NSBFBL, NBBL,	2.5%
NBBLL	1.75%
LBL, NICBL	0.75%
Other new Bank	0.25%

Source: www.nrb.org.np

iv. Provision Regarding interest spread rate:

Previously, NRB had directed the commercial banks to limit its interest rates spread with the maximum of 5% interest rates spread is the difference between the interests charged on loan advances and the interest paid to the depositors. But, this policy has been revised by NRB (Unified Directives 2066) stating the spread on deposit and lending to be fixed by the licensed institute themselves. As per this directives, no licensed financial institutions except Class "D" institutions are re allowed to fix the interest rate on Loans and advances as well as Deposits.

v. Provision regarding Capital Adequacy Funds (CAR)

All commercial banks are directed to maintain the minimum capital fund on the basis of risk weighted assets j. e. CAR in the following ratio given below:

Table 2.4

Provision Regarding Capital Adequacy Funds (CAR)

Institutions	CAR of their Weighted Assets	
	Core Capital	Supplementary Capital
A, B and C class	6.00%	10.0%

(Source: Capital Adequacy Framework 2007 (Updated July 2008))

Where, Core capital includes paid up Capital, Share premium, Non-Redeemable preference share, General reserve fund and accumulated loss/profit.

Supplementary Capital includes General loans provision, exchange equalization reserve, hybrid Capital Instruments, Subordinated term debt and free reserves.

As per the directives, there are two types of the total Risk Weighted Asset. They are:

a. **Risk weighted on Balance Sheet Assets**
b. **Risk Weighted Off Balance Sheet Assets**

For the purpose of calculation of Capital Fund, the On- Balance Sheet Assets are divided as follows with assignment of separate risk weight age. Accordingly, for determining the Total Risk Weighted Assets, the amount as exhibited in the balance sheet shall be multiplied by their respective risk weight and then added together.

vi. Provision regarding Margin Lending

As per the Circular, Bai .Bi.Ni.Bi/Niti/Paripatra/29/066/67 dated B.S. 2066/11/10, if the Licensed financial institutions have made any margin Lending, the margin call shall be made only if the fall in share price is beyond 10%. Also the Margin Loans are eligible for renewal and can be renewed if the borrower has cleared 100% interest and repaid 25% of principal amount.

vii. Provision regarding Blacklisting of Defaulting Borrowers

For maintaining healthy credit and for safeguarding the loans and advances, the NRB has brought forward a concept of obtaining the information of all the borrowers from one roof. For accomplishment of this task, the Credit Information Centre was established Under NRB Credit Information Byelaw, 2059. The main function of Credit Information Centre is to prepare the list of the borrowers (i.e. availing loan more that Rs. 25 Lacs) of different financial institutions that are not paying the dues regularly, make their list a. The Financial institutions before granting a loan, ask for the information of the borrower about his crediability from this institution with certain fee. After getting the request from the licensed institute, the CIC sends the confidential report to the concerned institute about the status of the borrower. The CIC itself does not black list the borrower, but based on its remarks, the blacklisting is done by NRB. The NRB has classified the defaulters into two category based on their nature. They are:

a) Willful Defaulters

b) Non-Willful Defaulters

Similarly, there are different conditions where a borrower is blacklisted. They are as follows:

a) If the interest or installment or both remains overdue for more than 1 year.
b) If the loan amount is found to be misused or if the loan amount is found to be invested in the project other than that mentioned by the borrower while obtaining the loan.
c) If the security kept as collateral is found to be misused.
d) If the Borrower is lost or does not come in contact with the Bank for one year.
e) If the borrower is bankrupted legally.
f) If the case is filed against the borrower in the court.
g) If the borrower is found to be involved in any fraudulent activities using duplicate cheques / Drafts/ Bills/ Debit Card or any other equipments.

viii. Provision regarding Classification of Loans & Advances and Non performing assets (NPA)

NRB, by its Circular E.Pra.Nirdesan No. 2/066 has classified the loans and advances into 4 class on the basis of the days of overdue period. They are as follows:

a) Pass
b) Sub-standard
c) Doubtful
d) Loss

Pass Loans are also called the performing loans whereas sub-standard, doubtful and loss loans are called non performing loans. Pass loans are the loans where there is no overdue or the overdue is up-to 3 months. In case of the pass loan, the provisioning of 1 % shall be made of the principal outstanding. Similarly, in case of sub-standard loan, the overdue is from 3 months to 6 months and the provisioning made is 25% of the principal outstanding. When the loans and advances are not paid from six months to 1 year, it falls into doubtful loan and the provisioning made is 50 % of the principal outstanding. Similarly, if overdue period crosses more than 1 year, it falls in Loss category. Here, 100% of the principal outstanding shall be provisioned.

For the loans that have been insured in Deposit and Credit Guarantee Corporation (DICGC), only 25% of the insured percentage shall be maintained i.e. (0.25 % for pass loan, 6.25% for Sub-standard, 12.5 for doubtful & 25% for the Loss).

For the loans that have been rescheduled or restructured into pass loan, 12.5% of provisioning shall be done. If the payment of principal and interest for the rescheduled or restructured loan is regular for 2 years, it can be converted in pass loan. The loan granted to the investors investing in Initial Public Offering (IPO) cannot be rescheduled or restructured.

2.2.2 Review of Books

Banks are such an institution, which deals with credit and substitutes for money. They deal with credit and instruments. In modern era good circulation of credit is important for any bank or other financial intermediates (commercial banks, joint venture banks, finance companies, development banks, co-operatives etc,). Banks cannot get its aim of profit earning without mobilizing its fund in right sectors and different activities. Many types of activities and other things can originate for the purpose of receiving investment from the finance company.

According to **William, Gordon, Alexander & Jeffery**, "Investment in a broaden sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain."

In the words of **Gitman & Joehnk**, "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns."

The term investment can cover a wide range of activities. It often refers to investing money in certificate of deposits, bonds, common stocks or mutual funds. Expert investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative position and aggressive speculation.

Frank defines investment as, “An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of funds.”

According to **Pandey**, “In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm’s value. The firm’s value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder’s funds maximization. Investments will all to the shareholders wealth if it yield benefit in excess of the minimum benefits as per the opportunity cost of capital.”

Emphasizing the importance of investment policy, **Crosse**, puts his view in this way, “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 and careful lending practices are essential if a bank is to perform its credit creation function effectively and minimize the risk inherent in any extension of credit.”

According to **Singh & Singh**, “The investment or credit policies of banks are conditional, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his bank’s credit policy also in mind.

According to **Baidhya, .** “A sound investment policy of a bank is such that funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problem usually spring from significant amount of loans that have become uncollectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds.”

2.2.3 Journal and Articles

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

Morris (1990), in his discussion on "Latin American Banking System in the 1980's" has concluded that most of the bank concentrated on compliance with central bank rules on reserve requirement credit allocation (Investment Decision) and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. He further add that miss management in financial institution has involved inadequate and over optimist loan appraisal high risk diversification of loan portfolio and investment high risk concentration related parties lending etc are major cause of investment and loan that has gone bad.

Bajracharya (1991), has mentioned in his article "Monetary Policy and Deposit" mobilization in Nepal has concluded that the mobilization of domestic saving is one of the monetary policies in Nepal, for this purpose commercial banks stood as the vital and active financial intermediary for generating resource in the from of deposit of the private sector so far providing credit to the investors in different aspect of the economy.

Shrestha (1998), in her article "Lending operation of commercial banks of Nepal and its impact of gross domestic product (GDP)" has presented with the objectives to make an analysis of contribution commercial banks lending to the gross domestic product of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending such as agriculture, industrial, commercial service, general and social sector as independent variables a multiple regression techniques has been analyzed in the contribution. The multiple analysis have shown that all the variables expect service sector lending have positive impact of GDP. Thus, in conclusion she has accepted the hypothesis i.e. there

has been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Chopra (1999), in his article, "Role of foreign banks in Nepal" has concluded that the joint venture banks are playing increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

Pradhan (2003), in his research paper, "Role of saving investment and capital formation in Economic Development – A case of Nepal" has studied about the strong role and impact of saving, investment capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has collected for the period of 1974-75 to 2000-01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression equation used in this study have been estimated at current prices as well as in real terms with the entire study period divided in to different sub period.

The result presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to there important conclusions. First saving, investment and capital formation have positive impact on economic development. Second the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third there is strong role played by saving and capital formation on economic development while weak-role played by investment.

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

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

2.2.4 Review of Thesis

Investment Policies have been studied by many individuals and various organizations. These studies have their own status because of the nature of study, objective of study, area of study and other variables which have been sought for, from the specific study. Some of them are related to this study report are considered as reference to this study report. They are:

Tuladhar, (2000), conducted a study on "A study on investment policy of Nepal Grindlays Bank Limited in comparison to Joint Venture Banks of Nepal" with the following objectives:

- Study the fund mobilization and investment policy with respect to fee-based off-balance sheet transaction and fund based on balance sheet transaction,
- Study the liquidity, efficiency of assets management and profitability position,
- Evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit,
- Perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint Venture Banks,

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

Analyzing the primary data, the questionnaire data concerning the question in which sector banks should invest. 28.37% of the respondents emphasized on Educational sector as the most potential sector for good social and economical return.

Similarly poverty stricken and deprived sector got second potential sector with 26.24%, industrial sector 18.44%, tourism sector 16%, agricultural sector 16% and infrastructure sector on public private partnership 4.25%.

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

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

The secured loan analysis showed commercial loan as being very important flowed by social and industrial loans. The loan loss ratio has been found to be affected by the national income and lending and Treasury Bills rate. Then investment of commercial bank on government securities has been observed to be affected by total deposit. Cash reserve requirements and Treasury Bills and lending rates, interest rates and deposit rate were found to be good for economic development.

Thapa, (2000), on her study, "A comparative study on investment policy on Nepal Bangladesh Bank Limited and other Joint Venture Bank" on her study, the major objectives were to evaluate the liquidity, asset management efficiency profitability

and risk position of Nepal Bangladesh Bank in comparison to Nabil Bank Limited and Nepal Grindlays Bank Limited, to analyze the relationship between loan and advance and total investment with other financial variables of sample bank. Examined the fund mobilization and investment policy of Nepal Bangladesh Bank through off-balance sheet and on-balance sheet activities in comparison to the other two banks, studies the various risk in investment and to analyzed the deposit utilization trends and it's projection for next five years of sample banks, and to provide the suggestion for improving the investment policy of Nepal Bangladesh Bank Limited is comparatively better than that of Nabil Bank Limited and Nepal Grindlays Bank Limited. It has the highest cash and bank balance to total deposit and current assets ratio. It has good deposit collection, it has made enough loan and advance but it has made the negligible amount of investment in government securities. The Nepal Bangladesh Bank Limited is not in better position regarding its on balance sheet and off-balance sheet activities in compare to Nabil Bank Limited and Nepal Grindlays Bank Limited. It does not seem to follow any definite policy regarding the management of its assets. She further found that the profitability position of Nepal Bangladesh Bank Limited is comparatively weak than that of other two banks.

Nepal Bangladesh Bank Limited has maintained higher growth rate in accordance to the Nabil Bank Limited and Nepal Grindlays Banks though it is not successful to make enough investment and can say that the bank is successful in increasing its source of funds and its mobilization. Finally she concluded that there is significant relationship between 'deposit and loan and advances' and 'outside assets and net profit' of Nabil Bank Limited and Nepal Grindlays Bank whereas Nepal Bangladesh Bank Limited has not maintained the relation of the above items.

Shahi, (1999), in his thesis, "Investment Analysis of Commercial Banks in Nepal" with the main objectives of:

- Evaluate the liquidity, asset management efficiency and the profitability and risk position of Nepal Bank Limited to Joint Venture Banks,

- Find mobilization and investment policy of Nepal Bank Limited in respect to its fee based off balance-sheet transaction and fund based on balance-sheet transaction in comparison to joint venture banks,
- Find out the empirical relationship between various important variables i.e., deposits loan and advances, investment, net profit etc and compare them with the Joint Venture Banks,
- Analyze the deposit utilization trend and its projection for next five years of the Nepal Bank Limited and compare it with that of the Joint Venture Banks,
- Provide a package of workable suggestions possible guidelines to improve investment policy of Nepal Bank Limited and the Joint Venture Banks based on the finding of the analysis, for the improvement of financial performance of Nepal Bank Limited in future,

The research was conducted mainly on the basis of the secondary data.

The research findings of the study are as follows:

- The liquidity position of Nepal Bank Limited is comparatively better than that of Joint Venture Banks. Highly fluctuation in liquidity positions shows that the bank has not formulated any stable policy. It can also be conducted that Nepal Bangladesh Limited has more portions of current assets as loan and advances but less portions as investment on government securities.
- The mean ratio of loan and advances to total deposit of Nepal Bank Limited is slightly lower then that of the Joint Venture Banks. The mean ratio of investment of government securities to total working fund of Nepal Bank Limited is slightly lower than of the Joint Venture Banks. The mean ratio of total off-balance sheet operation to loan and advances of Nepal Bank Limited is found significantly lower than that of Joint Venture Banks. So it was concluded that Nepal Bank Limited is comparatively less successful in on-balance sheet as well as off-balance sheet operation than that of Joint Venture Banks. It has not followed any definite policy with regard to the management of its assets.

- Profitability position of Nepal Bank Limited is comparatively not better than that of the Joint Venture Banks. It indicates that Nepal Bank Limited must maintain its high profit margin in future.
- There is comparatively high risk in Nepal Bank Limited than that of the Joint Venture Banks, regarding various aspects of the banking function. From the analysis of different growth ratio of different growth ratios it can be concluded that the Nepal Bank Limited has not been more successful to increase of funds i.e. Deposit and mobilization of it i.e. Loan and Advances and total Investment. Similarly it seems to have failed to maintain high growth rate of profit in comparison to that of other Joint Venture Banks. In finding relationship between deposits and loan and advances, there is negative relationship between deposits and loan and advances in case of Nepal Bank Limited whereas, there is positive relation between deposits and loan and advances of the Joint Venture Banks. Nepal Bank Limited has higher trend values of loan and advances and deposits but lower trend values of net profit and total investment in comparison to Joint Venture Banks. Highly fluctuating ratios of Nepal Bank Limited show that it has not formulated any stable policy to maintain its liquidity any stable policy to maintain its liquidity in a consistent manner.

The high portions of cash and bank balance in Nepal Bank Limited show its negligence and inefficiency in its best utilization. It has not considered the cost of fund and its opportunity costs.

Higher percentage of loan loss ratios shows that Nepal Bank Limited is weak in credit collection. There is absence of a sound credit collection policy. Nepal Bank Limited has not followed innovative appraisal, improper collateral evaluation, irregular supervision etc is a sever problem for the bank's success.

Shrestha, (1993), has concluded a study on "Investment planning of Commercial Banks in Nepal" with the following objectives:

- Evaluate the financial performance of commercial banks in Nepal,
- Examine the investments of commercial banks of Nepal with reference to securities, loan and advances,
- Establish the relationship of bank of portfolio variables with the national income and interest rates.

The research was conducted on the basis of primary and secondary data of commercial banks. The research findings of the study are summarized as:

- The general trend commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.
- The return is on the average higher for foreign Joint Venture Banks than for the Nepalese bank but return of asset found to be statistically same. Risk taking attitude is higher in foreign Joint Venture Banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese Banks.
- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial bank in shares and securities is normal and not found to have strategic decision towards in shares and securities. Yield from the securities has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.
- Investment in various in sectors has a positive impact on the national income from their respective sectors.
- Lending in priority sector showed cottage and small industry sharing higher loans.
- Priority sector lending showed positive impact on the national economy.

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

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The term research is believed to be derived from the French word researcher meaning to search again. The research work is undertaken following a systematic way, which is called the research methodology. As per Kothari, it is the way to solve systematically about the research problem.

This study has tried to analyze the investment policy of two commercial banks namely Nepal SBI Bank Limited and Everest Bank Limited and also tried to discuss the fund mobilization of these two banks. Besides, the study has also focused on the liquidity, asset management efficiency, profitability and risk position of the two commercial banks. The growth rate of bank in terms of deposit, loan and advances investment and profitability of the banks have also been analyzed in this part. The research methodology includes; research design, data collection procedures, and research variables and tools used.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the plan, structure and strategy on investigations conceived for retrieving answers to research questions and to control variances to achieve the objective of this study, descriptive and analytical research designs have been used. Some statistical and accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate financial performance of the Banks.

The research design is less descriptive but more prescriptive because the historical secondary data has been mainly employed for analysis. For the conceptual

framework and literature part more practically observed books are followed as for basic knowledge about this study report. For the analytical purpose some questions have been asked to the concerned personal, who are considered primary data. The secondary data includes the annual reports published by the banks, financial statements of the bands by Nepal Rastra Bank, review material collected from the different concerned magazines, newspapers, library etc,. Such data's information has been processed through various processes like auditing, tabulating and result have been interpreted in the form of ratio percentage and different types of diagrams for clear view.

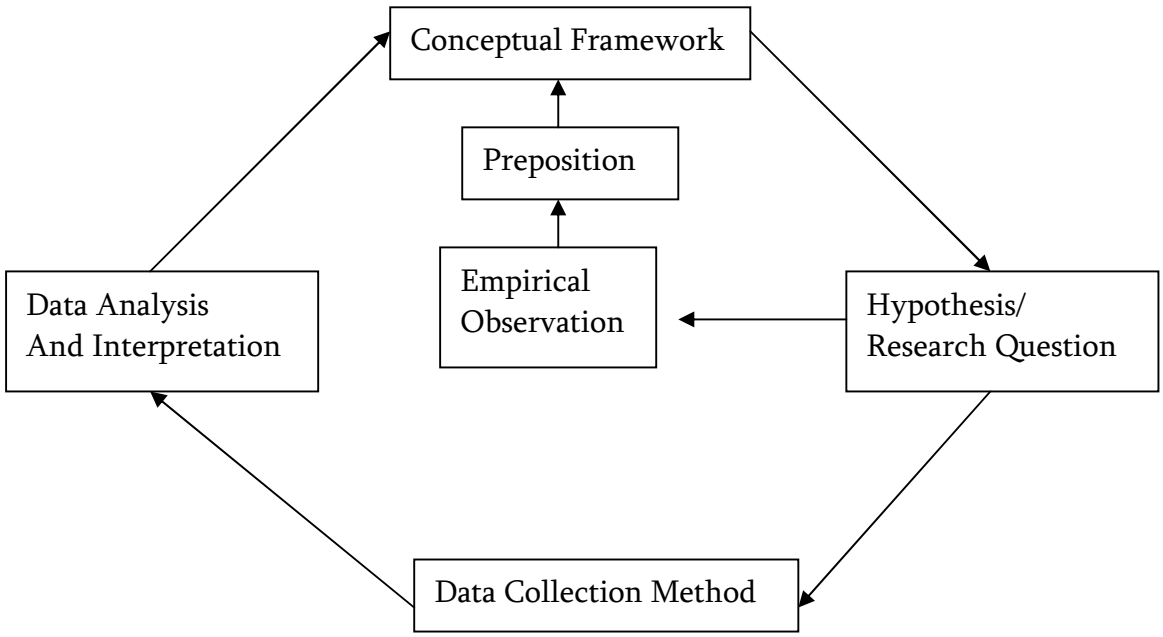


Diagram 3.1
Research Design

3.3 Nature and Sources of Data

This study is based on the secondary data collected from the audited annual reports of the concerning banks. Data related to investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of the concerned Bank's annual reports posted on their website. Supplementary data and information are collected from number of institution and regulatory authorities like Nepal Rastra Bank and Ministry of Finance.

According to the need and objectives, all the secondary data are compiled, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditor.

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

3.4 Population and Sample

In Nepal currently there are 26 commercial banks (ref. annexure 1) actively providing their services to people in Nepalese market. All commercial are profit motive and very good investment policy for the betterment of the Nepalese economy by supporting the small, medium and large scale industries. Some of the banks are jointly financing large investment and boosting up the Nepalese industries.

Investment Policy of Commercial Banks can be analyzed, due to some study limitation the study is conducted on the sampling method and the samples considered for the analysis are:

- Nepal SBI Bank Limited
- Everest Bank Limited

Study is conducted to analyze the investment policy of the above sample banks and have few tools to measure and analyze the investment policy of Nepal SBI Bank limited and Everest Bank Limited. This study has used Financial and Statistical Tools to measure, analyze and compare the investment policy of sample banks.

3.5 Research Variables

Cash and bank balance, loans and Advances, total deposits, total investment, total working funds, investment on government securities, investment on shares and debentures made by two commercial banks, net profit of two commercial banks, total

equity capital, total interest expenses, total interest income are the major research variables of this study.

3.6 Tools for Analysis

Analyzing data is an important and vital task in a study report for achieving the objectives of the study by using some tools. The analysis of data is done according to the data available. Various calculated results can obtained through financial, accounting and statistical tools. In this study Financial and Statistical tools are used to measure the strength of the concerning banks.

3.6.1 Financial Tools

Financial analysis is the process of identifying the financial strength and weakness of the form by properly establishing relationship between the items of the balance sheet. In this study ratio analysis are used as the financial tools for the data analysis.

The relationship between to accounting figures expressed mathematically is known as a financial ratio "ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself over time." From the help of ratio analysis, the qualitative judgment can be done regarding financial performance of a firm. In this study, following ratios are calculated and analyzed:

- **Liquidity Ratios**

It is the applicator to measure the ability of the firms to meet short term obligations. As name denotes the liquidity refers to the ratio between liquid assets and liability. The ability of firm to meet its obligation in the short term is known as liquidity. It reflects the short term financial strength of the business. In order to ensure short term solvency, the company must maintain adequate liquidity. But liquidity ratio must be optimum. If the company maintain unnecessary high liquidity ratio then it may adversely effect in the profitability of the company, which can lose the opportunity to earn high profit, means everybody knows that investing all assets in safe liquid assets doesn't have a good return. As well as, high liquidity may

unnecessary tie up in the current assets. On the other hand if a company doesn't maintain adequate liquidity then it will result in bad credit ratings, less creditors confidence eventually may lead to bankruptcy. Thus the company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding risk.

The following ratios are evaluated under liquidity ratio:

a) Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. It is calculated by dividing current assets by current liabilities, which is presented as follows:

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

Current assets are those assets which can be converted into cash and bank balance with in analysis accounting period such as cash and bank balance, investment in treasury bill, money at call or placement, loans and advances, bills purchased and discount, inter-branch account, other short term loans, receivable and prepaid expense etc.

Current Liabilities refers to the short-term maturing obligations. This includes all deposit liabilities, intra bank reconciliation account, bill payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions and accrued expenses.

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 depositors. The ratio is computed by dividing cash and bank balances by total deposit. Mathematically, it is expressed:

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

Cash and Bank Balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic banks, balance held in foreign banks and other financial institutions. The total deposits encompass current deposits, fixed deposits, investment in other financial institution, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits liability. Moreover, too high ratio is unfit, as capital will be tied-up and opportunity cost will be higher.

c) Cash and Bank Balance to Current Assets Ratio

Since cash and bank balance is the most liquid assets, a financial analyst may examine the ratio of cash and bank balance to current assets. This ratio shows the percentage of readily available fund with in the banks. It is calculated by dividing cash and bank balance by current assets, which is as follows:

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

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits. Higher and lower both the ratio are not desirable. The reason is that if a bank maintain higher ratio of cash, it has to pay interest on deposits but couldn't invest its cash or current assets in a profitable area so it may lost opportunity to earn something. In the opposites, if a bank maintain low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

d) Investment on Government Securities to Current Assets Ratio

The ratio is calculated to find out the percentage of current asset invested in government securities, i.e. treasury bills and government bonds like development bonds and national saving bonds. The ratio is calculated as:

$$\text{Investment on Government to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

Above equation relates the risk free investment in government securities and the current asset of the bank.

e) Loans and Advances to Current Assets Ratio

It is the relationship between loans and advances to current assets or it the banks liquid capacity. Loan and Advances of a bank basically includes different type of loan lend by the bank to the customers in different sector i.e. bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currencies. The ratio is calculated as:

$$\text{Loans and Advances to Current Asset Ratio} = \frac{\text{Loans and Advances}}{\text{Current Asset}}$$

Above mentioned all the ratios are the tools to measure the liquidity strength of the bank with the amount of their various investments. The bank having liquidity strength can face any difficulties in the short run.

Assets Management Ratios

Assets Management Ratios are known as Activity Ratio. Activity ratio evaluates the efficiency with which the firm manages and utilities its assets. This ratio is also known as turnover ratio. It measures how efficiently the company employs the resources at its command. Funds are created by the collection of share as well as debt from the owner, creditors and outside parties. Those are invested in procuring various kinds of assets to generate or income. Activity ratios are the indicators of a concern with regard to its efficiency in assets management, hence they are often referred to as efficiency ratio are computed to assets finance companies efficiency in utilizing available. These ratios are designed to answer this question: does the total amount of each type of assets as regarded on the balance sheet seem reasonable, how high, too low, in view of current assets and operating levels? Either a company or a bank must borrow or obtain funds from other sources to acquire assets. If it has too many assets its interest expenses will be to high and hence its profits will be low; on the other hand, if assets are too lows, profitability sales may be lost.

The following ratios are used under this asset management:

a) Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsider's fund (total deposit) for the profit generating purpose on the loans and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given as below:

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

Here loan and advances refers to total of loan, advances and overdraft and total deposits refers to total of all kinds of deposits.

b) Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on government securities and share, debenture of the other companies and banks. This ratio measure the extent to which the bank are successful in mobilizing total investment on the total deposits, the amount of deposits should be soundly investment as the bank has to only provide interest on its deposits but also has to declare a handsome dividend to its owners and shareholders. This ratio can be calculated by dividing total deposit. This ratio is mention as below:

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

Investment consists of investment of government securities, investment on debenture and bonds, shares in subsidiary companies, share in other companies and other investment. A high ratio indicates that the bank's efficiency is more investing on its deposit and low indicates inability to put its deposit for the lending activities.

c) Loans and Advances to Total Working Fund Ratio

Loan and Advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on the working fund ratio for the purpose of income generator is computed by dividing loans and advances by total working fund. This is stated as below:

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

Here, total working fund includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bonds and other investment in share, debenture and other etc. higher the ratio, higher the utilization, higher the profit and at the same time higher the risk.

d) Investment on Government Securities to Total Working Fund Ratio

The ratio measures to what extent, banks are successful in mobilizing their total working fund on different types of government securities to grow income. All the deposits of banks should not be utilized as loans and advances and other credits from liquidity as well as company's security point of view. That's why some of the investments should be diversified into such kind of investment that has lower risk in comparison to loans. Higher the ratio result, better the mobilization of fund as investment on government securities. This ratio is calculated by dividing investment on government securities by total working fund. This can be stated as:

$$\text{Investment in Govt. Securities to Total Working Fund Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

e) Investment on Shares and Debentures to Total Working Fund Ratio

The purpose of this ratio is to measure the successfulness of mobilizing the total working fund to shares and debenture. Share and Debenture are long term investment. Banks should invest in long term securities by maintaining a liquidity position. The investment risk can be diversified with the help of portfolio

management. This ratio can be computed by dividing investment on shares and debentures by total working fund. This can be stated as:

$$\text{Investment on Shares and Debenture to Total Working Ratio} = \frac{\text{Investment on Shares and Debenture}}{\text{Total Working Fund}}$$

Above mentioned ratio are tools for measuring the asset performance and activity of the banks in this study of their investment policy.

Profitability Ratios

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratios, better the financial performance, of commercial banks.

Profitability ratios are:

a) Return on Loans and Advances Ratio

This ratio shows how effectively the bank has utilized its resources in the form of loans and advances. It is the rate of return on the loan and advances. Mathematically, it can be expressed as:

$$\text{Return on Loans and Advances} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

b) Return on Total Working Fund Ratio

It is also known as return on assets. The ratio measures the overall profitability of all working funds, i.e. total assets. A firm or a financial institution has to earn

satisfactory return on assets or working fund for its survival. The ratio can be computed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

c) Return on Equity Ratio

This ratio measures how efficiently the banks have used the funds of owners. The ratio can be computed as:

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

d) Total Interest Expenses to Total Working Fund Ratio

Interest paid to total working fund ratio is defined as the ratio of total interest paid to total working fund. This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher expenses on total working fund. The ratio is calculated as interest paid to total working fund. Mathematically;

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

e) Total Interest Income to Total Working Fund Ratio

Interest income to total working fund ratio is defined as the ratio of total interest income to total working fund. This ratio measures the percentage of total interest income against total working fund. A high ratio indicates higher expenses on total working fund. The ratio is calculated as interest income to total working fund. Mathematically;

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

Above mentioned ratios are the tools for measuring the profitability of the banks with relating to various variables.

Risk Ratios

The possibility of risk makes a bank's investment a challenging risk. Bank to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So, a bank has to have idea of the level of risk that one has to bear while investing funds.

The following ratios are evaluated under this study:

a) Liquidity Risk Ratio

The liquidity risk ratio of a bank defines its liquidity need for deposits. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposits as the liquidity needs. The ratio of cash and bank balance to total deposits is an indicator of bank liquidity needs.

The risk is low if funds are kept idle or as cash and bank balance but this affects profitability. When bank makes loan, it profitability increases and also the risk. Thus, higher liquidity ratio indicates less risk and less profitability whereas lower liquidity ratio indicates higher risk. The ratio can be computed as:

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

b) Credit Risk 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 that bank. According to definition, credit risk ratio is expressed as the percentage of non performing loan to total loan and advances. Credit risk ratio is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Assets}}$$

3.6.2 Statistical Tools

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

Growth Ratio

Growth ratio represents how well the Commercial Banks are maintaining their economic and financial status. Under this title, four types of ratio are studied. They are directly related to the fund mobilization and investment of commercial bank. These ratios are:

a) Growth Ratio of Total Deposits
b) Growth Ratio of Loans and Advances
c) Growth Ratio of Total Investment
d) Growth Ratio of Net Profit

Coefficient of Variation

The co-efficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which is defines as the ration of the standard deviation to the mean expressed in resulting percentage, its is used in such problems where we want to command the variability of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogenous.

We can denote this by following formula:

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation x 100}}{\text{Mean}}$$

Coefficient of Correlation (r)

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation

measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1, when r=+1, it means there is perfect relationship between two variables and vice versa. When r=0, it means there is no relationship between two variables. The Pearson's formula is:

$$r = \frac{\sum(X - \overline{X})\,(Y - \overline{Y})}{\sqrt{\sum(X - X)^2 \sum(Y - Y)^2}}$$

Where,

r = coefficient of correlation

x = independent variable

y = dependent variable

n = number of periods

Probable Error of the Coefficient of Correlation

After the calculation of co-efficient of correlation the next thing is to find out the extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. If a probable error is added to or subtracted from co-efficient of correlation. It would give two such limits with in which we can reasonably accept the value of co-efficient of correlation to vary. The formula for finding our the probable of error of the Karl Pearson's co-efficient of correlation is:

$$P.E.\ (r) = 0.6745 \times \frac{(1-r^2)}{\sqrt{N}}$$

Where,

P.E. (r) = probable error of co-efficient of correlation

r = co-efficient of correlation

n = number of pairs of observations

In order to conclude whether the co-efficient of correlation is significant or not, the following points should be kept in mind:

- If the co-efficient of correlations is less than is probable error, it is not at all significant,

- If the co-efficient of correlations is more than six times of probable error it is definitely significant.
- If the probable error is not much and if the co-efficient of correlation is 0.5 or more it is generally to be significant.

3.7 Limitations of the Research Methodology

Each Methodology suffers from some kind of limitations. Therefore, the methodology used in this research cannot be different from the common limitations of same type of researches. However, in analyzing the investment policy of the selected sample, the tools applied cannot best describe the relationship between the variables under study since it is affected by numerous other assumptions. Also the study is limited to the numerical data and the numerical values for measuring the investment policy, keeping the thought and intensions away.

3.8 Research Gap

The purpose of research work is quite different from the studies done by the above persons. This study focuses the effectiveness on investment policy analysis of Nepal SBI Bank Limited and Everest Bank Limited in comprehensive manner considering the major items. The method of analysis is fully different. Financial tools and statistical tools are used in this study as ratio analysis and correlation coefficient. The above research is completely based on the secondary data. Hence, this research is distinct in the sense of presenting secondary data as well as primary data which shows the concise figure of investment policy adopted by the two commercial banks.

This Research work is also based on the current directives and circulars issued by NRB regarding investment policy. Also, the study is limited to the numerical data and the numerical values for measuring the investment policy, keeping the thought and intensions away.

This study is done on two banks (Nepal SBI Bank Limited and Everest Bank Limited) and has tried to indicate the effectiveness of investment policy of concern banks.

CHPAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

This is most important part of the study since all the collected data are presented, processed and analyzed in this chapter. Data are collected from various secondary sources. The outcome of the study depends upon this chapter. Financial and Statistical tools mentioned in the introduction chapter of this study report are used here for interpretation.

4.1.1 Analysis of Financial Ratio

- **Liquidity Ratios**

Liquidity ratio shows a banks obligation in the short term or short run solvency. It is also measures the speed with which a bank asset can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are calculated under liquidity ratio. To measure the liquidity portion of concerned banks following ratio has been calculated and bring analysis of the same has been done.

The following ratios are evaluated under liquidity ratio:

a) Current Ratio

Current Ratio shows the relationship between current assets and current liabilities. Current Assets are those assets which can be converted into cash within the short period of time, normally not exceeding one year, i.e. cash and bank balance, money at call, investment, loan and advances and bill purchase. Current Liabilities are those obligations which are payable within a short span of time, i.e. Borrowing and Deposits. Mathematically,

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

Table 4.1

Current Ratio

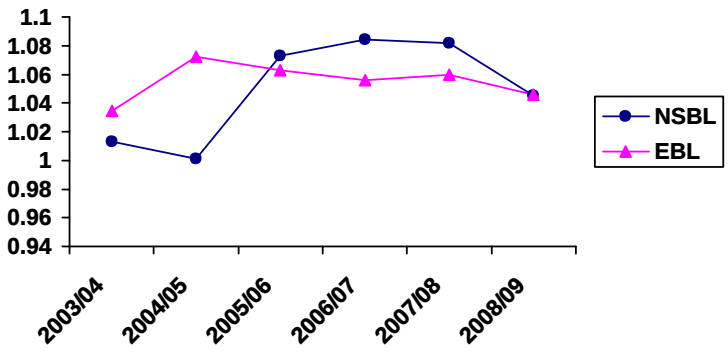
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	1.0130	1.0348
2004/05	1.0012	1.0724
2005/06	1.0730	1.0630
2006/07	1.0841	1.0556
2007/08	1.0820	1.0596
2008/09	1.0454	1.0460
Mean	1.0498	1.0552
S.D.	0.0360	0.0132
C.V.	3.4293	1.2542

(Ref. Annexure 8)

The current ratio of two commercial banks, Nepal SBI Bank Ltd and Everest Bank Ltd is calculated and mean, standard deviation and co-efficient of variation for the same is computed. The above table (Table 4.1) provides comparative numerical values. The mean Current Ratio of NSBL is 1.0498 which is lower than that of the EBL, which is 1.0552; this shows EBL is in strong position to meet the short term obligations of the stakeholders. The standard deviation of NSBL is 0.0360 which is greater than of EBL which is 0.0132. This shows the EBL is more consistent in comparison to NSBL for maintaining the Current Ratio.

Data in the above table can make a clear view in a diagram.

Diagram 4.1
Current Ratio



Above diagram shows a high pull of current ratio of the Nepal SBI Bank Ltd whereas the current ratio of Everest Bank Ltd is some what consistent. In the beginning of the sample years taken current ratio of EBL are high and from the diagram we can see from mid year 2005/06 the current ratio of NSBL has been higher than of the EBL. This diagram shows the consistency of EBL and a good increase of NSBL in Current Ratio.

b) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic banks, balance held in foreign banks and other financial institutions. The total deposits encompass current deposits, fixed deposits, investment in other financial institution, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits liability. Moreover, too high ratio is unfit, as capital will be tied-up and opportunity cost will be higher.

Mathematically, it is expressed:

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

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

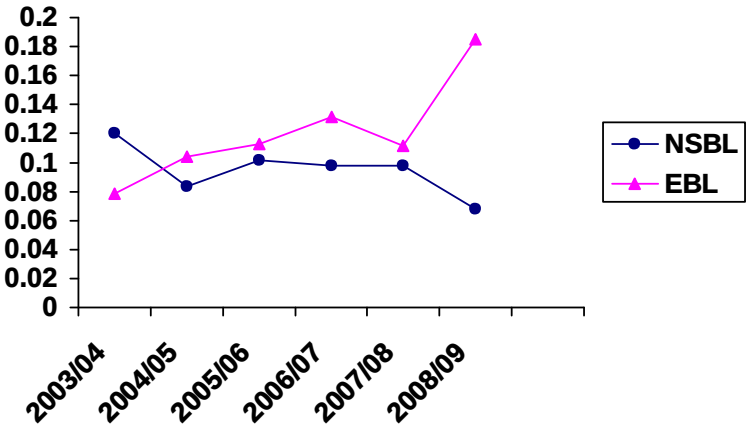
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.1201	0.0783
2004/05	0.0836	0.1040
2005/06	0.1016	0.1125
2006/07	0.0981	0.1315
2007/08	0.0979	0.1113
2008/09	0.0681	0.1850
Mean	0.0949	0.1204
S.D.	0.0176	0.0360
C.V.	18.5175	29.8872

(Ref. Annexure 9)

The table (Table 4.2) shows the cash and bank balance to total deposit ratio of the two commercial banks NSBL and EBL. The above table (Table 4.2) provides comparative numerical values. The mean Cash and Bank Balance to Total Deposit Ratio of NSBL is 0.0949 which is lower than that of the EBL which is 0.1204; this shows EBL is in strong position to meet the short term obligations of the Deposits in comparison. The standard deviation of NSBL is 0.0176 which is lesser than of EBL which is 0.0360; this shows the NSBL is more consistent in comparison to EBL for maintaining the Cash and Bank Balance to Total Deposit Ratio. Overall we can say EBL has maintained good ratio of cash and bank balance to its total deposit.

Diagram can provide the more proper view of the table.

Diagram 4.2
Cash and Bank Balance to Total Deposit Ratio



Above diagram shows the decrease in ratio of the NSBL and increase in the ratio cash and bank balance to total deposit ratio that of EBL.

c) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance is the most liquid assets, a financial analyst may examine the ratio of cash and bank balance to current assets. A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits. It is calculated by dividing cash and bank balance by current assets, which is as follows:

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

Cash and Bank Balance to Current Assets Ratio

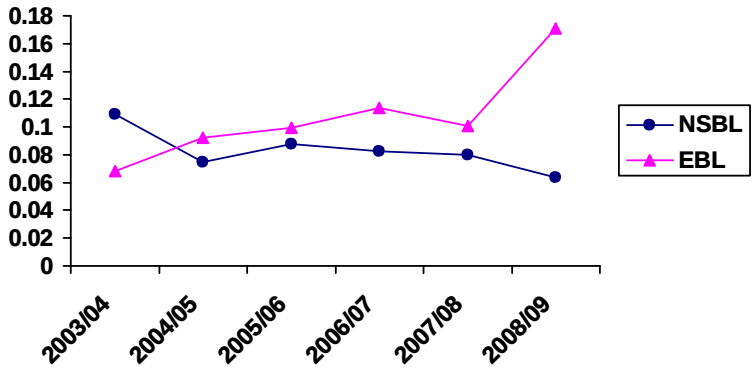
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.1092	0.0684
2004/05	0.0749	0.0924
2005/06	0.0879	0.0994
2006/07	0.0826	0.1137
2007/08	0.0797	0.1010
2008/09	0.0638	0.1712

Mean	0.0830	0.1077
S.D.	0.0152	0.0345
C.V.	18.3335	32.0837

(Ref. Annexure 10)

This ratio shows the percentage of readily available fund with in the banks. Higher and lower both the ratio are not desirable. The mean Cash and Bank Balance to Current Assets Ratio of NSBL is 0.0830 which is lower than that of the EBL is 0.1077; this shows EBL is in strong position to meet the short term obligations. The standard deviation of NSBL is 0.0152 which is greater than of EBL is 0.0345 this shows the EBL is more consistent in comparison to NSBL for maintaining the Cash and Bank Balance to Current Assets Ratio. The table above shows both the banks have good ratio to sustain their cash demand but EBL has somewhat increasing ratio which might not be good for the bank.

Diagram 4.3
Cash and Bank Balance to Current Assets Ratio



The diagram shows the cash and bank balance to current asset ratio is fluctuating during the five year period. In an average NSBL has maintained lower cash and bank balance ratio than that of EBL and the standard deviation and coefficient of variation of the ratio shows NSBL have consistency over the ratio.

d) Investment on Government Securities to Current Assets Ratio

The ratio is calculated to find out the percentage of current asset invested in government securities, i.e. treasury bills and government bonds like development bonds and national saving bonds. The ratio is calculated as:

$$\text{Investment on Government to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

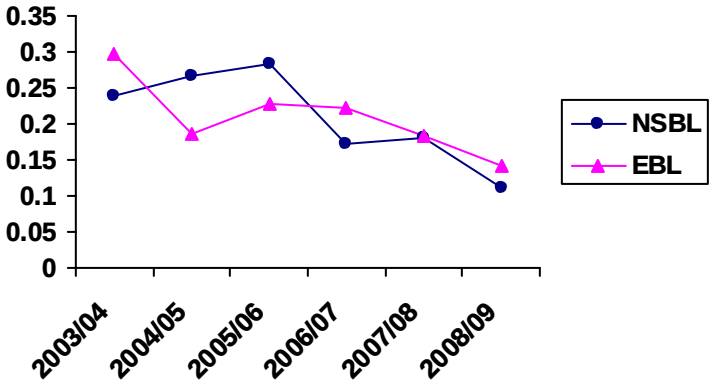
Table 4.4
Investment on Government Securities to Current Assets Ratio

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.2387	0.2670
2004/05	0.2677	0.1848
2005/06	0.2824	0.2272
2006/07	0.1726	0.2236
2007/08	0.1802	0.1825
2008/09	0.1108	0.1430
Mean	0.2087	0.2047
S.D.	0.0656	0.0434
C.V.	31.4379	21.2286

(Ref. Annexure 11)

Above equation relates the risk free investment in government securities and the current asset of the bank. The mean Investment on Government Securities to Current Assets Ratio of NSBL is 0.2087 which is higher than that of the EBL is 0.2047. The standard deviation of NSBL is 0.0656 which is greater than of EBL is 0.0434 this shows the EBL is more consistent in comparison to NSBL for maintaining the Investment on Government Securities to Current Assets Ratio.

Diagram 4.4
Investment on Government Securities to Current Assets Ratio



Above diagram shows the declining trend of both the banks in the Investment on Government Securities comparative to Current Assets.

e) Loans and Advances to Current Assets Ratio

It is the relationship between loans and advances to current assets or if shows the banks the banks liquid capacity. Loan and Advances of a bank basically includes different type of loan lend by the bank to the customers in different sector i.e. bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currencies. The ratio is calculated as:

$$\text{Loans and Advances to Current Asset Ratio} = \frac{\text{Loans and Advances}}{\text{Current Asset}}$$

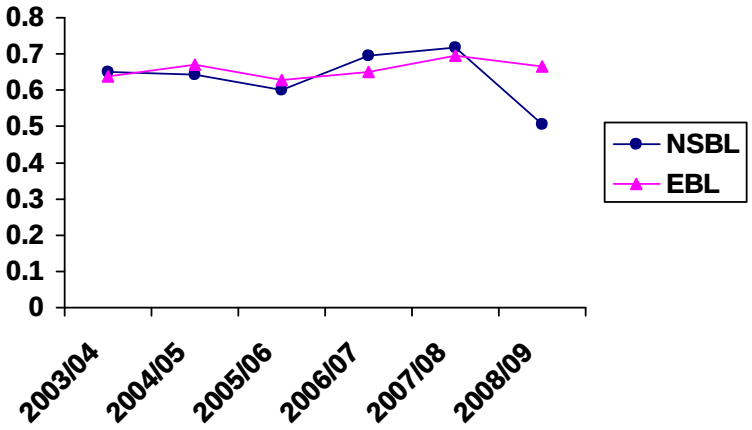
Table 4.5
Loans and Advances to Current Assets Ratio

Year \ Bank	**Nepal SBI Bank Ltd**	**Everest Bank Ltd**
2003/04	0.6498	0.6369
2004/05	0.6427	0.6702
2005/06	0.5996	0.6274
2006/07	0.6960	0.6494
2007/08	0.7189	0.6943
2008/09	0.5068	0.6653
Mean	0.6357	0.6570
S.D.	0.0758	0.0243
C.V.	11.9228	3.6960

(Ref. Annexure 12)

The mean Loans and Advances to Current Assets Ratio of NSBL and EBL are 0.6357 and 0.6570 respectively. The standard deviation of NSBL is 0.0758 which is greater than of EBL is 0.0243 this shows the EBL is more consistent in comparison to NSBL for maintaining the Loans and Advances to Current Assets Ratio.

Diagram 4.5
Loan and Advances to Current Assets Ratio



Above mentioned all the ratios are the tools to measure the liquidity strength of the bank with the amount of their various investments. Diagram shows the similar behavior of both the banks and increasing trend in the ratio. The bank having liquidity strength can face any difficulties in the short run.

Assets Management Ratios

Assets Management Ratios are known as Activity Ratio. Activity ratio evaluates the efficiency with which the firm manages and utilities its assets. This ratio is also known as turnover ratio. It measures how efficiently the company employs the resources at its command. Funds are created by the collection of share as well as debt from the owner, creditors and outside parties. Those are invested in procuring various kinds of assets to generate or income. Activity ratios are the indicators of a concern with regard to its efficiency in assets management, hence they are often referred to as efficiency ratio are computed to assets finance companies efficiency in utilizing available. These ratios are designed to answer this question: does the total amount of each type of assets as regarded on the balance sheet seem reasonable, how high, too low, in view of current assets and operating levels? Either a company or a bank must borrow or obtain funds from other sources to acquire assets. If it has too many assets its interest expenses will be to high and hence its profits will be low; on the other hand, if assets are too lows, profitability sales may be lost.

The following ratios are used under this asset management:

a) Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsider's fund (total deposit) for the profit generating purpose on the loans and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund. It can be calculated

by dividing the amount of loans and advances by the amount of total deposits, which is given as below:

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

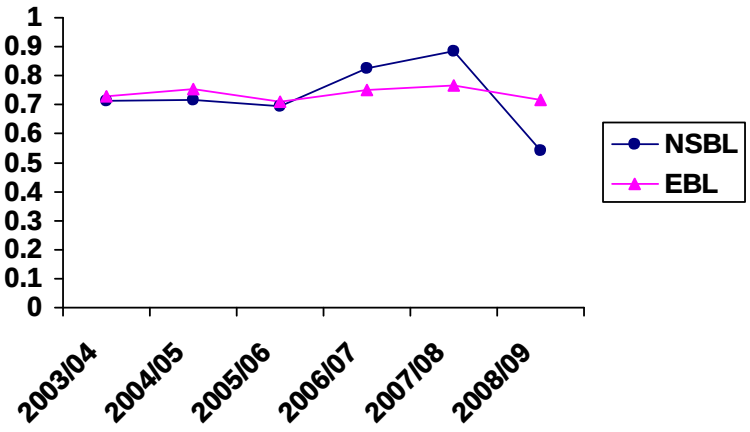
Table 4.6
Loan and Advances to Total Deposit Ratio

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.7146	0.7297
2004/05	0.7180	0.7545
2005/06	0.6932	0.7101
2006/07	0.8266	0.7513
2007/08	0.8832	0.7649
2008/09	0.5412	0.7168
Mean	0.7295	0.7379
S.D.	0.1185	0.0222
C.V.	16.2396	3.0125

(Ref. Annexure 13)

From the above table (Table 4.6) we can see the average or mean of the ratio, Loan and Advances to Total Deposit, NSBL 0.7295 and EBL 0.7379 (0.7379 >0.7295). It shows the fund utilization of EBL is more than that of NSBL. It also says EBL is more focused on utilizing the fund. In the same table we can see Standard Deviation of ratio of the banks, NSBL 0.1185 and EBL 0.0222. It is the average fluctuation in ratio over the period of six years as in the table.

Diagram 4.6
Loan and Advance to Total Deposits Ratio



Here loan and advances refers to total of loan, advances and overdraft and total deposits refers to total of all kinds of deposits. Loan and Advances to Total Deposit ratio of NSBL and EBL are some what near about. As in the diagram we can see that the ratio of EBL is more consistent than that of the NSBL. However NSBL have increased its ratio but EBL has a consistent increase which is good and healthy policy.

b) Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on government securities and share, debenture of the other companies and banks. This ratio measure the extent to which the bank are successful in mobilizing total investment on the total deposits, the amount of deposits should be soundly investment as the bank has to put only provide interest on its deposits but also has to declare a handsome dividend to its owners and shareholders. This ratio can be calculated by dividing total deposit. This ratio is mention as below:

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

Total Investment to Total Deposit Ratio

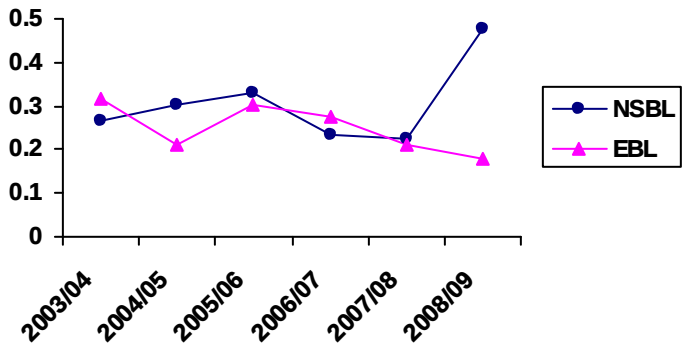
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.2650	0.3144
2004/05	0.3013	0.2108
2005/06	0.3282	0.3043
2006/07	0.2324	0.2741
2007/08	0.2252	0.2110
2008/09	0.4752	0.1785

Mean	0.3045	0.2489
S.D.	0.0925	0.0563
C.V.	30.3695	22.6169

(Ref. Annexure 14)

Above table (Table 4.7) shows Total Investment to Total Deposit ratio over sample period of six years, data considered and mean of the same ratio of both the banks NSBL and EBL. It shows the mean ratio of Total Investment to Total Deposit is NSBL 0.3045 > EBL 0.2489. Here we can say, NSBL is holding strong side with this ratio to that of EBL. Standard Deviation and Coefficient of Variation of the ratio also points NSBL maintaining a good ratio.

Diagram 4.7
Total Investment to Total Deposit Ratio



Above diagram shows the ratio position of both the bank NSBL and EBL and concludes that both banks are maintaining good ratio in above presented period of data analysis.

c) Loans and Advances to Total Working Fund Ratio

Loan and Advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on the working fund ratio for the purpose of income generator is computed by dividing loans and advances by total working fund. This is stated as below:

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

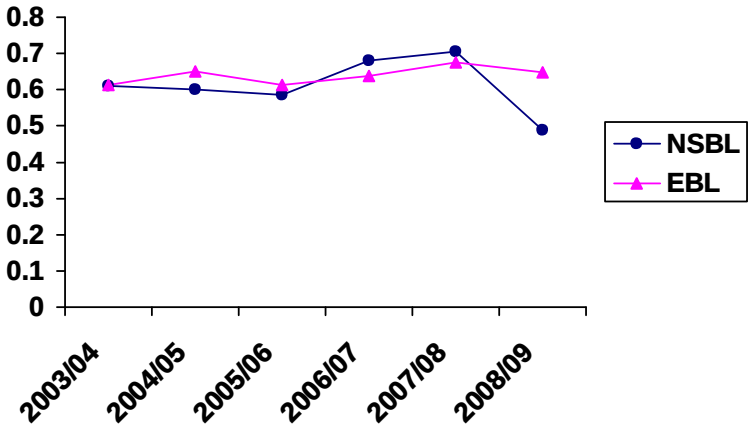
Table 4.8
Loans and Advances to Total Working Fund Ratio

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.6094	0.6124
2004/05	0.6006	0.6494
2005/06	0.5851	0.6141
2006/07	0.6805	0.6375
2007/08	0.7048	0.6755
2008/09	0.4894	0.6470
Mean	0.6116	0.6393
S.D.	0.0764	0.0238
C.V.	12.4926	3.7216

(Ref. Annexure 15)

Above table (Table 4.8) shows Loan and Advances to Total Working Fund ratio for NSBL and EBL. In the table calculated mean of ratio is NSBL 0.6116 < EBL 0.6393, the Standard Deviation (NSBL 0.0764 > EBL 0.0238) and Coefficient of Variation (NSBL 12.4926 > EBL 3.7216), which shows EBL has been maintaining good ratio over the period and is efficient in using its funds available from the market.

Diagram 4.8
Loans and Advances to Total Working Fund Ratio



Above diagram helps us to figure out the consistency of bank in maintaining the ratio over the period in at a glance. It shows EBL has been consistent in maintaining the ratio than that of NSBL.

d) Investment on Government Securities to Total Working Fund Ratio

The ratio measures to what extent, banks are successful in mobilizing their total working fund on different types of government securities to grow income. All the deposits of banks should not be utilized as loans and advances and other credits from liquidity as well as company's security point of view. That's why some of the investments should be diversified into such kind of investment that has lower risk in comparison to loans. Higher the ratio result, better the mobilization of fund as investment on government securities. This ratio is calculated by dividing investment on government securities by total working fund. This can be stated as:

$$\text{Investment in Govt. Securities to Total Working Fund Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

Table 4.9
Investment on Government Securities to Total Working Fund Ratio

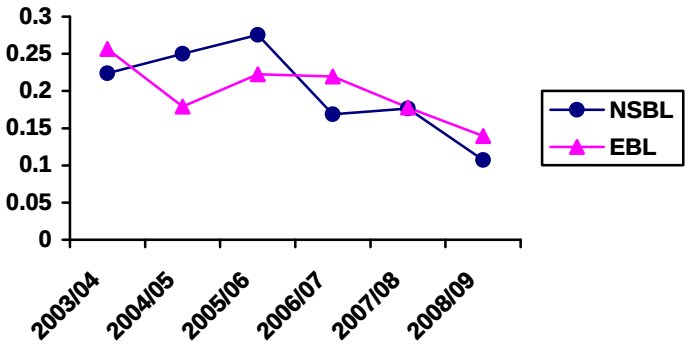
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.2239	0.2567
2004/05	0.2502	0.1790
2005/06	0.2755	0.2224
2006/07	0.1687	0.2195
2007/08	0.1766	0.1776
2008/09	0.1070	0.1394
Mean	0.2003	0.1991
S.D.	0.0616	0.0417
C.V.	30.7532	20.9570

(Ref. Annexure 16)

Above table (Table 4.9) shows investment on Government Securities to Total Working Fund Ratio. Here, NSBL has maintained the higher mean ratio of 0.2003 and EBL has lower one with 0.1991, with standard deviation (NSBL 0.0616> EBL 0.0417) and Coefficient of Variation (NSBL 30.7532 > EBL 20.9570).

The coefficient of variation is also higher indicating its variability than EBL. Here, NSBL have maintained higher average ratio and EBL is consistent in maintaining the ratio. On overall analysis the ratio data we can say EBL is successful in maintaining good ratio and secure investment.

Diagram 4.9
Investment on Government Securities to Total Working Fund Ratio



Above diagram shows the ratio of both banks. From the diagram we can see NSBL is not consistent in maintaining the ratio than of the EBL.

e) Investment on Shares and Debentures to Total Working Fund Ratio

The purpose of this ratio is to measure the successfulness of mobilizing the total working fund to shares and debenture. Share and Debenture are long term investment. Banks should invest in long term securities by maintaining a liquidity position. The investment risk can be diversified with the help of portfolio management. This ratio can be computed by dividing investment on shares and debentures by total working fund. This can be stated as:

$$\text{Investment on Shares and Debenture to Total Working Fund Ratio} = \frac{\text{Investment on Shares and Debenture}}{\text{Total Working Fund}}$$

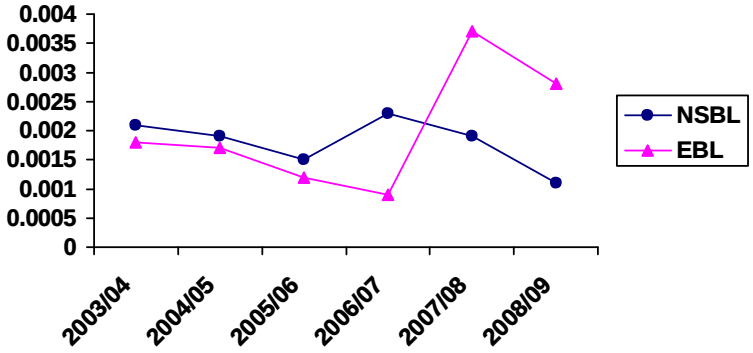
Table 4.10
Investment on Shares and Debenture to Total Working Fund Ratio

Year \ Bank	**Nepal SBI Bank Ltd**	**Everest Bank Ltd**
2003/04	0.0021	0.0018
2004/05	0.0019	0.0017
2005/06	0.0015	0.0012
2006/07	0.0023	0.0009
2007/08	0.0019	0.0037
2008/09	0.0011	0.0028
Mean	0.0018	0.0020
S.D.	0.0004	0.0010
C.V.	24.8819	51.7666

(Ref. Annexure 17)

From the table (Table 4.10) we discovered that both bank have fluctuating trend in the ratio, however EBL has highest ratio 0.0037 in FY 2007/08 and the lowest ratio 0.0009 in FY 2006/07, whereas NSBL has the highest ratio 0.0023 in FY 2006/07 and lowest 0.0015 in FY 2005/06. The mean value of return of NSBL is 0.0011 and EBL is 0.0028 during the FY 2008/09. The coefficient of variation of NSBL is lower 24.8819 than the EBL 51.7666, which indicate that NSBL is successful for better utilization of investment on shares and debenture than EBL and it is more consistent to investment on shares and debentures.

Diagram 4.10
Investment on Shares and Debenture to Total Working Fund Ratio



Above mentioned ratio are tools for measuring the asset performance and activity of the banks in this study of their investment policy.

Profitability Ratios

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratios, better the financial performance, of commercial banks.

Profitability ratios are:

a) Return on Loans and Advances Ratio

This ratio shows how effectively the bank has utilized its resources in the form of loans and advances. It is the rate of return on the loan and advances. Mathematically, it can be expressed as:

$$\text{Return on Loans and Advances} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

Table
Return on Loans and Advances

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	1.18	2.44
2004/05	0.92	2.21

2005/06	1.53	2.42
2006/07	2.69	2.17
2007/08	2.05	2.46
2008/09	1.73	2.67
Mean	1.68	2.40
S.D.	0.7077	0.1849
C.V.	42.2200	7.7179

(Ref. Annexure 18)

Above table (Table 4.11) shows NSBL have highest return 2.69 in FY 2006/07 and lowest return 0.92 in FY 2004/05, whereas EBL have highest return 2.67 in FY 2008/09 and lowest 2.17 in FY 2006/07. Mean ratio of both the bank are NSBL 1.68 < EBL 2.40. It indicates EBL is more successful to earn high return on its loan and advances. However the coefficient of variation of EBL is indicating that it is consistent in maintaining the return on Loan and Advances than that of NSBL.

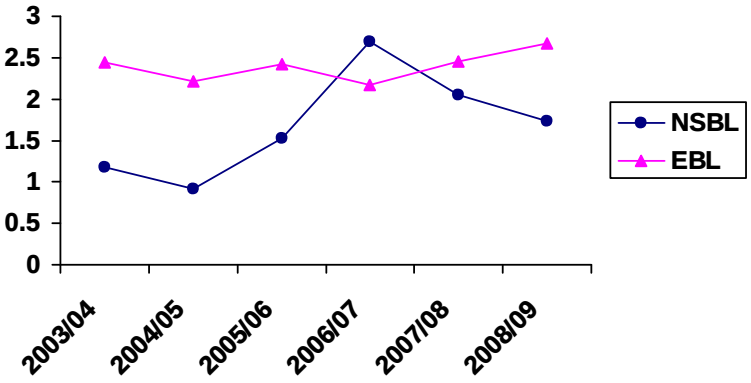


Diagram 4.11
Return on Loan and Advances

In the above diagram it seems to be the return on Loan and Advances of NSBL is fluctuating and EBL is efficient in maintaining the consistency on return.

b) Return on Total Working Fund Ratio

It is also known as return on assets. The ratio measures the overall profitability of all working funds, i.e. total assets. A firm or a financial institution has to earn satisfactory return on assets or working fund for its survival. The ratio can be computed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

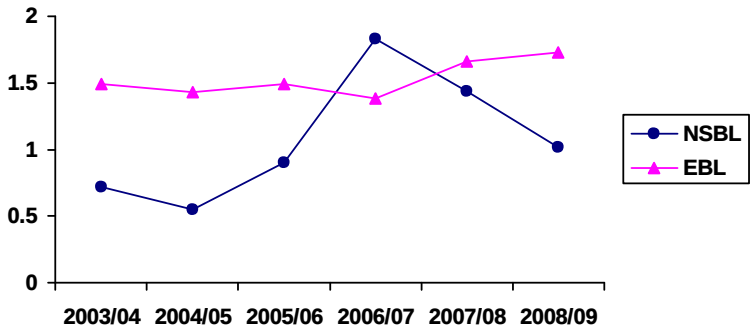
Table 4.12
Return on Total Working Fund Ratio

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.72	1.49
2004/05	0.55	1.43
2005/06	0.90	1.49
2006/07	1.83	1.38
2007/08	1.44	1.66
2008/09	1.02	1.73
Mean	1.08	1.53
S.D.	0.4775	0.1353
C.V.	44.2716	8.8324

(Ref. Annexure 19)

Above table (Table 4.12) shows NSBL has increasing tendency from FY 2003/04 onwards and have earned the higher of 1.73 in FY 2008/08. EBL have some what consistency of the ratio which is the highest 1.66 in FY 2007/08 and lowest 1.38 in FY 2006/07. The mean ratio of EBL is higher 1.73 than that of NSBL 1.02; it indicates that EBL is again successful in gaining more profit rationally than of the NSBL. From the table we can see Standard Deviation (NSBL 0.4775 > EBL 0.1353) and Coefficient of Variation (NSBL 44.2716 > EBL 8.8324), it also indicates that EBL have maintained consistency over the period in earning on Total Working Fund Ratio.

Diagram 4.12
Return on Total Working Fund Ratio



Above diagram (Diagram 4.12) shows the inconsistency of NSBL in earning profit to the Total Working Fund Ratio than that of EBL. However is shows the increasing trend in the profit of the NSBL.

c) Return on Equity Ratio

This ratio measures how efficiently the banks have used the funds of owners. The ratio can be computed as:

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

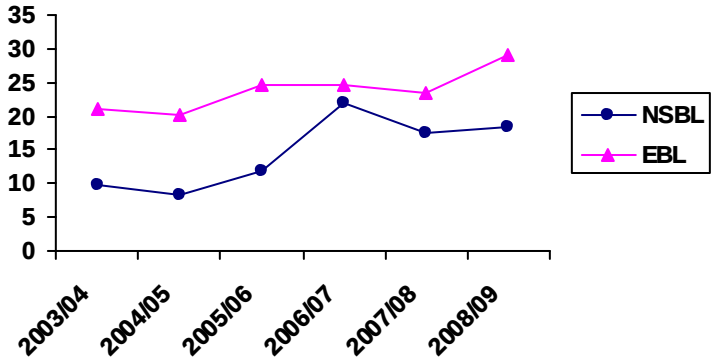
Table 4.13
Return on Equity Capital Ratio

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	9.71	21.10
2004/05	8.33	20.20
2005/06	11.91	24.65
2006/07	21.91	24.67
2007/08	17.51	23.49
2008/09	18.47	28.99
Mean	14.64	23.85
S.D.	5.4301	3.1195
C.V.	37.0864	13.0805

(Ref. Annexure 20)

Above table (Table 4.13) shows NSBL has increasing tendency from FY 2003/04 onwards and have earned the highest of 21.91 in FY 2006/07. EBL have some what consistency of the ratio which is the highest 28.99 in FY 2008/09 and lowest 20.20 in FY 2004/05. The mean ratio of EBL is higher 23.85 than that of NSBL 14.64; it indicates that EBL is again successful in gaining more profit rationally than of the NSBL. From the table we can see Standard Deviation (NSBL 5.4301 > EBL 3.1195) and Coefficient of Variation (NSBL 37.0864 > EBL 13.0805), it also indicates that EBL have maintained consistency over the period in earning on Total Working Fund Ratio.

Diagram 4.13
Return on Equity Capital Ratio



Above diagram (Diagram 4.13) also shows the increasing trend of NSBL and as well the consistency of EBL in maintaining the ratio.

d) Total Interest Expenses to Total Working Fund Ratio

Interest paid to total working fund ratio is defined as the ratio of total interest paid to total working fund. This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher expenses on total working fund. The ratio is calculated as interest paid to total working fund. Mathematically;

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

Table 4.14
Total Interest Paid to Total Working Fund Ratio

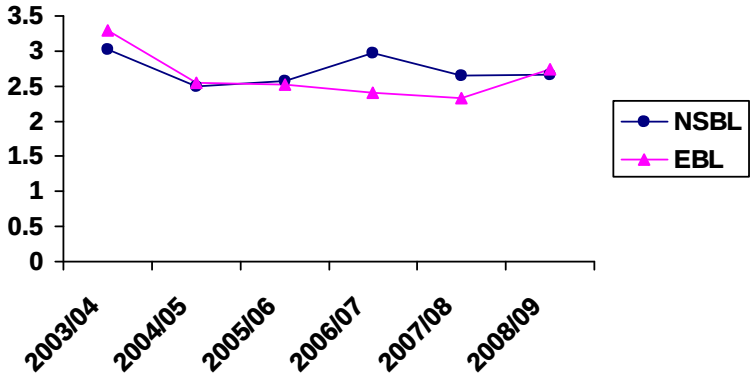
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	3.03	3.29
2004/05	2.50	2.55
2005/06	2.57	2.52
2006/07	2.97	2.41
2007/08	2.65	2.33
2008/09	2.67	2.74
Mean	2.73	2.64
S.D.	0.2180	0.3485
C.V.	7.9866	13.1939

(Ref. Annexure 21)

Above table (Table 4.14) shows the interest expenses, from the table we can find that the NSBL have highest 3.03 in FY 2003/04 and lowest 2.50 in FY 2004/05, whereas EBL have highest of 3.29 in FY 2003/04 and lowest of 2.33 in FY 2007/08. The mean of the ratio is NSBL have 2.73, which is higher of EBL 2.64. It shows the success of EBL in reducing their cost on the funds they utilize.

In the table Standard Deviation (NSBL 0.2180 < 0.3485) and Coefficient of Variation (NSBL 7.9866 < EBL 13.1939), it indicates NSBL is consistent in maintaining the ratio.

Diagram 4.14
Total Interest Paid to Total Working Fund Ratio



From the above diagram we can see that EBL have decreased its cost on the interest of fund the bank uses. In the beginning years EBL have higher interest expenses rationally that of NSBL and with days and years EBL is successful in cutting its interest expenses proportionally.

e) Total Interest Income to Total Working Fund Ratio

Interest income to total working fund ratio is defined as the ratio of total interest income to total working fund. This ratio measures the percentage of total interest income against total working fund. A high ratio indicates higher expenses on total working fund. The ratio is calculated as interest income to total working fund. Mathematically;

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

Table 4.15
Total Interest Income to Total Working Fund Ratio

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	5.85	6.84
2004/05	5.59	6.13

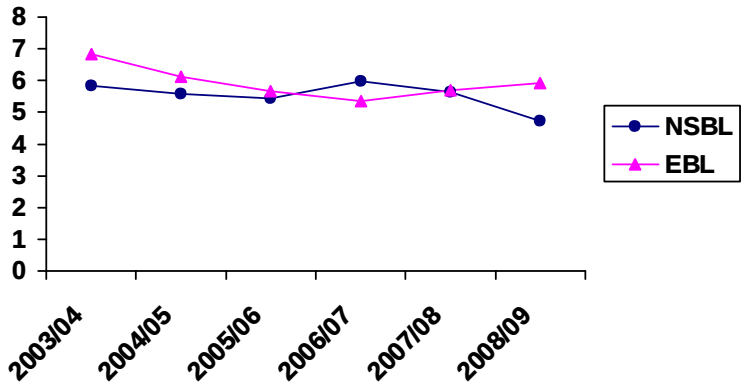
2005/06	5.44	5.66
2006/07	5.98	5.34
2007/08	5.65	5.70
2008/09	4.72	5.92
Mean	5.54	5.93
S.D.	0.4423	0.5179
C.V.	7.9873	8.7283

(Ref. Annexure 22)

Above table (Table 4.15) shows the interest income, from the table we can find that the NSBL have highest 5.98 in FY 2006/07 and lowest 4.72 in FY 2008/09, whereas EBL have highest of 6.84 in FY 2003/04 and lowest of 5.34 in FY 2006/07. The mean of the ratio is NSBL have 5.54, which is lower of EBL 5.93. It shows the both the banks are not much successful in increasing their interest income on the funds they utilize.

In the table Standard Deviation (NSBL 0.2143 < 0.5790) and Coefficient of Variation (NSBL 3.7601 < EBL 9.7550), it indicates NSBL is consistent in maintaining the ratio.

Diagram 4.15
Total Interest Income to Total Working Fund Ratio



From the above diagram we can see that both the banks have decreased their interest income from the fund bank uses. In the beginning years EBL have higher interest income rationally that of NSBL and with days and years both the banks have not been successful increasing their interest income while the funds have been increased.

Above mentioned ratios are the tools for measuring the profitability of the banks with relating to various variables.

Risk Ratios

The possibility of risk makes a bank's investment a challenging risk. Bank to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So, a bank has to have idea of the level of risk that one has to bear while investing funds.

The following ratios are evaluated under this study:

a) Liquidity Risk Ratio

The liquidity risk ratio of a bank defines its liquidity need for deposits. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposits as the liquidity needs. The ratio of cash and bank balance to total deposits is an indicator of bank liquidity needs.

The risk is low if funds are kept idle or as cash and bank balance but this affects profitability. When bank makes loan, it profitability increases and also the risk. Thus, higher liquidity ratio indicates less risk and less profitability ratio indicates higher risk. The ratio can be computed as:

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

Table 4.16
Liquidity Risk Ratio

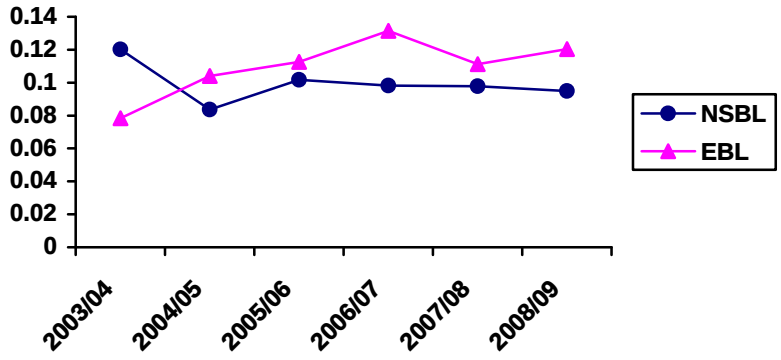
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	0.1201	0.0783
2004/05	0.0836	0.1040
2005/06	0.1016	0.1125
2006/07	0.0981	0.1315
2007/08	0.0979	0.1113
2008/09	0.0681	0.1850
Mean	0.0949	0.1204
S.D.	0.0176	0.0360
C.V.	18.5175	29.8872

(Ref. Annexure 23)

The table (Table 4.16) shows the Liquidity Risk ratio of the two commercial banks NSBL and EBL. The above table (Table 4.16) provides comparative numerical values. The mean Cash and Bank Balance to Total Deposit Ratio of NSBL is 0.0949 which is lower than that of the EBL is 0.1204; this shows EBL is in strong position to meet the short term obligations of the Deposits in comparison.

The standard deviation of NSBL is 0.0131 which is lesser than of EBL is 0.0192 this shows the NSBL is more consistent in comparison to EBL for maintaining the Liquidity Risk Ratio. Overall we can say EBL has maintained good ratio of cash and bank balance to its total deposit.

Diagram 4.16
Liquidity Risk Ratio



From the above diagram (Diagram 4.16) we see EBL is less risky for the depositors.

b) Credit Risk 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 that bank. According to definition, credit risk ratio is expressed as the percentage of non performing loan to total loan and advances. Credit risk ratio is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Assets}}$$

Table 4.17
Credit Risk Ratio

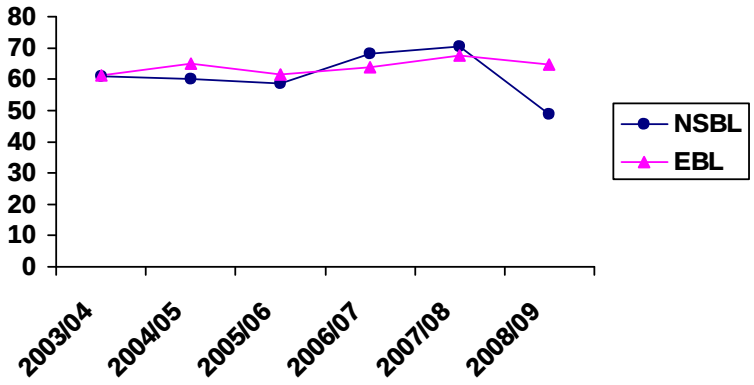
Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	60.94	61.24
2004/05	60.06	64.94
2005/06	58.51	61.41
2006/07	68.05	63.75
2007/08	70.48	67.55
2008/09	48.94	64.70
Mean	61.16	63.93
S.D.	7.6411	2.3793
C.V.	12.4926	3.7216

(Ref. Annexure 24)

From the above table (Table 4.17) it seen that NSBL have highest ratio 70.48 in FY 2007/08 and lowest 48.94 in FY 2008/09, whereas EBL have highest 67.55 in FY 2007/08 and lowest 61.24 in FY 2003/04.

From the table (Table 4.17 we can see the average or mean of the ratio, Credit, NSBL 61.16 and EBL 63.93 (61.16 < 63.93). It shows the fund utilization of EBL is more than that of NSBL. It also says EBL is more focused on utilizing the fund. In the same table we can see Standard Deviation of ratio of the banks, NSBL 7.6411 and EBL 2.3793. It is the average fluctuation in ratio over the period of Six years as in the table.

Diagram 4.17
Credit Risk Ratio



Above diagram demonstrates the credit risk ratio of both the banks in different fiscal years.

4.1.2 Analysis of Statistical Ratio

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

Growth Rate Analysis

Trend Analysis is an analysis of a firm's financial items change over time. This measures the change of data over a period of time. This reveals whether the firm's ratio are improving or deteriorating over time. Under segment, current and projected trend, total investment, total deposit and net profit are calculated.

a) Growth Ratio of Total Deposits

Growth Ratio of Total Deposit of both banks is calculated to find out the trend of growth of total deposit and to detect better position of banks. The growth ratio is derived from the interpolation of the factor, which is calculated by dividing final Total Deposit with initial Total Deposit.

Table 4.18
Growth Ratio of Total Deposit

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	-	-
2004/05	20.23	25.22
2005/06	27.12	36.69
2006/07	4.03	31.76
2007/08	19.83	31.84
2008/09	103.83	38.98
Mean	35.01	32.90
S.D.	39.39	5.31
C.V.	112.52	16.14

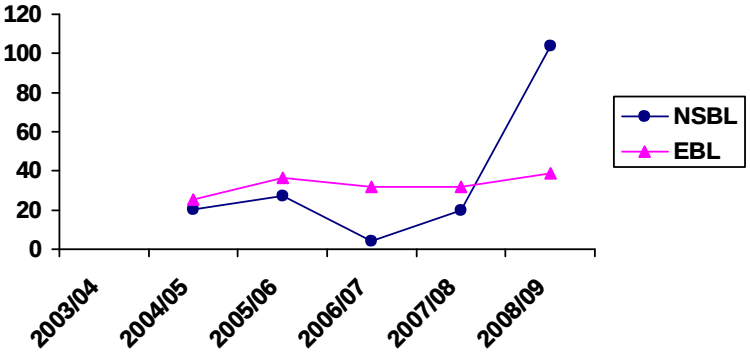
(As per annexure 6 & 7 and schedule 1 & 2)

Above table (Table 4.18) shows the comparative growth rate of the Total Deposit of both the banks. NSBL have highest growth rate 103.83 in FY 2008/09 and lowest 4.03 in FY 2006/07 whereas, EBL have highest growth rate of 38.98 in FY 2008/09 and lowest rate 25.22 in FY 2004/05.

The average growth rate of NSBL is 35.01 per year which greater than that of EBL 32.90, indicating NSBL higher growth rate of Total Deposit. It shows in long run NSBL is having more fund to utilize than that of NSBL.

The Standard Deviation of NSBL 39.39 > EBL 5.31 and Coefficient of Variation NSBL 112.52 > EBL 16.14, indicates the consistency of NSBL in growth of its Total Deposit.

Diagram 4.18
Growth Ratio of Total Deposit



Above diagram (Diagram 4.18) illustrates the trend of increase of Total Deposit in graphical way. It shows the EBL is consistent in maintaining the growth rate whereas NSBL have non consistent growth rate but its growth rate is higher than that of EBL.

b) Growth Ratio of Loans and Advances

Growth Ratio of Loan and Advances of both banks is calculated to find out the trend of growth of Loan and Advances and to detect better position of banks. The growth ratio is derived from the interpolation of the factor, which is calculated by dividing final Loan and Advances with initial Loan and Advances.

Table 4.19
Growth Ratio of Loan and Advances

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	-	-
2004/05	20.81	29.48
2005/06	22.74	28.65
2006/07	24.04	39.41
2007/08	28.05	34.21
2008/09	24.91	30.24
Mean	24.11	32.40
S.D.	2.69	4.46
C.V.	11.16	13.78

(As per annexure 6 & 7 and schedule 1 & 2)

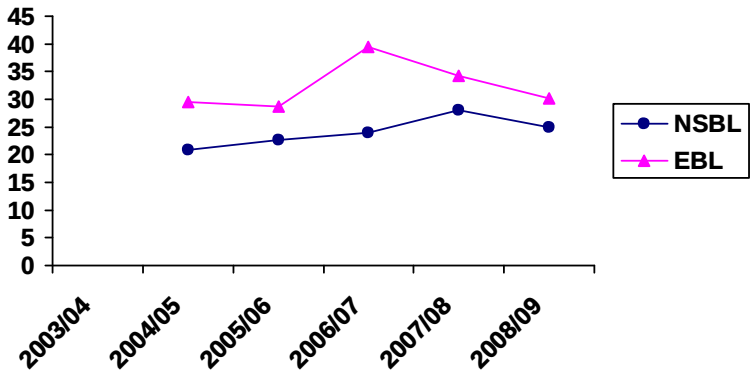
Above table (Table 4.19) shows the comparative growth rate of the Loan and Advances of both the banks. NSBL have highest growth rate 28.05 in FY 2007/08 and lowest

20.81 in FY 2004/05 whereas, EBL have highest growth rate of 39.41 in FY 2006/07 and lowest rate 28.65 in FY 2005/06.

The average growth rate of NSBL is 24.11 per year which lower than that of EBL 32.40, indicating EBL higher growth rate of Loan and Advances. It shows in long run EBL is having more fund utilized to earn interest than that of NSBL.

The Standard Deviation of NSBL 2.69 < EBL 4.46 and Coefficient of Variation NSBL 11.16 < EBL 13.78, indicates the consistency of NSBL in growth of its Loan and Advances. EBL have a growth rate but have been missing the consistency in the maintaining growth rate.

Diagram 4.19
Growth Ratio of Loan and Advances



Above diagram (Diagram 4.19) illustrates the trend of increase of Loan and Advances in graphical way. It shows the NSBL is consistent in maintaining the growth rate whereas EBL have non consistent growth rate. In overall look up EBL is in good position in comparison to NSBL because of it high utilization of the fund available to them.

c) Growth Ratio of Total Investment

Growth Ratio of Total Investment of both banks is calculated to find out the trend of growth of Total Investment and to detect better position of banks. The growth ratio is derived from the interpolation of the factor, which is calculated by dividing final Total Investment with initial Total Investment.

Table 4.20
Growth Ratio of Total Investment

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	-	-
2004/05	36.71	-16.04
2005/06	38.47	97.31
2006/07	-26.35	18.66
2007/08	16.15	1.51
2008/09	330.13	17.57
Mean	65.85	19.84
S.D.	131.72	40.06
C.V.	200.02	201.98

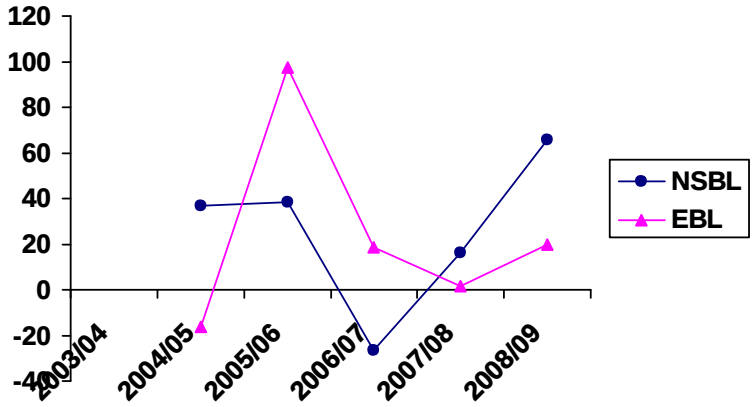
(As per annexure 6 & 7 and schedule 1 & 2)

Above table (Table 4.20) shows the comparative growth rate of the Total Investment of both the banks. NSBL have highest growth rate 330.17 in FY 2008/09 and lowest -26.35 in FY 2006/07 whereas, EBL have highest growth rate of 97.31 in FY 2005/06 and lowest rate -16.04 in FY 2004/05.

The average growth rate of NSBL is 65.85 per year which higher than that of EBL 19.84 indicating NSBL higher growth rate of Total Investment. It shows in long run NSBL is having more fund utilized to earn profit than that of NSBL.

The Standard Deviation of NSBL 131.72 > EBL 40.06 and Coefficient of Variation NSBL 200.02 > EBL 201.98 indicates the consistency of EBL in growth of its Total Investment. NSBL have a growth rate but have been missing the consistency in the maintaining growth rate than of EBL.

Diagram 4.20
Growth Ratio of Total Investment



Above diagram (Diagram 4.20) illustrates the trend of increase of Total Investment in graphical way. It shows the NSBL is consistent in maintaining the growth rate whereas EBL have non consistent growth rate. In overall look up EBL is in good position in comparison to NSBL because of it high utilization of the fund available to them.

d) Growth Ratio of Net Profit

Growth Ratio of Net Profit of both banks is calculated to find out the trend of growth of Net Profit and to detect better position of banks. The growth ratio is derived from the interpolation of the factor, which is calculated by dividing final Net Profit with initial Net Profit.

Table 4.21
Growth Ratio of Net Profit

Year \ Bank	Nepal SBI Bank Ltd	Everest Bank Ltd
2003/04	-	-
2004/05	-5.69	17.17
2005/06	103.88	41.06
2006/07	117.87	24.91
2007/08	-2.80	52.23
2008/09	27.59	41.56
Mean	40.14	36.16
S.D.	56.25	20.80
C.V.	140.12	66.77

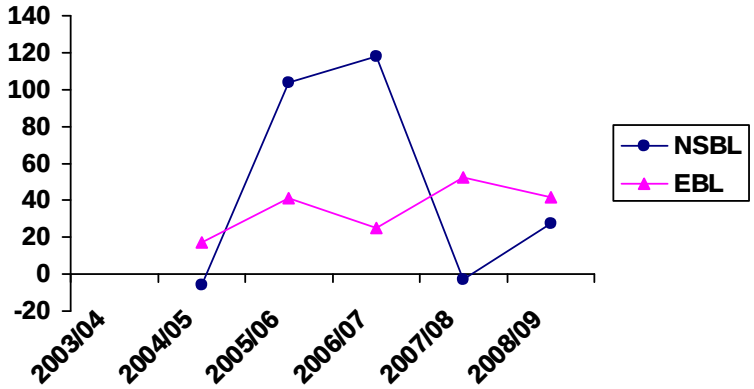
(As per annexure 6 & 7 and schedule 1 & 2)

Above mentioned table (Table 4.21) shows the comparative growth rate of the Net Profit of both the banks. NSBL have highest growth rate 117.87 in FY 2006/07 and lowest -5.69 in FY 2004/05 whereas, EBL have highest growth rate of 52.23 in FY 2007/08 and lowest rate 17.17 in FY 2004/05.

The average growth rate of NSBL is 401.14 per year which higher than that of EBL 36.16, indicating NSBL higher growth rate of Net Profit. The data in the table is of only limited period which would not able to give actual status of growth but according to average ratio NSBL is in good growth ratio of Net Profit.

The Standard Deviation of NSBL 56.25 > EBL 20.80 and Coefficient of Variation NSBL 140.12 > EBL 66.77 indicates the consistency of EBL in growth of its Net Profit. NSBL have a growth rate but have been missing the consistency in the maintaining growth rate than of EBL.

Diagram 4.21
Growth Ratio of Net Profit



Above diagram (Diagram 4.21) illustrates the trend of increase of Net Profit in graphical way. It shows the EBL is consistent in maintaining the growth rate whereas NSBL have non consistent growth rate.

Coefficient of Correlation (r) and Probable Error (P.E.r)

The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1, when r=+1, it means there is perfect relationship between two variables and vice versa. When r=0, it means there is no relationship between two variables. The Pearson's formula is:

After the calculation of co-efficient of correlation the next thing is to find out the extent to which it is dependable. If a probable error is added to or subtracted from co-efficient of correlation. It would give two such limits with in which we can reasonably accept the value of co-efficient of correlation to vary. The formula for finding our probable of error of the Karl Pearson's co-efficient of correlation is:

a) Total Deposit and Loan and Advances

Coefficient of Correlation between Total Deposit and Loan and Advances measures the degree of relationship between these two variable factors. The main objective of the correlation analysis between Total Deposit and Loan and Advances is to find out whether Total Deposit is significantly used as Loan and Advances.

Table 4.22
Correlation between Total Deposit and Loan and Advances

Evaluation Criteria	Nepal SBI Bank Ltd	Everest Bank Ltd
r	0.9136	0.9977
r^2	0.8346	0.9955
P.E.r	0.0455	0.0012
6P.E.r	0.2733	0.0074
Significance	Significant	Highly Significant

(As per schedule 3(a) & 3(b))

Here, Total Deposit is the independent variable (x) and Loan and Advances is dependent variable (y). The main objective of computing 'r' between these two variables is to justify, whether deposit is significantly used as Loan and Advances or not. The above table shows the value of 'r', 'P.E.r' and '6P.E.r' between Total Deposit and Loan and Advances of NSBL and EBL individually during the period of FY 2003/04 to FY 2008/09. From the above table (Table 4.22) in respect of NSBL is found that coefficient of correlation between the Total Deposit and Loan and Advances is 0.9136 (positive). Further, when we consider the value of coefficient of determination r^2, it is 0.8346 which does mean 91.36% of the variation in the dependent variable is explained by the independent variable. Considering the value of 'r' and comparing it with '6.P.E.r' we found that the 'r' is much high value of '6.P.E.r' which does mean that the value of 'r' is highly significant. Hence there is significant relation between Total Deposit and Loan and Advances of NSBL. This indicates that NSBL is successful to mobilize its Total Deposit appropriately.

On the other hand EBL also have the positive relation between Total Deposit and Loan and Advances. The relation is significant as their value of 'r' is 0.9977 is higher than '6.P.E.r' 0.0075 and the value of 'r^2' it is 0.9955 which does mean 99.5% of the dependent

variable which has been explained by the independent variable. This indicates that NSBL and EBL are successful in mobilizing their Total Deposit as Loan and Advances. However, EBL is at the better position in mobilizing Total Deposit as Loan and Advances in comparison to NSBL.

b) Total Deposit and Total Investment

Coefficient of Correlation between Total Deposit and Total Investment measures the degree of relationship between these two variable factors. The main objective of the correlation analysis between Total Deposit and Total Investment is to find out whether Total Deposit is significantly used as Total Investment.

Table 4.23
Correlation between Total Deposit and Total Investment

Evaluation Criteria	Nepal SBI Bank Ltd	Everest Bank Ltd
r	0.9728	0.9054
r^2	0.9464	0.8198
P.E.r	0.0148	0.0496
6P.E.r	0.0886	0.2977
Significance	Highly Significant	Significant

(As per schedule 4(a) & 4(b))

Here, Total Deposit is the dependent variable 'x' and Total Investment is dependent variable 'y'. The main objective of computing 'r' between these two variables is to justify whether Total Deposit is significantly used as Total Investment. The above table (Table 4.23) shows the value of 'r', 'P.E.r' and '6.P.E.r' between Total Deposit and Total Investment of NSBL with comparison to EBL during study period FY 2003/04 to FY 2008/09. From the above table in respect to NSBL, it is found that positive relation between Total Deposit and Total Investment is 0.9728. Furthermore, when we consider the value of coefficient of determination 'r^2', is 0.9464 which does mean 94.64% of the variation in the dependent variables is explained by the independent variable. Considering the value of 'r' and comparing with '6.P.E.r' which does mean that NSBL is capable in investment mobilizing its Total Deposit.

On the other hand EBL also have the positive relation between Total Deposit and Total Investment. The relation is significant as their value of 'r' is 0.9054 is higher than '6.P.E.r' 0.2977 and the value of 'r^2' it is 0.8198 which does mean 81.98% of the dependent variable which has been explained by the independent variable. This indicates that NSBL and EBL are successful in mobilizing their Total Deposit as Total Investment. However, NSBL is at the better position in mobilizing Total Deposit as Investment in comparison to EBL.

c) Net Profit and Loan and Advances

Coefficient of Correlation between Net Profit and Loan and Advances measures the degree of relationship between these two variable factors. The main objective of the correlation analysis between Net Profit and Loan and Advances is to find out whether Net Profit is significant to Loan and Advances.

Table 4.24
Correlation between Net Profit and Loan and Advances

Evaluation Criteria	Nepal SBI Bank Ltd	Everest Bank Ltd
r	0.9393	0.9924
r^2	0.8822	0.9849
P.E.r	0.0324	0.0042
6P.E.r	0.1946	0.0250
Significance	Significant	Highly Significant

(As per schedule 5(a) & 5(b))

Here, Net Profit is the independent variable (x) and Loan and Advances is dependent variable (y). The main objective of computing 'r' between these two variables is to justify, whether Net Profit is significant to Loan and Advances or not. The above table shows the value of 'r', 'P.E.r' and '6P.E.r' between Net Profit and Loan and Advances of NSBL and EBL individually during the period of FY 2003/04 to FY 2008/09. From the above table (Table 4.24) in respect of NSBL is found that coefficient of correlation between the Net Profit and Loan and Advances is 0.9393 (positive). Further, when we consider the value of coefficient of determination r^2, it is 0.8822 which does mean 88.22% of the variation in the dependent variable is explained by the independent variable. Considering the value of 'r' and comparing it with '6.P.E.r' we found that the 'r' is much high value of '6.P.E.r' which does mean that the value of 'r' is highly significant. Hence there is significant relation between Total Deposit and Loan and Advances of NSBL. This indicates that NSBL is successful to mobilize its Total Deposit appropriately.

On the other hand EBL also have the positive relation between Net Profit and Loan and Advances. The relation is significant as their value of 'r' is 0.9924 is higher than '6.P.E.r' 0.0.0250 and the value of 'r^2' it is 0.9849 which does mean 98.49% of the dependent variable which has been explained by the independent variable. This indicates that NSBL and EBL are successful in earning Net Profit by mobilizing Loan and Advances. However, EBL is at the better position in earning Net Profit from Loan and Advances in comparison to NSBL.

4.2 Major Findings

The main finding from analysis of the data presented in the chapter, collected and retrieved from annual reports of NSBL and EBL and other sources are:

1. The mean current ratios of both banks are almost same (NSBL 1.0498 and EBL 1.0552). So we can say both banks have maintained good current ratio. EBL have more consistency than that of NSBL because EBL have maintained lower C.V. and Standard Deviation than NSBL.

2. The mean ratio of Cash and Bank Balance to Total Deposit of EBL is higher than that of NSBL. It states that the liquidity position of EBL is better than that of NSBL, but NSBL have more consistency to maintain its liquidity position than of EBL because of NSBL have lower C.V. and Standard Deviation.

3. The mean ratio of Cash and Bank Balance to Current Assets ratio of EBL is higher then that of NSBL. It states that the EBL have utilized its fund than that of NSBL, but NSBL have more consistency to utilize the fund than that of EBL because of NSBL have lower C.V. and Standard Deviation.

4. The mean ratio of Investment on Government Securities to Current Assets of EBL lesser than that of NSBL. It states that NSBL uses to invest its Current Assets in Government Securities more than that of EBL, but EBL have more consistent to maintain of its uses to invest Current Asset than that of NSBL because EBL have lower C.V. and Standard Deviation.

5. The mean ratio of Loan and Advances to Current Assets of NSBL is lesser than EBL (NSBL 0.6357 and EBL 0.6570). It shows that NSBL use to provide rationally less Loan and Advances than that of EBL, but EBL have more consistency in maintaining this ratio than of NSBL because EBL have lower C.V. and Standard Deviation.

6. The liquidity positions of both the banks are some what similar. In the ratios where NSBL have higher mean ratio EBL have consistency and where EBL have higher mean ratio NSBL have consistency. It shows NSBL and EBL both have good liquidity position.

7. The mean ratio of Loan and Advances to Total Deposit of NSBL (0.7295) is lesser than EBL (0.7379), but EBL have lower C.V. (NSBL 16.2396 > EBL 3.0125) which

indicates that Loan and Advances of EBL is stable and consistent to its Total Deposit rationally.

8. The mean ratio of Total Investment to Total Deposit of NSBL is higher than that of EBL. It shows that NSBL have better utilization of deposits to investment than EBL. NSBL have consistency in maintaining the ration than of the EBL because NSBL have lower C.V. than of EBL.

9. The mean ratio of Loan and Advances to Total Working Fund of NSBL is lower than that of EBL. It shows that EBL have better utilization of its Total Fund than of NSBL, and also have consistency in maintaining the ratio than that of NSBL because of the lower C.V. and Standard Deviation.

10. The mean ratio of Investment on Government Securities to Total Working Fund of NSBL is higher than of EBL. It shows that NSBL have better investments than that of EBL, but have been lacking the consistency of the ratio. EBL have maintained consistency which can be seen from its C.V. and Standard Deviation.

11. The mean ratio of investment on Shares and Debenture to Total Working Fund ratio of NSBL and EBL are almost equal (NSBL 0.0018 & EBL 0.0020). The ratios of both the banks are fluctuating over the period. In measuring the consistency of ratio NSBL have maintained well than of EBL.

12. Analysis of the Assets Management Ratios, it can be seen that EBL have higher investment policy towards Loan and Advances to Total Deposit, Loan and Advances to Total Working Fund but it is some what low at other ratios.

13. The mean ratio of Return on Loan and Advances of NSBL (1.68) is lower than that of the EBL (2.40). It shows that EBL have earned good profit rationally to its investment in Loan and Advances. EBL have maintained its consistency of return on Loan and Advances which can be seen from the C.V. of both the banks ratios (NSBL 42.2200 > EBL 7.7179).

14. The mean ratio of Return on Total Working Fund of NSBL (1.08) is lower than that of the EBL (1.53). It shows that EBL have earned good profit rationally by utilizing its Total Working Funds. EBL have maintained its consistency of return on Total

Working Fund which can be seen from the C.V. of both the banks ratios (NSBL 44.2716 > EBL 8.8324).

15. The mean ratio of Return on Equity Fund of NSBL (14.64) is lower than that of the EBL (23.85). It shows that EBL have earned good profit rationally by utilizing its Equity Fund. EBL have maintained its consistency of return on Equity Fund which can be seen from the C.V. of both the banks ratios (NSBL 37.0864 > EBL 13.0805).

16. The mean ratio of Interest Paid to Total Working Fund of NSBL is higher to the ratio of EBL, which is not healthy for a financial institution. The interest paid ratio have adverse rationality, the higher ratio of interest paid the lower return. NSBL have maintained the consistency in the ratio which can see from its C.V.

17. The mean ratio of Interest Income to Total Working Fund of NSBL (5.54) is lower than that of the EBL (5.93). It shows that EBL have earned good interest rationally by utilizing its Total Working Funds. Also NSBL have maintained its consistency of Interest Income on Total Working Fund which can be seen from the C.V. of both the banks ratios (NSBL 7.9873 < EBL 8.7283).

18. The mean ratio of Liquidity Risk of NSBL (0.0949) is lower than that of the EBL (0.1204). It shows that EBL have good liquidity position than that of NSBL. NSBL have maintained its consistency of Liquidity Risk Ratio which can be seen from the C.V. of both the banks ratios (NSBL 18.5175 < EBL 29.8872).

19. The mean ratio of Credit Risk of NSBL (61.16) is lower than that of the EBL (63.93). It shows that EBL have good opportunity of earning return from their investment as Loan and Advances than that of NSBL. EBL have maintained its consistency of Credit Risk Ratio which can be seen from the C.V. of both the banks ratios (NSBL 12.4926 > EBL 3.7216).

20. The mean growth ratio of Total Deposit of NSBL (35.01) is higher than that of EBL (32.80). It indicates that the performance of NSBL in collecting Funds for its investment is better than that of EBL. EBL have maintained its consistency in growth rate which can be seen from its C.V. (NSBL 112.52 > EBL 16.14).

21. The mean growth ratio of Loan and Advances of NSBL (24.11) is lower than that of EBL (32.40). It indicates that the performance of EBL in utilizing its collected Funds is better than that of NSBL. NSBL have maintained its consistency in growth rate which can be seen from its C.V. (NSBL 11.16 < EBL 13.78).

22. The mean growth ratio of Total Investment of EBL (19.84) is lower than that of NSBL (65.85). It indicates that the performance of NSBL in utilizing its collected Funds is better than that of EBL. EBL have maintained its consistency in growth rate which can be seen from its C.V. (NSBL 200.02 > EBL 201.98).

23. The mean growth ratio of Net Profit of NSBL (40.14) is higher than that of EBL (36.16). It indicates that the performance of NSBL in earning profit is better than that of EBL. EBL have maintained its consistency in growth rate which can be seen from its C.V. (NSBL 140.12 > EBL 66.77).

24. The coefficient of correlation (r) between Total Deposit and Loan and Advances of NSBL and EBL are 0.9736 and 0.99777 respectively, which shows the higher positive relation between these two variables of both banks. The coefficient of determination 'r^2' NSBL is 0.8346 whereas it is 0.9955 in case of EBL indicating that the 83.46% of variation of Loan and Advances is caused by deposit in NSBL and 99.55% of it is caused deposit in EBL, while rest part of variation is due to other unexplained variable. The probable error of NSBL is higher (0.0455) than that of EBL (0.0012) showing a significant relation between Total Deposit and Loan and Advances. Thus, both the banks are successful in mobilizing their deposit and loan and advances, however, EBL is better in mobilizing Total Deposit and Loan and Advances in comparison to NSBL.

25. The coefficient of correlation (r) between Total Deposit and Total Investment of NSBL and EBL are 0.9728 and 0.9054 respectively, which shows the higher positive relation between these two variables of both banks. The coefficient of determination 'r^2' NSBL is 0.9434 whereas it is 0.9198 in case of EBL indicating that the 94.34% of variation of Total Investment is caused by deposit in NSBL and 81.98% of it is caused deposit in EBL, while rest part of variation is due to other unexplained variable. The probable error of EBL is higher (0.0148) than that of NSBL (0.0496) showing a significant relation between Total Deposit and Total Investment of EBL. Thus, NSBL is successful in mobilizing their deposit and total investment, EBL have

been unable to establish significant relation between Total Deposit and Total Investment.

26. The coefficient of correlation (r) between Net Profit and Loan and Advances of NSBL and EBL are 0.9393 and 0.9924 respectively, which shows the higher positive relation between these two variables of both banks. The coefficient of determination 'r^2' NSBL is 0.8822 whereas it is 0.9849 in case of EBL indicating that the 88.22% of variation of Loan and Advances is caused by Net Profit in NSBL and 98.49% of it is caused Net Profit in EBL, while rest part of variation is due to other unexplained variable. The probable error of NSBL is higher (0.0324) than that of EBL (0.0042) showing a significant relation between Net Profit and Loan and Advances. Thus, both the banks are successful in mobilizing their Loan and Advances to earn Net Profit, however, EBL is better in mobilizing Loan and Advances in comparison to NSBL.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The development of any country depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 26 Commercial Banks operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of Commercial Banks, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these Commercial Banks should take initiative action in search of the new opportunities. So, that they can easily survive in this competitive banking business world & earn profit. A bank manager its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role

of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

Development of trade, industry and business is the main ground of banks to conduct its activities and fulfill its profit making objectives. The sound investment policy helps all the banks to make profitable investment and which in turns also helps to develop the economic condition of the nation. Investment policy of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment.

Commercial banks are not able to utilize its deposits properly i.e. providing loan and advances or lending for a profitable project, the reason behind it is lack of sound investment policy, increasing trend of this type of situation certainly lead closure of the banking institutions.

Hence, the sufficient return is not earned due to the lack of stable, strong and appropriate investment policy. They have not been able to utilize their funds more efficiently and productively. Though the directions and guidance are being provided by the NRB but the long term and published policy about their operation does not sound good in the Joint Venture Banks. Therefore, the banks investment policy must be such that it is sound and prudent in order to protect public funds.

The main focus of the study is to comparative study of investment practices of commercial banks of Nepal SBI Bank Limited and Everest Bank Nepal Limited and to suggest for its improvement in the investment policy. The study has been constrained by various common limitations.

The study is based on secondary data from the fiscal year 2002/03 to 2008/09. The data are collected from annual reports, financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank have also been made.

For the fulfillments of the objectives of the study many analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Under financial tools, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, profitability ratio, risk ratio, and growth ratio have been studied and interpreted. Under statistical analysis, some relevant statistical tools, i.e. correlation co-efficient, trend analysis and hypothesis test have been studied and tested. This analysis gives clear picture of the performance of the bank with regard to its investment practices. Financial & statistical tools are used to reckoning and secondary data were compiled, processed, tabulated and graphed for better presentation.

5.2 Conclusion

The liquidity position of EBL is comparatively better than NSBL. EBL has maintained highest current ratio, cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio and loan and advances to current assets ratio but lower Investment on government securities to current assets ratio. EBL have more deposit collections than of NSBL. It has made average investment on loan & advances and it has maintained low investment policy on government securities.

From the analysis of assets management ratio it can be concluded that EBL have successfully maintained and managed its assets towards different income generating activities. The ratio of loan and advances to total deposit is higher but the mean ratio of total investment to total deposit is lower than NSBL but Investment on government securities to total working fund is in lower position in comparison to NSBL. The mean ratio of Investment on share and debenture to total working fund of EBL is higher than NSBL. EBL is more consistent and homogeneous than NSBL.

In profitability ratio, the mean of return on total working fund and total interest earned to total working fund of EBL is higher than NSBL. The mean ratio of total interest earned to total working fund is higher of EBL in comparison to NSBL and total interest paid to total working fund of NSBL is in higher in comparison to EBL. So, the profit earning capacity of EBL is high is comparison to NSBL. The growth ratio EBL is successful in increasing its sources and its mobilization.

There is high degree of significant relationship between deposit and loan and advances, deposit and total investment and net profit and loan and advances of EBL in comparison to NSBL.

Total deposit, total investment and net profit of both banks are in increasing trend. Other things remaining the total deposit of NSBL is on lower position in compare to EBL and total investment growth of NSBL is not better growth position in comparison to EBL. The net profit of EBL will be higher than NSBL.

From the above analysis, it can be concluded that all two banks have significant difference between loan and advances, return on loan and advances. There is no significance difference between ratios of total interest earned to total working fund of NSBL and EBL. But there is significant difference between investment on government securities to current assets of NSBL and EBL.

5.3 Recommendations

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

- Current ratio of two sample banks are not sufficient to achieve standard ratio i.e. 2:1, so it is recommended to both banks to maintain required current ratio. They need to maintain the present mean current ratio for the proper management of their liquidity position.

- The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situation. As NSBL has maintained lower cash and bank to total deposit and current assets ratio, NSBL is recommended to increase cash and bank balance to meet current obligations and loan demand.

- To get success is competitive banking environment, depositors money must be utilized as loan and advances. Negligence in administering these assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank failure. It has been found from the study that EBL have greater ratios at all, because its large portion of fund invested as loan and advances and negligence to invest on other sector. NSBL have not properly used their existing fund as loan and advances to over come this situation, NSBL and EBL are strongly recommended to follow liberal lending policy.

- As bank of private sector commercial banks cannot keep this eyes closed from the profit motive. They should be careful is increasing profit is a real sense to maintain the confidence of shareholders, depositors and it's all customers. EBL has high profit earning capacity.

- Out of working fund, NSBL have not invested its more funds as total investment in comparison to EBL. Though, the percentage of invested by both banks have very nominal. So, it is recommended that both banks to invest their more funds in different types of companies' indifferent areas.

- In terms of recovery of loan of NSBL is backward in comparison to EBL. The loan loss ratio is comparatively high that makes negative impact on profit. It may be facing a lot of problems on recovering loans. It has large no-performing asset as loan un-recovered. Therefore it is recommended to apply recovery act that would help to realize overdue loan in time.

- Most of the joint venture banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level bank balance and the amount needed to open an account in these banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, all three banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors' funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.

- In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an "Innovative approach to Bank Marketing" and formulate new strategies of serving customers in a more convenient and satisfactory way.

- Although NSBL and EBL have recently expanded their branches over the country but both of the banks do not have branches in the rural areas of the country. Their branches are limited to the urban or sub-urban areas only. Therefore, NSBL and EBL are recommended to open branches in rural areas too to help in economic development of the country.

Bibliography

Reviewed Books

Chandra, P. (1997). *Financial Management* . New Delhi: Tata Mc Graw Hill Publishing Co. Ltd

Cheney, J. M. & Moses, E.A. (1999), *Fundamental of Investments.* St. Paul: West Publishing Company

Gitman, L.J. (1976). *Principles of Managerial Finance.* New York: Harper and Row Publishers.

Gitman, L.J., Pinches, M.D.J., & George, E. (1988). *Managerial Finance,* New York: Harper and Row Publishers.

Pandey, I.M. (1994), *Financial Management.* New Delhi: Vikash Publishing House Pvt. Ltd.

Singh, S.P. (1983), *Financial Analysis for Credit Management in Banks.*
New Delhi: Vikash Publishing House Pvt. Ltd.

Soloman, E., & Pringle. J. J. (1978). *An Introduction to Financial Management.* New Delhi: Prentice Hall of India Pvt. Ltd.

Weston, J.F., & Brigham, E.F. (1984), Managerial Finance. New York: The Dryden Press.

Reviewed Articles

Bajracharya, B. B. (1991), *Monetary Policy of Deposit Mobilization in Nepal.* Kathmandu: Smarika, Rastriya Banijiya Bank, Kathmandu.

Chopra, S (1999), *Role of Foreign Bank in Nepal.* Nepal Bank Patrika.

Mahat, L.D. (2004), *Efficient Banking.* The Kathmandu Post: 8th April, 2004.

Pradhan, R. S. (2003), *Role of Saving Investment and Capital Formation in Economy Development (A case of Nepal).* Kathmandu: Nepal Bank Patrika.

Shrestha, S. (1998), *Lending Operation of Commercial Banks of Nepal and Its Impact on Gross Domestic Product (GDP).* Kathmandu: The Business Voice on Nepal.

Reviewed Official Publications

Annual Reports, Nepal SBI Bank Limited

Annual Reports, Everest Bank Limited

Banking and Financial Statistics, Nepal Rastra Bank

Economic Reports, Research Department, Nepal Rastra Bank

Reviewed Unpublished Thesis

Shahi, P. B. (1999), *Investment Analysis of Commercial Bank in Nepal.* Kathmandu: Kritipur, Tribhuwan University.

Shrestha,S. (1993), Investment Planning of Commercial Banks in Nepal. Kathmandu: PHD Thesis, Tribhuwan University.

Thapa, S (2000), *A comparative study on Investment Policy on Nepal Bangladesh Bank Limited and Other Joint Venture Bank.* Kathmandu: Shanker Dev Campus, Master Degree Thesis.

Tuladhar, U. (2000), *a study on Investment Policy of Nepal Grindlays Bank Limited in comparison Joint Venture Banks of Nepal.* Kathmandu: Shanker Dev Campus, Master Degree Thesis.