CHAPTER - I
INTRODUCTION

1.1 General Background

The development of any country largely depends upon the economic health and political condition. Nowadays, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of the domestic resources is one of the key factors in the economic development of a country. Commercial bank and other financial institution collect immobilized money in the from of deposit from every corner and parts of the country. They provide capital for the development of the industry, trade and business, agriculture, infrastructure development and other sectors. Commercial banks formulate sound investment policies to make it more effective which eventually contribute to the economic development of the country. Formulation of sound investment policies and coordinate planned efforts push forward the forces of economic growth.

As it is well known that economic development of a country is impossible without the development of different sectors and economy like agriculture, industry, trade, tourism and utilization of resources, development of these sectors need a regular supply of financial resources. The main problems of developing countries like ours there is shortfall of sufficient capital to be invested in development work. It is not possible to develop the entire economic sector by the government alone. Privet sector are also not in condition to invest huge amount of capital in development work because per capita income of people is very low while there prosperity of consume is very high. Due to the low income, saving is seems to be low as a result capital formation is also very low. "Economic development demand transformation of saving or investigable resources to the actual investment. It is the financial resources to the actual investment. It is the financial funds from surplus spending units to deficits units." - (Nepal Rastra Bank, 1996:06)

Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit; as a result investment raises a nation's standard of living, The world bank encyclopedia.

According William F. Shape. Gordon J. Alexander and Jeffery V. Baily "Investment in its broadest 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 generally is certain" (Shape Alexander and Baily, 1998:317)

In the study of the financial institutions the investment and investment problems will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Thus the investment is the management of the surplus recourses in such a way as to make it work for providing benefits to the supplier of the funds by letting it to third party. However the investment need to be a procedural task. It must follow a definite investment process, which definitely being the formulation of proper investment policy.

The word investment sounds attractive, good, prestigious in which every individual of the world are interested and curious. In Layman's words there is always a return if there is investment. This return may be favorable as well as unfavorable to the investors stand point, which courage the people to invest their money to get good return. But in the word "invest" conceptualized the investment of income, saving or other collected fund. The term investment covers a wide range of activities. It's commonly known fact that on investment is only possible where there adequate saving. If all the incomes and savings are consumed to solve the problem of hand to mouth and to there basic needs then there is no existence of investment. Therefore income, saving and investment are very interested.

In general sense, investment means to pay money to get more but in broad sense, it means the sacrifice of current dollars (rupees). Investment brings fourth visions of profit, risk, specteculation of wealth, for the uninformed investing may result in disaster, for the knowledge, the investment process can be financially rewarding and existing.

Banking sector is the backbone of a country’s economy. Commercial banks exist with an objective of mobilizing the resources optimally by investing the same in a profitable manner. The resources may include capital funds consisting of shareholders equity, money deposited by the people, borrowing and profit capitalization. The competency of any commercial banks is referred as to capacity to utilize its resources in way that ensures healthy growth along with satisfaction of varied stakeholders. The profit should be adequate to meet its costs of funds as well as there should be some margin left over as the reward for risk bearing. The financial institutions are supposed to be major actors playing the vital role for the over all economic reforms in the country. Though their activities are guided by some social obligations but some profits are always desirable for continued survival and internal expansion. Commercial Banks are one of the vital aspects of banking sector, which deals with the process of canalizing the available resources in the needed sectors. As per the commercial Bank Act 2031, “A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans showing commercial transactions. Commercial banks are called the heart of financial system because all the economic activities are directly of indirectly channeled through these banks. It is the financial intermediately between the deficit and surplus of financial resources in the money market. People keep their surplus money as deposits in the banks and the borrowers and puts in efforts to maximize the earnings mainly through interest spread, commercial activities, provide financial services in order to systemize the customer’s financial activities and help in building the efficient financial sector of the country.

Commercial Banks are profit-making organizations. Their motive is wealth maximization and giving maximum benefit to its shareholders. They collect the money from the public and play with that money so as to gain profit and can distribute more dividends to its shareholders. Commercial banks have to provide service as well as have to earn profit by investing funds. A bank invests its natural resources mainly in form of loans and advances and investments for the purpose of income generation. The primary objectives of commercial banks is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc that means, they are requires to mobilize their resources properly to acquire profit.

1.2 Focus of the Study

Commercial banks are in the vast numbers, presently. There are altogether 28 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 of commercial banks of Nepal. This study focuses on the investment policy of 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.

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 EBL is profitable.
- Investment policy of EBL exceeds the NRB Standards.
- Investment policy of EBL meets the NRB Standards.
- Investment policy of EBL 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 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 Everest Bank Limited.

- To study resource mobilization and investment policy of EBL.
- To analyze liquidity, assets management position, profitability and risk ratio of the bank.

- To analyze the growth rate of the bank in terms of deposit, loan and advances, investment and net profit.
- To analyze the relationship between deposit and loan and advances, deposit and investment, loan and advance and net profit, investment and net profit..

1.6 Significance of the Study

Effective and efficient fund mobilization and investment policy is two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity if any financial institution because only deposit collection carries no meaning. Investment policy of collected fund is the most important theme from the point of both management and shareholders and good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic advancement of the people.

This study is useful for the following.

- This study is useful for the following. This study certainly helps management of EBL to improve their performance and help to take corrective action.
- This study is useful to investors who want to invest in EBL.
- This study is to be also useful for the student who want know about the deposit collection and investment of EBL.
- This study is useful to other people and organization such as trade creditors investing stock brokers, academician's policy formulators and general public.

1.7 Limitations of the Study

There are some limitations while undergoing this study. The main limitation of the study will be:

- The study is based on secondary data collected from the bank.
- The study has been carried out based on the published financial document such as Balance sheets, Profit and Loss Account, related journals, magazines and brochures. These published documents have their own limitations.

- The study period has covered 2003/4 to 2008/9.
- Out of numerous factors, only those factors related to investment policy are considered.
- The study focuses an investment aspect of banking performance only.
- The study is carried out in only one bank.
- Study has been limited to the investment policy of Everest Bank Limited among all the 28 Commercial Banks.

1.8 Organization of the Study

The whole study is divided into following five chapters:

Chapter I: First chapter deals with introduction. This includes introduction, general background, focus of the study, statement of the problem, objective of the study, significance of the study, limitations of the study and organization of the study.

Chapter II: Second chapter deals with the review of available literature. Developing of banking industry of Nepal, function of commercial banks, feature of sound leading and investment policy. It includes review of related books, journals, articles, and previous unpublished Master Degree Dissertation etc.

Chapter III: Third chapter explains the research methodology used in the study. It includes research design, population and sampling, sources of data, method of data analysis and research variables etc.

Chapter IV: The fourth chapter, the important chapter of the study will be the presentation and analysis of data as well as major findings of the study.

Chapter V: The fifth and last chapter covers the summary of the study, the main conclusion that flows from the study and offers some recommendations as well as suggestions for further improvement.

CHAPTER - II

REVIEW OF LITERATURE

In this chapter, conceptual review, Role of the bank, Investment Policy of the commercial bank and review of the topic related books, journals, published and unpublished research works and thesis are described after reading the reliable sources.

2.1 Conceptual Framework

The banks are those aspects which have direct relationship with banking. So credit is very important to bank, especially good circulation of credit always takes importance in sound banking. Steady and smooth systematic flow of credit (without ad hoc) with consistent decision always enhances the economy and the bank as well. Thus, to arrange the fund and mobilize it in a profitable investment is a very difficult and important task for such organization. An investment of fund may be the question of long term survivability of the bank.

Bank is financial intermediary accepting and granting loans, offer the widest menu of services of any financial institutions. Bank are those financial institutions that offer the widest range of financial services specially credit, saving and payment service and perform the widest range of financial functions of any business firm in the economy

A Commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose" (Ministry of law and justice, 2031 BS: 3)

Commercial Bank Act, 2031 B.S. clarifies the function of commercial bank while defining it. Simply it supports the trade and commerce providing short-term debt which comes from the various types of public deposits. They purchase and discount bills for exchange foreign currency and provide bank guarantee. Thus they discharge various services (Functions) for their customers and on the behalf of their customers and these are paid for their services.

Financial activities are the outcomes of the economic development of the country and it is very necessary to accelerate the development. Similarly commercial banking is the backbone of financial system of the country and financial infrastructure of the country as well. Optimal investment policy always deserves the integral factor of the commercial banking and it has a crucial role in each and every organization. Without hesitation, we can accept the importance of the sound investment knowledge especially, for the commercial banks and other financial institution without which they can't be run and operated. This investment subject is highly important and relevant for all surroundings that mobilize funds in the different sectors in keeping the view of optimum return.

As it concerned to the commercial banks and other financial institutions, they must mobilize their collections. These collections and other funds (debentures and other bonds) are invested on different sectors towards profitable, secured and marketable sectors so that they will reap profit. For doing so, they collect all information about possible sectors (customers/clients) to which supposed to be invested that the information must include their financial background, business nature, its ability to repay the loan back (solvency position and strength). These all are related in the context of security (low risk and secured return).

It is said that the greater the credit created by the bank, higher will be the profitability. Sound investment and lending policy are only the pre-requisite factors for banks portability. Procedures and operation of lending and investment policy determines the overall position of the commercial bank in the context of goodwill, survivability and profitability. And significantly, investment and lending policy of the bank may be the crucial factors for the promotion of commercial saving of a land-locked and least development country like Nepal. In order to uplift national economic scenario and promotion trade, tourism and industry, it can play a vital role in economic sector of the country.

The sound investment policy helps commercial banks to maximize quality and quantity of investment and thereby, achieve the town objective of profit maximization and social welfare (national interest). Formulation of sound investment policies and coordinated and planned efforts pushes forwards the forces of economic growth of the country.

Financial intuitions, commercial banks, perform various functions internally. Among them investment (providing credit) is considered one of the most important functions, According to H.D. Crosse" commercial bank bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the from of loan and investment" (Crosse, 1963:125). In deed, good investment policy insures maximum amount of investment to all sectors with proper utilization.

Investment of commercial bank is that phenomenon (operations), attached with enough risk. So, commercial banks have to pay greater sue consideration while formulating investment policy regarding loans (investments). This is the policy of one facet, of all overall spectrums of policies, leads the banks to investment operations and guide. Good investment policy ensures the sound and healthy development of the bank, creating greater attraction both, borrowers and lenders, which helps to promote the volume and quality of deposits, loan and investments. The loan provided by commercial bank is guided by several principles such as length of time, purpose, profitability and safety, etc. These fundamental (basic) principles of commercial bank's investment are fully considered while making investment policy. In this context H.D. Crosse further said, The investment policy should be carefully analyzed.

Commercial bank should be careful while performing the credit creation function. Investment should ensure minimum risk and maximum profit from lending. Diana Mc Naughton in her research paper, 'Banking Institution in Developing Markets' states that investment policy should incorporate several Clements such as regulatory environments, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities (Naughton, 1994: 136).

According to J.H. Clements, "Commercial bank should consider the national interest followed by borrower's interest and the interest of the bank itself before investing to the borrowers. To further pursue his view, Bank lending must be for such purposes of the borrowers that are in keeping with the national policy and bank's overall investment policy" (Clements, 1963: 105). A bank's overall investment:

- should be basically of short term characters
- should be repayable on demand
- must be profitable
- must be well in adequate security.

"Commercial Bank deals with people's money. They have to find of keeping their assets liquid so that could meet the requirements of their customers, In their anxiety to make profit the bank can't offered to lock up their funds in assets, which are not easily realizable. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly & fully. The banker has to keep adequate cash for the purpose, Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in the form of cash. Cash brings in no income to the bank. Therefore the banker has to distribute these assets in such a way that he can have adequate profits without sacrificing liquidity' (Radhaswamy & Vasudevan, 1998: 510).

"A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and perform commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specified purpose" (Ministry of law and justice, 2031 BS:3)

Thus, commercial banks have to consider government and Nepal Rastra Bank's instruction and national and their own interest as well. Good investment policy ensures maximum amount of investment to all sectors with proper utilization.

Preeti Singh has stated "Investment is the employment of funds with the aim of achieving additional income of growth in value" (Singh, 1992:1).

According to Gitman and Johnk "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns" (Gitman and Jochnk, 1990:11).

William F. Sharpe and Alexander J. Gorden define investment as, "Investment, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value" (Sharpe and Gorden, 1994:06).

Frnak K. Reilly has stated "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 unicertainty involved in the future flow of the funds" (Reilly, 1999:07).

V.K. Valla has stated There are basically three concepts of investment:-

- Economic investment that is an economist's definition of investment,

- Investment in a more general or extended sense which is used by the man of the street, and,
- The sense in which we are going to be very much interested, namely, is financial investment" (Valla, 1983:2).

Alexander Sharpe Bailey has accordingly defined investment as "Investment can be categorized as real investments and financial investments. Real investments generally involve some kinds of tangible assets, such as land, machineries or facilities. "Financial Investment involves contract written on pieces of paper, such as common stocks and bonds" (Balliey, 1996:203).

"For our purpose, in the study of financial institutions the investment problem will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Thus the investment for various purposes will be the management of the surplus resources in such a way as to make it for providing benefits to the suppliers of the funds by letting third party to use such resources. However, the investments need to be a procedural task. It must follow a defined investment process, which definitely beings from the formulation of proper investment policy" is defined by G.W. Dowerei & fuller" (Dowerei and Fuller, 1950:37).

Thus investment is one of the most important functions of commercial banks, which is the long-term commitment of bank in the risky and uncertain environment. Bank has to be very cautious while investing their funds in various sectors which may or may not able to repay back their loan, so it is challenging job for commercial bank. Failure is always looming around easily but the success of the bank heavily depends upon the proper management of it's invest able funds.

Especially investment management of bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the interest risk. Various authors have expressed theirs views regarding investment, policies of commercial bank, then formulation and implementation clearly.

In the word of S.P. Singh, “The investment policies (credit policies) of bank are conditional to a great extent, by the national policy framework, every bankers has to apply his own judgment for arriving at a credit decision, keeping, of course, his bank’s credit policy also in mind. “They further add, “The field of investment is more challenging as it offers relatively greater scope to bankers for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk, particularly during recent years; the credit function has become greater complex” (Singh and Singh: 1983:347)

“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 it, a bank, is to perform its credit.” H. D. Crosse puts his views emphasizing the importance of investment policy. He further adds “the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, loan character, credit worthiness of borrower and asset pledged to security borrowing, interest rate policy, etc. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path success” (Crosse, 1963:243).

Similarly, according to James B. Bexeley, “Investment policy fixes responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan, and establishing responsibilities for day to day management of those assets” (Belexey, 1987:247).

“A sound investment policy of a bank is such that its funds are distributes on different types of assets with good profitability on the other hand and provides maximum safety and security to the depositors and banks on the other hand. And ultimately, it protects public fund in the sound and prudent way” (Vaidya, 1999:27).

Investment management of a bank is guided by the investment policy adopted by bank. The investment policy of the bank helps operation of the bank to be efficient and profitable by minimizing the inherent risk. Thus investment is the most important to the commercial banks, it is a very the long-term commitment of bank in the uncertain and risky environment. It is a very challenging task for commercial banks. So a bank task has to be very aware while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investigable funds. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

According to read, Cotter, Gill and Smith, “Commercial bank still remains the hart of our financial system holding the deposits of million of person’s, government and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government. Commercial banks are the most important type of financial institution in the nation in terms of aggregate assets. The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their actions, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social result are the same” (Recd, Gill, Cotter & Smith, 1980 A.D.: 1-5)

The rate of return on assets is a valuable measure when comparing the profitability of the bank with another or with commercial banking system. A low rate might be the result of conservative lending and investment policies of expressive operating expenses. Banks could of course, attempt to offset this by adopting mere aggressive lending of investment policies to generate more income.

Investment policies include credit analysis and its principle purpose is to determine the ability and willingness of a borrower to repay a requested loan in accordance with the terms of the loan contract, factors considered in credit analysis are capacity to borrow, economic conditions, characters (honesty, integrity, industry, morality), ability to create income, ownership of assets etc. Loans are the most important assets held by banks and bank lending provides the bulk of bank income.

More and more banks have developed formal, written lending policies in the recent years. They provide guidance for lending officers and there by establish a gather degree of uniformity in lending practices. Since lending is important both to the bank and to the community serves. Loan policies must be worked out carefully after considering many factors like:

- Capital position
- Stability of deposits
- Economic conditions
- Risk and profitability of various types of loans
- Influence of monetary and fiscal policy
- Ability and expensive of bank personnel
- Credit needs of the area served

"Every commercial bank has its investment policy, whether it is recognized or not. Even through a written statement of investment policy is desirable few banks have them and few may not have them. The main objectives to a written investment policies are these who feel that the economic environment of banking changes so rapidly that a formal written statement would become out dated written a short time. It is true that banking operates in a changing environment, but changes do not occur so rapidly that they can not be incorporated into a written policy are its income and its liquidity needs, and management willingness to trade liquidity for greater income opportunities and vice-versa which means accepting greater or lesser degrees of risk. Formulation of an investment policy must give cognizance to entire risk exposure that bank management is willing to assume as well as the risk carried by the securities that comprise investment account. One of the acceptable methods of reducing risk in the investment portfolio of a commercial bank is by diversification a basic and important rule of any investment policy. Risk cannot be completely eliminated. But they can be reduces. A commercial bank is most concerned with quality and maturity diversification so as to minimize risk. A statement of investment policy should designate the person responsible for handling the investment program. This is fundamental to the efficient operation of an investment portfolio, in that "too many cooks may spoil the stew.

Since the board of director is responsible in the proper investment of the bank's funds. Periodic reports regarding the investment portfolio should be prepared for the board's use in evaluating investment management and evaluating investment policy. The investment policy of a bank should be reviewed occasionally and modified as economic conditions change..

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.

2.2 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.

2.3 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, United State of America -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.

List of Licensed Commercial Banks

S. No.	Name of Commercial Banks	Establishment Year	Paid Up Capital (Rs. in million)
1	Nepal Bank	1937	380.4
2	Rastriya Banijya Bank	1966	1172.30
3	Agriculture Development Bank Ltd.	1968	10777.50
4	NABIL Bank Limited	1984	965.75
5	Nepal Investment Bank Limited Bank)	1986	1606.07
6	Standard Chartered Bank Nepal Limited.	1987	620.80
7	Himalayan Bank Limited	1993	1013.50
8	Nepal SBI Bank Limited	1993	874.50
9	Nepal Bangladesh Bank Limited	1994	744.10
10	Everest Bank Limited	1994	691.40
11	Bank of Kathmandu Limited	1995	603.10
12	Nepal Credit and Commerce Bank Ltd.	1996	1399.5
13	Lumbini Bank Ltd.	1998	996.31
14	Nepal Industrial & Commercial Bank Limited	1998	950.40
15	Machhapuchhre Bank Limited	2000	1314.64
16	Kumari Bank Limited	2001	1078.27
17	Laxmi Bank Limited	2002	915.00
18	Siddhartha Bank Limited	2002	828.00
19	Global Bank Ltd.	2007	1000.00
20	Citizens Bank International Ltd.	2007	700.00
21	Prime Commercial Bank Ltd	2007	700.00
22	Sunrise Bank Ltd.	2007	700.00
23	Bank of Asia Nepal Ltd.	2007	700.00
24	Development Credit Bank Ltd.	2008	1107.50
25	NMB Bank Ltd.	2008	1000.00
26	Kist Bank	2009	2000.00
27	Janata Bank Nepal Ltd.	2010	1400.00
28	Mega Bank Nepal Ltd.	2010	2.33 billion

2.4 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:

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.

2.5 Function of Commercial Banks

Banks collects unused money from publicity by providing attractive sound interest and can earn profit by lending it on mainly in business organization, industrial and agriculture sector and investing in government bonds. So, the main function of commercial bank is to mobilize idle resource in productive areas by collecting it from scattered source and generation profit. There are many function performed by commercial banks which may be summarized follows.

a) Accepting Deposit

The main objective of the commercial bank is to collect the deposit commercial banks accept the deposit from the public who has surplus funds under three main heading namely current, saving and fixed deposit.

- **Current Deposit**

Current Deposit are also know as demand deposits. The demand deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. Through the bank can't gain profit by investing it in new sector after taking from customer, this facility is given to the customer. Therefore, the bank does not give interest on this account.

- **Saving Deposits**

In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositor's against their deposits.

- **Fixed Deposits**

Fixed deposit is the one, which a customer is required to keep a fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than deposit. The bank pays a higher interest as such on deposits.

b) Advancing Loan

Commercial bank collects funds by taking all kinds of deposits and then it mobilize by providing loans and advances. Direct loans and advances are given to all types of persons against the personal security of the borrowers of against the security of movable and immovable properties. There is various method of advancing loans e.g

- Overdraft
- Cash Credit
- Direct loans
- Discounting bill of exchange etc.

c) Agency Services

A commercial bank provides a range of investment services. It undertakes to buy and dell securities on behalf of its clients. The banks undertake the payment of subscriptions premium rents etc. It collect checks, bill, promissory notes, dividends, interest etc. on behalf of the customers. The bank charges a small amount of commission for those services. It also acts as correspondent or representative of its customers, other banks and financial institutions.

d) Credit Creations

Commercial banks create credit on the basis of deposits. They hold a certain amount of cash reserve to meet obligations. The result of the deposit amount is invested in loan finance that yields higher rates of interest as compared to those payable in deposits. When the bank advances loans, it opens on account to draw the money by cheque according to borrower's needs.

e) Other function

Other function of the commercial banks are as follows:

- Assist foreign trade
- Offers security brokerage services
- Financial advising
- Security brokerage services

2.6 Feature of Sound Lending and Investment Policy

Lending procedures, lending policy and investment of the bank's funds in the different securities and stock exemplify the income and situation of the banks. If the bank has to reap more profit it is only possible through creation of greater credit. A sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a back- warded and under-developed country like Nepal, because investment policy should equally keep its view towards its institutional objectives and national (priorized) interest as well. There may be different investment policy of different financial institution adopted according to different financial environment and their own. Capacity but must common and all accepted characteristics of the sound lending and investment policy is almost same. The basic characteristics of lending and investment policy simply adopted by every commercial bank in the eyes of different authors are given below.

- Safety and security
- Profitability
- Liquidity
- Purpose of loan
- Diversification
- Tangibility
- Legality

2.6.1 Safety and Security

Financial institutions should inlets their deposit in profitable and secures sectors. They should not invest their fund securities of those companies whose securities are too much depreciated and fluctuated because of risk or loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable.

2.6.2 Profitability

To maximize the return or investment and lending position the financial institution must invest their collection in proper sectors, finally they can maximize their volume of wealth their return depends upon the interest rate, volume of loan its period and nature of investment on different on different securities and sectors.

2.6.3 Liquidity

Liquidity is the position of the firm of meet current or short firm obligations general public or customers deposit their saving at the banks in different accounts having felt confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customer's, very firm must keep proper cash balance with them while investing in different securities and granting loans from excess fund.

2.6.4 Purpose of Loan

Banks and other financial institution must examine why loan is required to the customers. If customers do not use their borrowings, they can never reply and the financial institution will have heavy bad loans. So, they should call detailed information about the plan and scheme of the borrowing.

2.6.5 Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firm must diversify their funds to make portfolio investment. Diversification helps earn a good return and minimize the risk and uncertainty. So the firms are making portfolio investment with different company securities.

2.6.6 Tangibility

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

2.6.7 Legality

Every financial institution must follow the rules and regulation of the company, government and various directors supplied by Nepal Rastra Bank MOF and so on while issuing securities and mobilizing their fund. Illegal securities will bring out any problem to the investors lastly the reputation and good will of the firm may be lost.

2.7 Review of NRB Directives

This section includes some review of directive framework under which the commercial banks operate. Directive provisions influence on a banks establishment, mobilization and resource utilization. A commercial bank should specify the legislative provisions indicated by other financial institutions and rules and regulation formulated by NRB.

Investment Management Regulation

A commercial bank decides to invest in shares and securities but such investment is restricted to 10% of paid up capital. However, such investments in all companies in which the bank has financial interest shall be limited to 20% of paid up capital of the bank. But, the total amount of investment in shares and securities of organized institution is restricted to 30% of the paid up capital of the bank (NRB Directives). Commercial banks are not allowed to invest in any shares, securities and hybrid capital instruments issued by any financial institutions licensed by NRB. A commercial bank is related to the fund collected as paid up capital, fund needed to expand the branches, and flexibility of NRB rules and regulations. The main provisions of NRB are discussed hereunder.

i) Provision for Investment in the Deprived Sector

Investment in shares of the rural development bank by CBs, which used to be counted for the priority sector lending, is only now the deprived sector lending. According recent provisions effective from 1997/98, NBL, RBB, NABIL, NGBL, NIBL are required to 3% invest, HBL, NSBL, NBBL, EBL are required to invest 2%, BOK is required to invest 1.75%, NBCL is required to invest 0.75% and new commercial banks are required to invest 0.25% of their total loans and advances to the deprived sector.

ii) Provision for credit to the priority sector

Commercial banks are required to extend loans and advances at 12 P.C of their total outstanding credit to the priority sector (agriculture, cottage and small industries and service, which are counted commercial bank's loan to the cooperatives licensed by the NRB is also to be counted as the priority sector credit from 1995/96 onwards.

iii) Provision for the Investment in Productive Sector

NRB direct the commercial banks they should extend at least 40 P.C of their total credit to the productive sectors. Productive sector investment includes loan to priority sector agriculture sector, industrial sector etc.

iv) Provision for the Single Borrower Limit

NRB directs commercial banks to set on upper limit of loan financed to an individual, firm company or group of companies. The single borrower limit should not exceed 25% in the case of fund-based credit and 50% in the case of non-fund based credit such as the letter of credit, guarantee, acceptance letter, and commitment in a fixed proportion of capital funds of the bank. Similarly, NRB graded NABIL, NGBL, HBL, SBI, and NBBL as class 'A' banks, which have been kept outside the provision of the single borrower credit limit. Likewise, commercial banks are permitted to extend an additional 10% credit above the limit fixed by NRB as before in the case of consortium financing.

v) Provision for Minimizing Liquidity Risk

A gap found between maturing assets and maturing liabilities is the liquidity risk. They are monitoring their assets and liabilities on the basis of maturity period. Maturity periods such as 0-90 days, 91-180 days, 181-270 days, 271-365 days, and above 1 year are classified for the purpose of matching the assets liability maturity.

vi) Cash Reserve Requirements (CRR)

Commercial banks are required to have maximum CRR to ensure adequate liquidity, to meet the depositor's demand for cash at any time and to inject the confidence in depositors regarding the safety of their deposited funds. NRB directs them to deposit at Nostro accounts maintained with NRB minimum 5% of total deposit of two weeks, cash kept at bank's vault is no considered as a part of CRR.

vii) Loan Classification and Loan Provision

NRB directs commercial bank to classify their outstanding loan and advance, investment and other assets into four categories *viz* Pass loan, performing loan, substandard loan, doubtful and bad loan when making loan loss provision (LLP) of 1 %, 25%, 50% and 100%, respectively.

viii) Directive Regarding Interest Rate Spread

The different between interest charged on loan and advances and the interest paid to the depositors is Interest Rate Spread Previously, NRB directed the commercial banks to have Interest Rate Spread at maximum of 5% but now trend is no regulation though NRB official including government used to give pressured on banks for reducing the Interest Spread Rate on different forums and meeting.

2.8 Review of Related Studies

2.8.1 Review of NRB Act

There is various acts of the study, which those basically involved in this section; there view of acts framework (environment) under which those basically involved in this ection; 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:

Table 2.1

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

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, nongovernment 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

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 Lakhs) 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:

- If the interest or installment or both remains overdue for more than 1 year.
- 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.
- If the security kept as collateral is found to be misused.

- If the Borrower is lost or does not come in contact with the Bank for one year.
- If the borrower is bankrupted legally.
- If the case is filed against the borrower in the court.
- 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:

- Pass
- Sub-standard
- Doubtful
- 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.

2.8.2 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."

2.8.3 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.

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.

Dev Lal Kishi , in this article, "The changing face of the banking sector and the HMG/N recent budgetary policy; concludes that following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies has come up as a welcome measure of competition. Slowly and steadily, the two government-controlled banks, Nepal bank Limited and Rastriya Banijya Bank have also shown an improvement of Non-performing loans and are talking steps to adopt improved technology. However, higher economic growth with social justice bringing an significant benefit to the poor are yet to be achieved as envisaged by the HMG/N (Kishi, 1996).

Sher Bhadur Pradhan has presented a short glimpse on investment in different sectors, its problems and prospects through his article, 'Deposit mobilization, its problem and prospects; In his article, he has expresses that, "Deposit is the life blood of any financial institution, be it commercial bank, finance company co-operative or non-governmental organization; He also added, in consideration of 10 commercial banks and nearly three dozen of finance companies, the latest figure does product a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few j0int venture banks, other organization rely on the business deposit receiving and credit disbursement (Pradhan, 2053).In the light of this, Mr. Pradhan has pointed out following problems of deposit mobilization in Nepalese perspectives.

Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.

- Unavailability of the institutional services in the rural areas.
- No more mobilization and improvement of the employment of deposits in the loan sectors.
- Due to the lack of education most of Nepalese people do not go for saving in institutional manner.

However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governments, office hours withdrawal system, availability of depositing facility and so on.

Mr. Pradhan mentioned, deposited mobilization carried out effectively is in the interest of deposits, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why; higher priority to deposit mobilization has all the relevance.

Amrit Man Shrestha (2054 B. S.)in this article 'Nepal Ma Banijya Bank Haruko Bhumika,' has pointed out some important activities and its present scenario. In his words, there activities are to be studied and revised as soon as possible. Otherwise, there may be disaster for the sound and effective banking system. The article is written in Nepali language. Some of the main points of his article are given as:

Possibility of capital flight: In Nepalese perspective, capital flight becomes a major problem whatever capitals were constructed in Rana regime, were already flowed outside the country. Due to misimplementation of 'Bhumi Sudhar' most of the constructed capitals were also flowed away outside the country. Due to the unstable political situation, the possibilities of capital flight seem to be developed in high scale. In this controversial situation joint venture banking become to main sources or medium of capital flight. Therefore, this problem and situation should be seriously studied and analyzed so that corrective action can be taken as soon as possible.

Minimum deposit amounts: in these years, it can be seen that most of the commercial banks and other financial institution have increased the minimum deposit amount (Threshold). This policy may harass the lower level depositors It also affects the banking habits of lower level depositors negatively. This is why this must also be analyzed and implemented after doing long homework.

Effective evaluation of collateral and effective use of loan from the debtor's side: This must be said an effective and crucial step towards the debt recovery from the government side that 'Debt Recovery Act' was announced to be implemented during the Ninth plan.

Prabhakar Ghimire has (facts and reality; commercial banks in Nepal, Nepal Samschar patra) published his article in which he has mentioned that must of the commercial banks of Nepal are ready to pay the penalty in spite of investing on rural, priority sector, poverty stricken and deprived areas. In the directives of Nepal Rastra Bank, it is clearly mentioned and directed all the commercial banks (under NRB) should invest 3percent to the lower class of countrymen. However, these commercial banks are unable to meet the requirement of NRB (Ghimire, 1999:nov.21).

Radesh Pant, Managing Director of Bank of Kathmandu, in his exclusive interview to the "Business Vision 2005" expressed that in the case of Non performing Assets (NPA), bank must first and foremost, focus on corporate governance and credit risk management.

They need to maintain the transparency and analyze project cash flows and conduct feasibility studies of project before extending credit. In addition, corporate ethics and strong corporate culture with high degree of awareness of credit risk should be present. As a prerequisite, establishing adequate policies and procedures is advisable.

Government authorities including Nepal Rastra Bank can also play a major role in addressing the problem of NPAS. There is a need for a seamless working relationship between all the government authorities such that coordinated efforts to reduce NPAS can be carried out.

Finally the business sector needs to be transparent as well good financial discipline amongst the borrowers; international accounting, auditing and disclosure standard and professionalism are some of the other requirement to reduce NPAS in the future.

2.8.4 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:

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

To evaluate the liquidity, asset management, efficiency, portfolio management and profitability position of the bank.

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

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

- Liquidity position of the bank is good enough to meet the short-term obligation but shows the lack of additional fund management to income generating assets.
- Similarly the bank does not seem to have proper policy to increase the fee-based OBS transaction in comparison to loan and advances.
- Bank should careful of Non-performing loans and adopting the appropriate policies to solve the problem although bank has been able to reduce this NPA proportion significantly to total loan advances forthcoming year after 2001.

- Despite this Bank has been able to meet the NRB obligations it does not have accepted prioritized priority sector in loaning even it was in increasing trend.
- Because of decreasing profitability scenario over the year's accounts investment policy adopted by the bank is not appropriate and it does impact in the growing process negatively. Despite the substantial increment to the amount of loans & advances, profitability has not increased enough shows the lack of overall investment policy in income generating sectors.

Dipak Pandit (2004) has conducted a research entitled "Investment Policy Analysis of Joint Venture Bank" with special references to NSBIL and EBL.

The objectives of the study are follows

- To evaluate the liquidity management, assets management, efficiency, profitability position, risk position and investment practices of NSBIL, BOKL and EBL.
- To find out the relationship between deposit and total investment deposit and loan and total investments deposit and loan advances and net profit and outside assets.
- In this study, major findings have been follows
- NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL and BOKL has not been satisfactory.
- NSBL's loans and advance to total deposited ratio is lower thank EBL and BOKL. It doesn't seem to follow any definite policy regarding the management of its assets.
- The profitability position of all the banks is not satisfactory the banks haven't adopted sound investment policy in utilizing their surplus funds.
- BOKL and EBL are exposed to high credit risk and capital risk.
- NSBIL and BOKL have not been successful to increase there sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit.

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 offbalance 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.

Raja Ram Khadka (1998) conducted a study on "A study on the investment policy of NABIL Bank Ltd. in comparison to other joint venture Banks of Nepal" with the objective of:

To evaluate the liquidity, assets management efficiency and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other joint venture Banks.

- To discuss fund mobilization and investment policy of NABIL Bank Ltd. in respect to its fee-based off-balance sheet transactions and fee-based balance sheet transactions in comparison to other JVBS.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and total deposits and net profit of NABIL Bank Ltd. in comparison to other JVBS.
- To find out the relationship between deposits and total investment, deposits and loan and advances, and net profit and outside assets of NABIL Bank Ltd. in comparison to other JVBS.

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

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

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

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

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

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

In this study, major findings are as follows:

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

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

2.9 Research Gap

It is obvious that commercial Bank plays vital role in the banking sector for the overall development of the country. These banks invest their funds in different sectors on the basis of the directives and circulars issued by the Nepal Rastra Bank as well as the investment guidelines and policy of the concerned Banks. The previous researcher have covered liquidity position, asset management, profitability, deposit utilization, loan loss provision to loan loss provision to loan advance and trend analysis as their main objectives. But some of the ratios has been missed like investment made by bank in risky and risk free assets, evaluation of off balance sheet operation, investment in priority sector as well as sector-wise loan diversification, priority sector lending.

The study is made to fulfill the prevailing research gap about the depth of investment practice of Nepal Bangladesh Ltd. (NBBL). Some of the comparative studies of NBBL are preciously done but in depth study of bank is not found. This study covers the most recent financial data in detail than that of studies previously conducted. This study is focused to find out the proportion of total loan and advances of the bank disbursed to different sectors of economy and analyze the diversification of its investment. It also emphasize on sector-wise loan, priority sector lending, investment in risky & risk assets and also evaluates the off balance sheet operation of the bank. This study also puts effort to find out the position of non performing assets of the bank. Most of the theses are of comparative type which can mislead the researcher because the individual firm can have its own strategy for its business. Therefore, this is the exclusive study of Nepal Bangladesh Bank Ltd. We can also except that this study will provide useful information/feedback to the policymaker of the Bank and help them to take collective action.

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 Everest Bank Limited and also tried to discuss the fund mobilization of Everest Bank Limited. Besides, the study has also focused on the liquidity, asset management efficiency, profitability and risk position of the Everest Bank Limited. 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.

3.1.1 Research Design

Research design of the present study is descriptive study. The design is however made in simple form but at the same time, it covers the main apprehension of the study. The study depends on the secondary data. It includes all the process of collecting, verifying and evaluation of past evidence systematically and objectively to reach the final conclusion. Various financial parameters and effective research techniques are employed to especially identify the strength and weaknesses in investment policy of the bank. The study is designed as to give a clear picture of the bank's investment circumstances with the help of available data and with some useful suggestions and recommendation.

3.1.2 Population and Sample

In Nepal currently there are 28 commercial banks 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 is Everest Bank Limited.

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

3.1.3 Nature and Source of Data

The study is mainly based on the secondary data relating to the study of investment analysis of EBL, as they are available at Everest Bank Limited. The data relating to the investment i.e. loans and advances, deposits and profit/loss are directly obtained from banks' Annual Report and Financial Statements of this bank. Likewise, newspapers, journals, periodicals magazines, reports and unpublished thesis have been taking as other sources of date during the study.

According to the need and objectives, all the secondary data complied, processed and tabulated in time series in order to judge the reliability of data provided by they banks and other sources they were complied with of annual report of auditor. Formal and informal talks to the concern head of departments of the bank were also helpful to obtain the additional information of the related problem.

3.1.4 Analysis of Data

The data presentation and analysis are focal part of the study. Ranges of financial and statically tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statically tools such as ratio analysis and trend analysis have also been used for financial analysis. The data extracted from annual report, financial statement and other available information are processed and tabulated in various tables and charts under different headings according to their nature.

3.2 Tools for Analysis

As mentioned above for t he purpose of data analysis, financial as well as statistical tools are used to make the analysis more effective, convenience, dependable and genuine. Analysis and presentation of the data is the core of the study. The researcher has followed financial analysis as well statistical tools. Financial analysis helps the judgment about the operating of investment position and statistical tools helps the find out the trends of financial position of the bank. The financial and statistical tools are most reliable.

3.2.1 Financial Tools

Financial analysis basically helps to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ration analysis is a reliable way to understand how a company is performing financially. Ratio analysis is one of the important financial tools has been used in this study. It helps to show mathematical relationship between two accounting items or figures. By applying rations to an organization's financial statements, managers are able to better evaluate its short and long term financial performance. Although there are various types of ration to analyze and interpret the financial statement, only five ratios have been taken in this study, which are mainly related to the investment policy of the bank. They are as follows.

A. Liquidity Ratios

Difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organization. It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-term obligations, it reflects the short-term financial strength and weakness of the firm.

A high degree of liquidity shows inability of proper utilization of founds where as the lack of liquidity shows the signal of poor credit worthiness, low of creditors' confidence or even in legal tangles resulting in the immediate future to need its short-term liabilities as they fall due. To measure the liquidity position of banks under study the following rations have been calculated.

A.1 Current Ratio

The calculation of current ration ratio is based on a simple comparison between current assets and current liabilities. It measures short-term solvency, solvency, so it is often called liquidity solvency ration and working capital ratio is calculated by applying following formula.

$$\text{Current ratio} = \frac{Total\ Current\ Assets}{Total\ Current\ Liabilities}$$

Where, current assets represents the amount of liquid i.e. cash and near cash assets available to the business which can be converted into cash within a year. Likewise, current liabilities give an indication of the upcoming cash requirements are payable within a year from current assets.

The proportion of current ratio is 2:1 or more is considered satisfactory. Thus, the conventional rule is based on the assumption that even if half decreases the current assets, the firm can meet its current obligations. It is not any hard and fast assumption that the current ration must equal to 2:1 so many firms below this standard are also seen sound and meeting those obligations efficiently. It is the trend over time rather than the absolute value gives the most valuable information.

A.2 Cash & Bank Balance to current Asset Ratio

Cash and balance to current ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this ratio visualizes higher liquidity position than current ratio. This ratio can be calculated by using the following formula:

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

The ratio shows the percentage of readily available fund within the bank. In the present study cash and bank balance represent total of local currency, foreign currencies, cheque in hand and various bank balances in local as well as foreign banks.

A.3 Cash & Bank Balance to Total Deposit Ratio

Cash and bank balance to deposit ratio reflects the ability of banks immediate funds to meet their current deposits, margin, call and saving deposits, This ratio is computed by dividing the amount of cash and bank balance by the total deposit. This ration can be ca calculated by applying the following formula.

Cash and bank balance to deposits ratio= $\frac{\textit{Cash and Bank Balance}}{\textit{Total deposits}}$

Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa. In this study, cash and bank balance includes total cash in hand and total cash at banks. Similarly, deposits include all type of deposits, money at call and other deposits.

A.4 Investment on Government Securities on Current Assets Ratio

Investment on government securities on current assets ration reflects the current assets invested on government securities, treasury bills and development bonds. This ratio can be computed by dividing investment on government securities by current assets. This ration can be calculated by applying the following formula.

Investment on government securities on current assets ratio =

$$\frac{\textit{Investment on Government Securities}}{\textit{Total Deposits}}$$

Investment on government securities includes treasury bills, development bonds, saving bonds, government securities etc.

A.5 Loan and Advances to Current asset Ratio

It shows the relationship between loan & advances to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ration can be computed in the following way:

Loan and advances to current assets ratio= $\frac{loan\ and\ advances}{Total\ Current\ Assets}$

Loan and advances are the current assets, which is the general income to the bank. It shows the percentage of loan and advances in the total current assets. In the present study loan and advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

B. Assets Management Ratio/Activity Ratio

Assets management ratio or activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversation, the more efficient is the management/ utilization of assets.

These ratios are concerned with measuring the efficiency in asset management. If available assets are not utilized efficiently, the investment upon them will be idle and profitability will be decreased, and also if the investment is not sufficient, then adequate production and revenue can be made and profitability decreases. So, proper balance between revenue and assets is desired for the reflection of optimum utilization of the assets. Here, some of these ratios are computed to assess the bank’s efficiency in utilization of available assets.

B.1 Loan and Advances to Total Deposits Ratio

Commercial banks utilize the outsider's fund for profit generation. Loans and advances to deposit ratio shows that whether the banks are successful in utilizing the outsiders' funds for profit generation on the loan & advance or not. This ration can be calculated by using the following formula:

$$\text{Loan and advance to Deposits ratio} = \frac{\textit{loan and advances}}{\textit{Total deposits}}$$

Generally, a high ratio reflects higher efficiency to utilize outsiders' fund and vice-versa. Here, & Advances refer to total of loan; advance and overdraft (i.e., in local currency plus convertible foreign currencies) and total deposits refer to total of kinds of deposits.

B.2Total investment to Total Deposits Ratio

Total investment to total deposits ration indicates how properly firm's deposits have been invested on government securities and debentures of the other companies. This ratio can be computed by dividing the total amount of investment by total amount of deposits collections. This ration can be calculated by using the following formula.

$$\text{Total investment to total deposits ratio} = \frac{\textit{Total Investment}}{\textit{Total deposits}}$$

Here, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

Here, total investment includes investment on government securities, investment on debentures, bonds and shares of other companies.

C. Profitability Ratio

One of the important objectives of the commercial bank is to earn more profit, management, owner and creditors of the bank expect reasonable and more return. Efficiencies of any firm can be measured in term of profit. Profitability ration also indicates public acceptance of the service of bank and run competitively. In this study, the profitability ratios are computed by relating the profit of banks to their investment. To measure the profitability ratio of Everest Bank following ratios has been calculated and analyzed.

C.1 Return on Total Assets Ratio (ROA)

Return on total assets ratio measures the profitability with respect to the total assets. In the present study, this ration is calculated and analyzed to measure the profitability of all financial resource invested in the banks assets. A higher ration usually indicated efficiently in utilizing its overall resources and vice versa. The ration can be computed by following process:

$$\text{Return on total assets ratio} = \frac{Net\ \ profit}{Total\ assets}$$

C.2 Return on Loan & advances Ratio

Return on loan and advances ratio shows how efficiently the banks and the other financial institutions have utilized their resources to earn good return from providing loan and advances. This ratio is computed by dividing net profit/loss by the total amount of loan and advances. This can be shown as,

$$\text{Return on loan and advances ration} = \frac{Net\ \ profit}{Total\ Loan\ and\ \ Advances}$$

C.3 Interest Earned to Total Assets Ratio

This ratio reveals how much interest mobilizing the assets in the banks has generated. Interest occupies significant place in income for the banks. Generally, banks earn interest through the provision of loans and advances, overdrafts and investments in securities. This ration is found by following way,

$$\text{Interest earned to total assets ratio} = \frac{Total\ \ Interest\ \ Earned}{Total\ \ Assets}$$

Here, interest earned represents the total interest earned in income statement of the Bank. Higher ratio indicated higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

D. Risk Ratios

Risk means, possibility of incurring loss or misfortune. Risk taking is the most important business of every bank's investment. When firm wants to bear risk and uncertainty the profitability and effectiveness of the firm will be increased. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the investment policy of the bank. To measure the risk ratios of Everest Bank following rations has been calculated and analyzed.

D.1 Credit Risk Ratio

Credit risk ratio helps to check the probability of loan non-repayment or the possibility of loan to go into default. Credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by total assets. It can be shown as,

$$\text{Credit risk ratio} = \frac{Total\ Loan\ and\ Advances}{Total\ Assets}$$

D.2 Capital Risk Raito

The capital risk of a bank indicates how much assets value may decline before the position of deposition and other creditors are jeopardized. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities. Capital risk ratio measures bank's ability to attract deposits and inter bank funds. It also determines the value of profit, a bank can earn if a bank chooses to take high capital risk, and its ROE will be higher and vice versa. It can be shown as:

$$\text{Capital Risk Ratio} = \frac{Total\ Capital}{Risk\ Weighted\ Assets}$$

Only Loans & advances are taken as risk weighted assets.

E. Growth Ratio

Growth ratio represents how well the banks are maintaining their economic and financial condition. It is related to the fund mobilization and investment management of the bank. The higher ratio represents the superior performance. To measure the risk ratio of Everest Bank following ratios has been calculated and analyzed.

E.1) Growth ratio of total deposit
E.2) Growth ratio of total investment
E.3) Growth ratio of loan & advances
E.4) Growth ratio of net profit

3.2.2 Statistical Tools

Statistical tool help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund utilization through providing loan and advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical statistical tools such as standard deviation, Karl Pearson's Coefficient of correlation, method of least square, testing of hypothesis are adopted which are as follows:

A. Standard Deviation

Standard deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic mean. It is squares of the deviations of the given observations from their arithmetic a mean. It is denoted by the letter ± (sigma). In this study standard deviation of different ratios arte calculated.

$$\pm \mathrm{X} \sqrt{\frac{(x \mathrm{Z} \bar{x})2}{N}}$$

B. Coefficient of Variation

The coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio if the standard deviation to t he mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. It can be shown as,

Coefficient of variation = $\frac{Standard\ Deviation * 100\%}{Mean}$

C. Coefficient of Correlation

Coefficient of correlation is the mathematical method of measuring the degree of association between the two variable i.e. one dependent and one independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under t his topic, this study tries to find out relationship between the following variables:

i) Coefficient of correlation between deposit and loan and advances.
ii) Coefficient of correlation between total deposit and total investment.
iii) Coefficient of correlation between total outside assets and net profit.

The above analysis tools analyze the relationship between these the relevant variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization.

To find out those relationships, the following formula is used:

$$r = \frac{xy}{\sqrt{x^2}\sqrt{y^2}}$$

Where, $x = (\bar{x} - x)$, $y = (\bar{y} - y)$

The result of coefficient is always between -1 to +1, when r = +1, it means there is significant relationship between two variables and when r = +1, it means there is no significant relationship between two variables.

Interpretation of correlation:

When,

r = +1, perfectly positive correlation
r = -1, perfectly negative correlation
r = 0, no correlation
r is between .7 to .999, there is moderate degree of correlation
r is less than .5, there is low degree of correlation

D. Trend Analysis

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of Everest Bank limited that helps to make forecasting for next five years. The following trend value analysis has been used in this study.

i) Trend analysis of total deposit.
ii) Trend analysis of loan and advances
iii) Trend analysis of total investment
iv) Trend analysis of net profit

The trends of related variables can be calculated as, Y = a + bx Correlation can be measured by the following ways:

3.3 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.

3.4 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 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 a bank (Everest Bank Limited) and has tried to indicate the effectiveness of investment policy of concern banks.

CHAPTER- IV
DATA PRESENTATION AND ANALYSIS

This chapter is related to study resource mobilization and investment policy of EBL, presentation and analysis of data collected from various sources, especially from Everest Bank Limited. The chapter includes mainly three sections i.e. the first section is study resource mobilization and investment policy of EBL, second section is presentation and analysis and third section is findings of the study.

4.1 Resource Mobilization & Investment Policy of EBL

Effective & efficient fund mobilization is major facts for any development country instigating for a sustainable economic development. Mobilization of resource also could be understood as the task of transferring the saving from those who save those who prepaid to invest.

Therefore, the main objective of deposit mobilization is to convert idle saving into active saving. When discussing about resource mobilization we are mainly concerned with increasing the income of low income group and to make them able to save more and to invest against the collected amount the development activities. Mainly the resource is mobilize for the following purposes.

1. To circulate idle Money

The meaning of resource mobilization is to convert idle saving into active saving. So, the mobilization helps to circulate idle money.

2. To promote Fiscal & Monetary Policy

Mobilization of resources helps to canalize idle money in productive sector and also helps in money supply which save the country from deflation & helps central bank objectives of monetary policy.

3. For capital formation

Capital is the foremost factor for the development of industries. But, is an under development country, there is always lack of capital to support such industries. Thus, capital formation industrialisation is possible through resource mobilization.

4. To develop Banking habit

Incremental is the banking habit of the people is important side for the economic development. So, in bank, if there is proper mobilization of resources, people believe on the bank & hence banking habit got developed.

5. To support Government Development Projects

Every under developed countries government requires a highest amount of money for development projects. So, the deposit collected by the commercial banks mobilize to fulfill the need of money to the govt. to some extent.

6) To promote cottage industries

Deposit mobilization is needed to facilitate cottage industries located in rural & urban areas. In the bank utilizes the collected deposit in the same rural of urban sector for the development of cottage industries, it is helpful of cottage industries, it is helpful not only to promote cottage industries in the areas but also support in the development of the locality increasing employment & income to the local people.

7) To check up Miss-utilization of Money

Mostly our custom and habits are supported by social and religious believes. There is also tendency of copying others and to show their superiority buying unnecessary and luxury items in resource our society. In such society, resource mobilization prove a tool check up miss utilization of money.

8) Others

Mostly, the resource can be utilize to encourage small savers by providing the loan in low interest rate, by protecting villagers from being exploited of indigenous banker by providing facilities to the small farmer to purchase tools & fertilizer etc.

In this ways the resource can be mobilized.

4.2 Presentation and Analysis

4.2.1 Liquidity Ratios

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligation

4.2.2 Current Ratio

The current ratio is the relation of current asset to the current liabilities. Its calculation is based on the comparison between current assets and current liabilities. It measure the short-term solvency, so it is often called liquidity solvency ratio and working capital ratio. Higher the current ratio better is the liquidity position. The traditional standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business.

This ratio measure the bank's short-term solvency i.e. its ability to meet short-term obligation. As a measure of creditors versus current asset it indicates each rupee of current assets available for each rupees of current liability. The current ration of EBL over six years from fiscal year 2003/04 to 2008/09 is as follows:

Table 4.1

Status of Current ratios

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	2.88	1.91	2.36	2.08	1.59	2.09	2.152	.437	20.32

(Source: Appendix -1)

Figure 4.1

Current ratio over the study period

The above table 4.1 shows that the current of EBL have exceeded current liabilities in average in the study period form 2003/04 to 2008/09. The highest ratio so 2.88 in 2003/04 while the lowest ration is 1.59 in 2007/08 with on average ratio of 2.152 during the study period. The ratio shows the fluctuating trend during the period. The co-efficient of variation (C.V.) between the ratios for the study period is 20.32% which shows that the current rations during the study period are not so consistent. In general the bank is able to meet its short term obligations.

The above ratios are not consistent because the optimal standard ratio should be 2:1 but the standards ratio is not applicable in banks and financial institutions. Bank hold huge portion of deposit and core deposits the minimum level of deposits which the commercial bank hold at all times) and this deposit remains all time throughout the year. This core deposit forms the fixed liability of the bank though it is current in nature. So, the ratio maintained by Commercial banks at the level 1.1 can be regarded as good and sufficient to meet the normal contingencies. According to above ratios, In the fiscal year 2004/05 & 2006/07 bank has maintained satisfactory liquidity position this is the optimal liquidity position which nearly to 2:1 but fiscal year 2003/04 2005/06 it has maintained high ratio it means EBL invests huge amount current assets which can minimize its profit.

4.2.3 Cash and bank balance to total current assets ratio

This ratio shows the banks liquidity capacity based on cash and bank balance that is the liquid assets. Higher ratio indicates the bank ability to meet the daily cash requirements of their customer deposit vice versa. Nevertheless higher ratio is not preferred as the bank has to pay more interest on deposits and will increase the cost of funds. Similarly lower ratio is also not appropriate as the bank may not be able to make payment against cheques presented by customers. Cash and bank balance to current assets ratio of EBL over study period is as follows:

Table 4.2

Status of Cash bank balance to current assets ratio:

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	17.32	8.79	11.73	13.12	16.45	10.40	12.97	3.37	25.96

(Appendix-2)

Figure 4.2

Cash and bank balance to Current Ratios

The above table 4.2 shows that the cash and bank balance to current assets ratio of EBL has increasing trend from the fiscal year 2004\05 except in the year 2008\09. The highest ratio is 17.32% in 2003/04 while the lowest ratio is 8.79% in 2004/05 with an average of 12.97% and S.D. and C.V. of cash & bank balance to current assets ratio over study period are 3.37 and 25.96% respectively. Based on the S.D. and C.V. it can conclude that the ratio is less consistent & more variable. However it does not mean that the bank is not in good position in terms of cash & bank balance. The bank can meet its daily balance requirements to make the payments on customer deposits withdrawals.

4.2.4 Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance is the liquid asset. This ratio measures the percentage of liquid fund with the bank to make payment to the depositor. Cash and bank balance to total deposits ratio over the study period is given below:

Table 4.3

Status of Cash and Bank balance to total deposits ratio

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	17.02	7.83	10.4	11.25	13.15	11.13	11.80	3.08	26.13

(Source: Appendix -3)

Figure 4.3

Cash and Bank balance to total deposit ratio

The figure 4.3 reveals that cash and bank balance to total deposits ratios of EBL has a fluctuating trend. Here the highest ratio is 17.02% in 2003/04 and the lowest ratio is 7.83% in 2004/05. The ratio was very fluctuating for the first three years and after 2005/06 it was increasing except last of the study period. The mean of the ratio, S.D. and C.V. for the study period are 11.80%, 3.08 and 26.13% respectively. Hence, based on the C.V., it can conclude that the ratios are variable and less consistent. The bank has adequate cash and bank balance to serve its customers in other side it is not better to hold huge cash and bank balance because it reduces the overall profit of the bank. Commercial banks have to maintain its cash and bank balance in terms of totals deposits as directed by NRB.

4.2.5 Investment on Government Securities to Current Assets Ratio

It examines the portion of commercial banks current assets invested on different government securities. Though the government securities are not as liquid as cash bank balance yet they can be easily sold in the market or converted into cash and are risk of liquidity for the bank to support cash and Bank balance to meet unexpected liquidity needs on adverse situation.

Investment on government securities to current assets ratio of EBL over study period is mentioned as follow:

Table 4.4

Position of Investment on Government Securities to Current Assets (in %)

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	24.30	34.36	23.46	30	32.37	18.78	27.26	6.06	22.22

(Source: Appendix -4)

Figure 4.4

Investment on Government Securities to Current Assets Ratio

From the above table 4.4, it can be said that the investment on government securities to current assets ratio of EBL has fluctuating trend except in the year 2007\08. According to the figure the highest ratio of the bank 34.36 in 2004\05 and lowest ratio in the study period is 27.26. The SD and C.V of the bank are 6.06 and 22.22% respectively. Thus, it is concluded that the bank has invested the high amount of current assets into government securities in 2004\05, 2006\07 and 2007\08. Standard deviation and coefficient of variation shows the bank has less uniformity on the side of investment on government securities. The liquidity position of the bank from the point of view on investment on government securities is good.

4.2.6 Loan and Advances to Current Assets Ratio

A bank should mobilize its funds in investment as loans and advances in order to earn high profit rather than keeping it as cash and bank balance. If the bank fails to grant sufficient loan and advances then it has to pay interest on the deposited funds and may loose its earnings. However, high loans and advances may also be harm because they can be collected at the time of maturity. This, the bank should maintain its loans and advances in appropriate level to find out the portion of current assets, which is granted as loans and advances. The loan and advances to current assets ratio of EBL over the study period is given below:

Table 4.5

Position of Loans and Advances to Current Assets Ratio (in %)

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	76.67	84.81	88.25	85.63	96.9	73.38	84.72	8.41	9.98

(Source: Appendix -5

Figure 4.5

Loan & advances to current Asset ratio

Loans & advances to current assets ratio from the above table 4.5 reveals that the ratios of the bank are in increasing and fluctuation trend. It is seen that the ratios are slightly increasing from the first year 2003/04 to 2005/06, then it is fluctuation last of the study period. The loan and advances to current assets ratio ranged from 73.38 in the fiscal year 2008\09 and to 96.9 in the fiscal year 2007\08. The mean ratio is 84.27 and standard deviation is 8.41. C.V between them is 9.98%. It shows the ratios are consistent and less variable during the study period.

4.3 Assets Management Ratios

Assets management ratio is also called and activity or turnover ratio. It measures the efficiency of commercial banks in mobilizing its funds. It bank must be able to manager its assets properly in order to earn high profit as well as maintain an appropriate level of liquidity. Thus it measures the efficiency of the bank to manager its assets in profitable and satisfactory manner.

4.3.1 Loans & Advances to Total Deposit Ratio

This ratio insures the extent to which the bank is successful in mobilizing its deposits on loan & advances for generating income or not. Higher ratio indicates better mobilization of collected deposits and vice versa. However, it should be noted that too high ration might not be better from liquidity point of view.

Table 4.6

Loans and Advance to Total Deposit Ratio

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\07	2007\08	Mean	S.D.	C.V. %
Ratio	75.42	75.59	78.24	73.44	77.44	78.56	76.45	1.97	2.58

(Source: Appendix -6)

Figure 4.6

Loan and advance to total Deposit ratio

The above table 4.6 depicts that the loans and advances to total deposits ratios are in increasing and fluctuating trend till 2007/08 but after this year its going upward and being highest ratio 78.56% during the study period however the lowest ratio is 73.44% in 2006\07. Similarly the mean ratio for the study period is 76.45% while S.D and C.V between them are 1.97 and 2.58% respectively. Based on the CV, it can be concluded that the ratios are more consistent & less variable.

4.3.2 Total Investment to Total Deposit Ratio

A Commercial bank mobilizes its deposits by investing in different securities issued by the government and other finical and non financial institution. This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities or not. The bank should use their deposit on investment in optimal way by using profusion management of assets which can help to increase the earning of bank. Total investment to total deposit ratios of EBL over study period are given below:

Table 4.7

Total Investment to Total Deposit Ratio

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	24.7	31.44	21.08	30.43	27.41	21.10	26.03	4.5	17.27

(Source: Appendix -7)

Figure 4.7

Total Investments to Total Deposit Ratio

In the above table, the ratios of total investment to total deposit ratios of EBL are in fluctuating trend up to year 2006\07, after that it is decreasing trend during the study period. The ratio of each year is not constant i.e. the ratios are highly up down during the study period. The highest ratio is 31.44% in 2004/05 and the lowest ratio is 21.08% in 2005/06. Similarly, the mean ratio is 26.03% and the S.D and C.V between them are 4.5 and17.27% respectively which indicate that the ratios are more variable over the study period. Thus, it is concluded that the bank utilize the deposit properly the deposit collected by the customers in other fiscal year. The mean ratio of the bank has 26.03 and S.D and C.V between them are 4.5 and 17.27% respectively in the study period. According to the above information the bank has less uniformity relating to the total investment to total deposit ratio.

4.3.3 Profitability Ratios

Profitability ratios are used to measure the overall efficiency of a firm in terms of profit and financial performance. In today's context, profit is the essence of every organization and bank is no exception to it. It is the indicator of efficient operation of a bank.

4.3.4 Interest Income to Total Income Ratio

The ratio measures the volume of interest income in total income of the bank. The ratio also helps to measure the bank's performance on how well they are mobilizing their funds for the purposes of income generation. Higher the ratio higher is the contribution made by the lending and investing activities and vice versa. The Interest Income to Total Income Ratio of EBL over the study period is given below:

Table 4.8

Interest Income to Total Income Ratio

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	81.87	83.72	83.74	84.71	83.44	82.94	83.40	.95	1.14

(Source: Appendix -8)

Figure 4.8

Interest Income to Total Income Ratio

From the above table 4.8 the interest income to total income ratio of the bank has increasing trend in 2006\07 there after it is decreasing trend. The interest income to total income ratio of the bank has ranged from 81.87 in fiscal year 2003\04 to 84.71 in the fiscal year 2006\07. The trends are increasing from the fiscal year 2003\04 i.e. 81.87% to the fiscal year 2006\07 i.e. 84.71%, then the trend is starting to decrease. Similarly, S.D and C.V are 0.95 and 1.14% respectively. It shows that the trends are less variable and more consistent the study period.

4.3.5 Interest Expenses to Total Expenses Ratio

It measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operation expenses and vice versa. Interest expenses to total expenses ratio over the study period is as follows:

Table 4.9

Interest Expenses to Total Expenses ratio

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	56.85	49.32	45.53	48.41	48.1	38.74	47.82	5.86	12.25

(Source: Appendix -9)

Figure 4.9

Interest Expenses to Total Expenses ratio

The above figure 4.9 depicts that the interest expenses to total expenses ratio is decreasing trend except the fiscal year 2006\07. The ratios are slightly decreased to the first third year and from 2005/06 it's going slightly increasing to the fiscal year 2006\07 then it is again starting decreasing trend last of the study period. The highest ratio 56.85% in 2003\04 is continuously decreasing to the fiscal year 2005\06 and being lowest ratio 38.47% in the last year of during the study period. The mean ratio is 47.82%. The S.D. and C.V. between them is 5.86 and 12.25% respectively, which indicates the ratios are less variable and more consistent during the study period.

4.3.6 Total Income to Total Expenses Ratio

The main purpose of this ratio is to study the comparison between total expenses and total income that measures the productivity of expenses in generating income. The high ratio is the indicator of higher productivity of expenses and vice versa. The Total Income to Total Expenses Ratio of EBL over the study period is as follows:

Table 4.10

Total Income to Total Expenses Ratio (times)

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	1.17	1.22	1.25	1.28	1.27	1.14	1.22	.06	4.91

(Source: Appendix -10)

Figure 4.10

Total Income to Total Expenses Ratio

The above figure 4.10 depicts that the total income to total expenses ratio of the bank has increasing trend up to fiscal year 2006\07, there after it is decreasing trend during the study. The ratio has ranged from 1.14 to 1.28. The average ratio of total income to total expenses is 1.22. Standard deviation and coefficient of variation between them are .06 and 4.91% respectively. According to the S.D and C.V the bank has more uniformity and less volatile in the total income to total expenses ratio.

4.3.7 Return on Loans and Advances

From this ratio it can be measured that how efficiently the bank has employed its resources in the form of loan and advances. It also measures the earning capacity of a commercial bank through its mobilized funds in the form of loans and advances. A high ratio indicates greater success to mobilize funds as loans and advances and vice versa. Return on Loans and Advances of EBL over the study period is given below:

Table 4.11

Return on Loans and Advances ratio (in %)

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	1.86	2.35	2.13	2.34	2.11	2.39	2.2	0.2	9.23

(Source: Appendix -11)

Figure 4.11

Return on Loans and Advances

The above table 4.11 depicts that the ratio are in fluctuating trends. The highest ratio 2.39% in the fiscal year 2008\09 and the lowest ratio is 1.86 in the fiscal year 2003\04. Meanwhile, the average ratio, S.D and C.V are 2.2, 0.20 and 9.23% respectively. These indicate the ratios are less variable and more consistent.

4.3.8 Return on Total Working Fund Ratio (ROA)

The profitability of all working fund (total assets) can be measured from this ratio. Hence, it is also known as return on assets (ROA). Higher ratio denotes that the banks total working fund is well managed and efficiently utilized and vice versa. Return on Total Working Fund Ratio (ROA) of EBL over the study period is as follows:

Table 4.12

Return on Total Working Fund Ratio (ROA)

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	1.17	1.49	1.43	1.5	1.39	1.67	1.44	.16	11.39

(Source: Appendix -12)

Figure 4.12

Return on Total Working Fund Ratio (ROA)

The above Figure 4.12 shows that the ratios are fluctuating trend during the study period. The highest ratio is 1.69% in 2008\09 and the lowest ratio is 1.17% in 2003\04. The average ratio is 1.44 at the time. S.D and C.V are 0.16 and 11.39% respectively, and this indicates that the ratios are less variable and more consistent during the study period.

4.3.9 Return on Total Equity Ratio

From this ratio, the profit earned by the equity share holders can be measured. This ratio reveals the overall effectiveness and performance of the organization. The high ratio indicates a high return to shareholders and vice versa. This ratio measures how efficiently the banks have used the funds of the owners. Return on Equity Ratio of EBL over the study period is given below:

Table 4.13

Return on Equity Ratio (ROE)

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	15.23	21.10	21.86	24.65	24.79	23.48	21.83	3.54	16.24

(Source: Appendix -13)

Figure 4.13

Return on Equity Ratio (ROE)

The above table 4.13 shows that the return on equity ratio of the bank has slightly increasing trend except fiscal year in 2008\09. The trend ranged from 15.23% in the fiscal year 2003\04 to 24.79 in the fiscal year 2007\08. Similarly the average ratio, S.D and C.V between them are 21.83%, 3.54 and 16.24% respectively, which indicates that the ratio are more variable and less consistent or uniformity.

4.3.10 Earning Per Share (EPS)

Earning per share refers to the earnings available to each share holder of the bank. The amount of EPS measures the efficiency of a firm in relative terms. The figure is the indicative of the overall good or bad performance of an organization. Earning Per Share (EPS) of EBL over the study period is as follows:

Table 4.14

Earning Per Share (EPS) (in Rupees)

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	29.9	32.88	53.4	62.75	78.42	91.82	58.19	24.60	42.27

(Source: Appendix -14)

Figure 4.14

Earning Per Share (EPS)

The figure 4.14 reveals that the EPS of the bank are gradually increased. Thus, it's going on increasing trend over the study period. The highest EPS is Rs 91.82 in 2008\09 and lowest EPS is Rs 29.9 in 2003\04 while the average EPS is RS 58.19. Similarly the S.D and C.V between them are 24.60 and 42.27% respectively that indicates the EPS are more variable and less consistent during the study period. Thus, in a result it may be going to the gradually increasing trend in the coming year.

4.4 Risk Ratios

The possibility of risk makes banks investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the bank wishing high profit has to accept the risk and manage it effectively. Thus, through following ratios effort has been made to measure the level of risks.

4.4.1 Credit Risk Ratio

It measures the possibility whether the loan will be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. Credit risk ratio is exposed as the percentage of non performing loan to total loans and advances of a bank. The credit Risk ratios of EBL over the study period is as follows:

Table 4.15

Credit Risk Ratios

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	62.71	63.44	66.99	63.51	65.71	69.38	65.29	2.57	3.93

(Source: Appendix -15)

Figure 4.15

Credit Risk Ratio

The above figure 4.15 depicting that the ratios are increased in 2005\06, thereafter it is decreased in 2006\07, then it is increasing trend till the fiscal year 2008\09. The highest ratio is 69.38% in fiscal year 2008\09 and lowest ratio is 62.71 in fiscal year 2003\04, mean ratio is 65.29%. The S.D and C.V are 2.57 and 3.93 respectively which indicates that the ratios are less variable and more uniformity or consistency during study period.

4.4.2 Capital Risk Ratios

The capital risk of a bank indicates how much assets value may decline before the position of depositors and other creditors jeopardize. Therefore a bank must maintain adequate capital in relation to the nature and condition of its assets, deposit and other corporate responsibilities. This ratio measures the banks ability to attract deposits and inter bank funds. It also determines the level of profit of a bank can earn if a bank chooses to take high capital risk. Higher the ratio lower is the capital risk and vice versa. The capital risk ratio of EBL over the study period is as follows:

Table 4.16

Capital Risk Ratio

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Mean	S.D.	C.V. %
Ratio	7.97	6.57	4.95	4.59	3.46	3.00	5.09	1.89	37.05

(Source: Appendix -16)

Figure 4.16

Capital Risk Ratio

The above figure 4.16 shows that the ratios are decreasing during the study period. The highest ratio is 7.97% in fiscal year 2003\04 and the lowest ratio is 3.00% in fiscal year 2008\09 with 5.09% average ratio. Similarly, S.D. and C.V. are 1.89 and 37.05% respectively which reveals that the ratios are more variable and less consistent during the study period.

4.4.3 Growth Ratios

Growth ratio represents how well the banks are maintaining their economic and financial condition. It is related to fund mobilization and investment management of the bank. Higher ratio represents better performance of the bank. Under this topics, we study four types of growth ratios, they are:

4.4.4 Growth Ratio of Total Deposits

The growth ratios of Total Deposits of from 2003\04 to 2008\09 are mentioned below:

Table 4.17

Growth Ratio of Total Deposits

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Growth Ratio
Total deposits	66949.63	80639	100976.90	138024.44	181862.5	239763	29.06%

(Source: Appendix -17)

Figure 4.17

Growth Ratio of Total Deposits

The above diagram 4.17 reflects that the growth ratio of the deposits during the study period is in increasing trend which means the bank is able to increase the deposits by 29.06%during the year. The deposit of the year 2003\04 is Rs.66949.63 in lakh is increased to Rs.239763 in the year 2008/09. It means the bank is success to increase its deposit collection each year.

4.4.5 Growth Ratio of Total Loans and Advances

The growth ratios of Total Loans and Advances of EBL over the study period i.e. from 2003/04 to 2008/09 are as follows:

Table 4.18

Growth Ratio of Total Loans and Advances

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Growth Rate (%)
Loan & Advances(RS)	50495.81	60958.4	79000.9	101362.5	140826.86	188365	30.12

(Source: Appendix -17)

Figure 4.18

Growth Ratio of Total Loans and Advances

The above table 4.18 discloses that the Total Loans and Advances are in increasing trend during the study period. The lowest amount is Rs.50495.81 lakh in 2003/04 and it increased to Rs.188365 lakh in 2008\09. Hence, the growth ratio of total loan and advance is 30.12% during the study period. It means the bank is able to utilize its fund as increasing its loan and advances by 30.12%.

4.4.6 Growth Ratio of Total Investment

The ratio shows whether the sample bank had increased the total investment or decreased the investment. The following table shows the growth ratio of EBL.The growth ratios of Total Investment over the study period i.e. from 2003\04 to 2008\09 are as follows:

Table 4.19

Growth Ratio of Total Investment

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Growth Ratio (%)
Total Investment(Rs)	16539.77	25356.57	21289.32	42005	49843	50595	25.06

(Source: Appendix -17)

Figure 4.19

Growth Ratio of Total Investment

The above Figure 4.19 reveals that the growth ratio of total investment is increasing trend except the fiscal year 2005\06. The lowest amount is Rs, 16539.77 in 2003\04 and the highest amount of investment is Rs, 49843 in 2008\09. Hence, the growth ratio is 25.06% during the study period. The bank is increasing its investment in government securities and share and debenture of other companies as increasing to its deposits.

4.4.7 Growth Ratio of Net Profit

Growth ratio of net profit shows whether the net profit of the bank is increasing or not. It also shows whether the bank is running successfully or not. The growth ratios of Net Profit of EBL from 2003/04 to 2008/09 are mentioned below:

Table 4.20

Growth Ratio of Net Profit

Fiscal Year	2003\04	2004\05	2005\06	2006\07	2007\08	2008\09	Growth Ratio(%)
Net profit	941.8	1435.66	1682.14	2372.9	2964	4512	36.80

(Source: Appendix -17)

Figure 4.20

Growth Ratio of Net Profit

The above table 4.20 shows that the growth ratio of Net Profit during the study period is increasing trend. The growth ratio of Net profit is 36.80% during the study period. The Net profit of the year 2003\04 is Rs.941.8 in lakh which increased to Rs.4512 in lakh in the year 2008\09. It means the bank is able to increase it's net profit as increase it's deposits, loan and advances etc.

4.5 Trend Analysis and Projection for Next Five Years

Under this topic, it can be analyzed and interpreted the trend of deposits, loan and advances, investments and net profit of EBL that helps to make forecasting for next five years.

Here an effort has been made to calculate the trend values of total deposits of EBL from fiscal year 2003\04 to 2008\09and forecasted the same for next years till 2014\15.

4.5.1 Trend analysis of Deposits

The following table 4.21 depicts that the trend values of Deposits of EBL for 10 year from 2003\04 to 2014\15.

Table 4.21

Trend Analysis of Deposit

(Rs in million)

Year	Trend Value
2003\04	48646.53
2004\05	83068.95
2005\06	117491.37
2006\07	151913.79
2007\08	186336.21
2008\09	220758.63
2009\10	255181.05
2010\11	289603.47
2011\12	324025.89
2012\13	358448.31
2013\14	392870.73
2014\15	427293.15

(Source: Appendix -18)

Figure 4.21

Trend analysis of Deposit

From the figure 4.21 the trend analysis of Deposit, it can concluded that the total deposit of the bank is in increasing trend. Other things remain same, total deposits Rs. 48646.53 in the year 2003\04 of EBL will be Rs.427293.15lakh in 2014\15, which is the highest under the study period. According to trend analysis, It is concluded that the bank is able to increase its Deposits collection to Rs. 427293.15lakh in the year 2014/15.

4.5.2 Trend analysis of loan and advances

The table 4.22 below discloses that the trend value of total loans and advances from 2003\04 to 2014\15.

Table 4.22

Trend Analysis of Loan and Advances

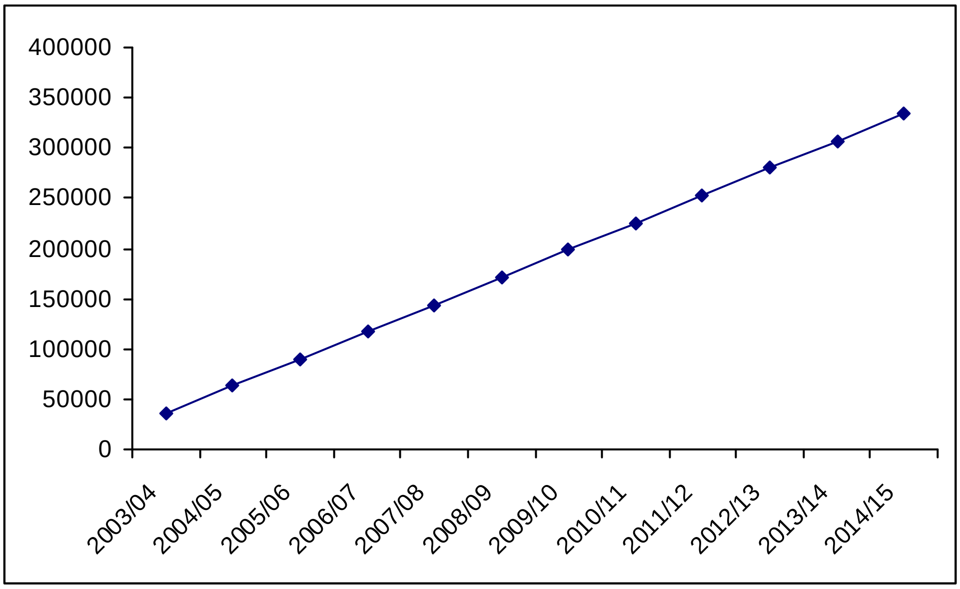
(Rs. in million)

Year	Trend Value
2003/04	35550.65
2004/05	62731.02
2005/06	89911.39
2006/07	117091.76
2007/08	144272.13
2008/09	171452.5
2009/10	198632.5
2010/11	225813.24
2011/12	252993.61
2012/13	280173.98
2013/14	307354.35
2014/15	334534.72

(Source: Appendix -19)

Figure 4.22

Trend Analysis of Loan and Advances



From the above table 4.22 reveals that the total loan and advances of EBL is in increasing trend. Other things remain same total loans and advances in the year 2003\04 are Rs.35550.65 in lakh of bank will be Rs.334534.72lakh in 2014\15 which is the highest under the study period. According to above table, it can be said that the bank is able to mobilize it's funds as loans and advances to Rs.334534.72lakh in the year 2014\15.

4.5.3 Trend Analysis of Total Investment

Here an effort has been made to analyze the trend values of total net profit of EBL for 6 years from 2003\04 to 2008\09 and forecast the same for the next six years from 2003\04 to 2014\15.

Table 4.23

Trend analysis of Total Investment

(Rs. in million)

Years	Trend Value
2003\04	6494.56
2004\05	14505.31
2005\06	22061.06
2006\07	29616.81
2007\08	37172.56
2008\09	44728.31
2009\10	52284.06
2010\11	59839.81
2011\12	67395.56
2012\13	74951.31
2013\14	82507.06
2014\15	90062.81

(Source: Appendix -20)

Figure 4.23

Trend Analysis of Total Investment

From the above figure 4.23 depicts that it can be concluded that the trend values of Total investment of EBL are in increasing trend over the study period. Other things remain same; the total investment of Rs.6494.56lakh in the year 2003\04 of the bank will be Rs.90062.81lakh in 2014\15, which is the highest under the study period. According to above figure, it can be concluded that the will be increased its investment to Rs.90062.81lakh in the year 2014\15.

4.5.5 Trend Analysis of Net Profit

Here an effort has been made to analyze the trend values of total net profit of EBL for seven years from 2003\04 to 2008\09 and forecast the same for the next five years i.e. 2014\15.

Table 4.24

Trend Analysis of Net Profit

(Rs. in million)

Years	*Trend Value*
2003\04	665.45
2004\05	1327.50
2005\06	1989.55
2006\07	2651.60
2007\08	3313.65
2008\09	3975.70
2009\10	4637.75
2010\11	5299.80
2011\12	5961.85
2012\13	6623.90
2013\14	7285.95
2014\15	7948.00

(Source: Appendix -21)

Figure 4.24

Trend Value of Net Profit

From the above figure 4.24 it has been seen that the trend value of total net profit of EBL are in increasing trend during the study period. Other things remain same; the total net profit Rs.665.45lakh in the year 2003/04 of the bank will be Rs.7948.00lakh in 2014\15. According to above figure, it can be said that the banks net profit will be increased to Rs.7948.00lakh in the year 2014/15.

4.6 Measurement of Correlation

Correlation refers to measure of relationship between two or more characteristics of a population or a sample. In this topic, Karl Pearson's Coefficient of Correlation (r) is used to find out the relationship between the variables. Correlation can be measure interpretation of correlation:

When,

r = +1, perfectly positive correlation

r = -1, perfectly negative correlation

r = 0, no correlation

r is between .7 to .999, there is moderate degree of correlation.

r is less than 0.5, there is low degree of correlation

4.6.1 Relationship between Deposits and Loans and Advances

Deposits have played vital role in the better performance of the banks and similarly, loans and advances are important to mobilize the collected deposits. The correlation between total deposits and loan and advances describes the degree of relationship between these two variables. In this analysis, a deposit is the independent variable (x) and loans and advances is the independent variable (y). The main objectives of computing 'r' between these two variables is to justify whether deposits are significantly used as loans and advances in proper in a proper way or not.

Table 4.25

Relationship Between Deposits and Loan and Advances

Correlation coefficient (r)	r2	P. Er.	6 P.Er.	Remarks
0.9987	0.9974	0.00063	0.00376	r>6.Er.

(Source: Appendix -22)

The above table 4.25 depicts that the coefficient correlation between deposits and loan and advances is .9987 which reflects a high and positive relationship between these two variables. Similarly, r>6 P.Er. And r is positive nearer to the 1, it can be concluded that there is a strong positive correlation between deposits and loans and advances. Similarly, when it consider the value of coefficient of determination (r^2), 0.9974 , means 99.74% of total variation in the dependent variable has been explained by the independent variable. Therefore, the correlation between deposits and loan and advances is very high significant and strong positive correlation. Thus, this indicates that the bank is successful in mobilizing its deposits in proper way as loans and advances.

4.6.2 Relationship between Deposits and Investment

Correlation between deposits and total investments measures the degree of relationship between these two variables. From this correlation, it can be concluded that how a unit increases in deposits impact in the volume of investment. Hence, deposit is the independent variable (x) and total investment is the dependent variable (y). The correlation between deposits and Investments of EBL is as follows:

Table 4.26

Relationship between Deposits and Investment

Correlation coefficient (r)	r^2	P. Er.	6 P.Er.	Remarks
0.7864	0.6185	0.1050	0.6302	r>6P.Er.

(Source: Appendix -23)

From the above table 4.26 it is found that the coefficient of correlation between deposits and total investment is 0.7864, which shows a high and positive relationship. Similarly, when it consider the value of coefficient of determination (r^2), 0.6185, means 61.85% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a high significant and positive correlation between deposits and total investments. Thus, this indicates that the bank is successful in maximizing the investments of its deposits.

4.6.3 Relationship between Loan and Advances and Total Net Profit

The correlation between loans and advances and total and net profit measures the degree of relationship between these two variables. It measures that the impact in Net Profit by loans and advances. Here, loans and advances is the independent variable (x) and total net profit is dependent variable (y).

Table 4.27

Relationship between Loan and Advances and Total Net Profit

Correlation coefficient (r)	r^2	P. Er.	6 P.Er.	Remarks
0.9927	0.9854	0.0040	0.0241	r>6P.Er.

(Source: Appendix -24)

The above table 4.27 depicts that the correlation between loans and advances and Net Profit of the bank is 0.9927, which shows the high and positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r^2), 0.9854, means 98.54% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a very high significant and strong positive correlation between loans and advances and Net Profit. Thus, this indicates that the bank is successful in maximizing the net profit regarding with loan and advances.

4.6.4 Relationship between Investment and Net Profit

The correlation between investment and net profit measures the degree of relationship between two variables. It measures that the impact in net profit by investment. Here, investment is the independent variable denoted by x and net profit is dependent variable denoted by y.

Table 4.28

Relationship between Investment and Net Profit

Correlation coefficient (r)	r^2	P. Er.	6 P.Er.	Remarks
0.7642	0.5840	0.1145	0.6873	r>6P.Er.

(Source: Appendix -25)

The above table 4.8 reveals that the correlation between investments and Net Profit of the bank is 0.7642, which shows the high and positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r^2), 0.5840, means 58.40% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a significant and positive correlation between investments and Net Profit. Thus, this indicates that the bank is successful in maximizing the net profit regarding with investments.

4.7 Major Findings of the Study

The major findings of the study, derived from the financial data analysis of EBL are presented hereafter.

1. From the analysis of the current ratio, current assets of the bank have exceeded the current liabilities in all the fiscal year from 2003\04to 2008\09. The highest ratio so 2.88 times in 2003/04 while the lowest ratio is 1.59 times in 2007/08 with on average ratio of 2.15 times during the study period. The ratio shows the fluctuating trend during the period. The co-efficient of variation (C.V.) between the ratios for the study period is 20.32% which shows that the current rations

during the study period are not so consistent. In general the bank is able to meet its short term obligations and a satisfactory liquidity position.

2. The cash and bank balance to current assets ratio of EBL has increasing trend from the fiscal year 2004\05 except in the year 2008\09. The highest ration is 17.32% in 2003\04 while the lowest ratio is 8.79% in 2004/05 with an average of 12.97% and S.D. and C.V. of cash & bank balance to current assets ratio over study period is 3.37 and 25.96% respectively, based in the S.D. and C.V. it can conclude that the ratio is less consistent & more variable. However it does not mean that the bank is not in good position in terms of cash & bank balance. The bank can meet its daily balance. The bank can able its daily requirements to make the payments on customer deposits withdrawals. Thus, the bank had a satisfactory liquidity position.
3. The cash and bank balance to total deposits ratios of EBL has a increasing trend from the year2004\05except in the year 2008\09. Here the highest ratio is 17.02% in 2003\04 and the lowest ratio is 7.83% in 2004/05. Likewise, the mean of the ratios S.D. and C.V. for the study period are 11.80%, 3.08 and 26.13% respectively. Hence, based on the C.V., it can conclude that the ratios are variable and less consistent. It indicates that the bank is in a good position in maintaining its cash and bank balance to meet its daily requirements to make the payments on customer deposit withdrawals.
4. The investment on government securities to current assets ratio of EBL has been fluctuating trend with the highest ratio 34.66% in 2004/05 and lowest ratio 18.78% in 2008\09. The mean ratio of the bank is27.26% and the SD. and C.V between them are6.06 and 22.22%. Based on the C.V., it can be concluded that the ratios are inconsistent and more volatile. The liquidity position of the bank from the point of view on investment on government securities is good.
5. Loans & advances to current assets ratio of EBL shows that the ratios of the bank are in increasing and fluctuation trend. It was in increasing trend till 2005\06 and being highest ratio 96.9% and 73.38% is the lowest ratio. However, the mean ratio is84.27% and standard deviation is 8.41 with C.V. between them is 9.98%. It shows the ratios are consistent and less variable during the study period. Thus, the bank is in better position to mobilize its funds as loans and advances with respect to current assets.
6. The loans and advances to total deposits ratios are in increasing and fluctuating trend till 2005/06 and in 2006/07 the trend is going to be decreased but after this

year its going upward and being highest ratio 78.56% during the study period however the lowest ratio is 73.44% in 2006\07. Similarly, the mean ratio for the study period is 76.45% while S.D and C.V between them are 1.97 and 2.58% respectively. Based on the S.D and C.V., it can be concluded that the ratios are more consistent & less variable.

7. The total investment to total deposit ratios of EBL are in fluctuating trend up to 2006\07 after that it is decreasing trend during the study period. The highest ratio is 31.44% in 2003/04 and the lowest ratio is 21.08% in 2005\06. Similarly, the mean ratio is 26.03% and the S.D and C.V between them are 4.5 and 17.27% respectively which indicate that the ratios are less consistent or more variables over the study period. The figures show that the bank has mobilized optimum amount of deposits in securities.
8. The interest income to total income ratios of the bank has increasing trend in 2006\07 there after it is decreasing trend. The highest ratio is 84.71% in 2006\07 and the lowest ratio is 81.87% in 2003\04 while the average ratio is 83.4% during the study period. Similarly, S.D. and C.V. are 0.95 and 1.14% respectively depict that the trends are less variable and more consistent during the study period. Here, it is seen that the contribution by interest income to total income is high.
9. The interest expenses to total expense ratios are decreasing trend except in 2006\07. The highest ratio 56.85% in 2003\04 it is continuously decreasing to the fiscal year 2008\09 and being lowest ratio 38.74. The mean ratio is 47.82%. The S.D. and C.V. between them is 5.86 and 12.25% respectively, which indicates the ratios are less variable and more consistent during the study period. According to the ratios, it is concluded the bank has less operating expenses or more than half of the portion of interest expenses incurred by the bank.
10. The total income to total expenses ratio of the bank has increasing trend up to fiscal year 2006\07, there after it is decreasing trend during the study. The ratio 1.28 times of 2006\07 is the highest ratio and it's going on 1.14 times in 2008\09. The mean ratio is 1.22 times while the S.D and C.V between them is 0.06 and 4.91% respectively which shows the ratios are more variable and less uniformity. According to mean ratio, one unit of expenses is generating 1.3 units of income. Thus, the total income is over the total expenses.
11. The return and loans and advances ratios are in fluctuating trends. The highest ratio is 2.39% in 2008\09 and the lowest ratio is 1.86% in 2003\04, meanwhile the average ratio is 2.22% and S.D. and C.V. are 0.20 and 9.23%, which indicates

that the ratios are less variable and more consistent during the study period. Thus, it is concluded that the return on loan and advances is not satisfactory.

12. Return on total working fund ratios are fluctuating trend. The highest ratio is 1.64% in 2008\09 and the lowest ratio is 1.17% in 2003\04. The average ratio is 1.69% while the S.D. and C.V. are 0.16 and11.39% respectively, which indicates that the ratios are less variable and more consistent during the study period. According to the ratios, it is conclude that the assets are generating 1.64% of total net profit of the bank in average.
13. The return on equity ratio of the bank has slightly increasing trend except fiscal year in 2008\09. The highest ratio is 24.79% in 2007\08 and the lowest ratio is 15.37% in 2003\04. Similarly the average ratio, S.D. and C.V between them are 21.83%, 3.54 and 16.24% respectively, which indicates the ratios are more variable and less consistent. By the ratios it is seen that return on shareholder fund is very good.
14. The Earning per Share (EPS) of the bank are gradually increased. The highest EPS is Rs.91.82 in 2008\09 and the lowest EPS is Rs.29.90 in 2003\04 while the average EPS is Rs.58.17 Similarly the S.D. and C.V. between them are 24.60 and 42.27% respectively that indicates the EPS are more variable and less consistent during the study period. According to the ratios, it is concluded that the bank is able to increase its EPS from some years and the average EPS of the bank is satisfactory. Thus in a result it may be going to the gradually increasing trend in the coming year.
15. The credit risk ratios are increased in 2005\06, thereafter it is decreased in 2006\07, then it is increasing trend over the study period. The highest ratio is 69.38% in 2008\09 and the lowest ratio is 62.71% in 2003\04 with 65.29% average ratio between them. Meanwhile the S.D. and C.V. are 2.57 and 3.93% indicates that the ratios are less variable and more consistent during study period. Thus, according to average risk ratio and C.V., the bank has a stable credit policy though the chances of default loan are more.
16. The capital risk ratios are decreasing during the study period. The highest ratio is 7.97% in 2003\04 and the lowest ratio is 3% in 2008\09 with 5.09% average ratio. Similarly, S.D. and C.V. are 1.89 and 37.05% respectively reveal that the ratios are variable and less consistent during the study period.
17. The growth ratio of the deposits during the study period is in increasing trend which means the bank is able to increase the deposits by 29.06% during the year.

18. The Total Loans and Advances are in increasing trend during the study period. The lowest amount is Rs.50495.81 lakh and it increased to Rs. 188365 lakh in 2008\09 Hence, the growth ratio is 30.12% during the study period.
19. The growth ratio of total investment is increasing by 25.06% over the study period. The bank is increasing its investment in government securities and share and debenture of other companies as increasing to its deposits.
20. The growth ratio of Net Profit during the study period is increasing trend. The growth ratio of Net profit is 36.80% during the study period. According to this ratio, the increasing ratio of the net profit is satisfactory growth rate. It is to be said that the bank is able to increase its net profit as increase its deposits liabilities, loan and advances and investments.
21. The Trend analysis of Deposit of the bank is in increasing trend. Other things remain same, total deposits of EBL will be Rs.427293.15 in 2014\15, which is the highest under the study period. Thus, the analysis reveals that the deposits of the bank are increasing.
22. The total loan and advances of EBL is in increasing trend. Other things remain same, total loans and advances of bank in 2014\15 will be Rs.334534.72 lakh which is the highest under the study period.
23. From the analysis, the trend values of Total investment of EBL are in increasing trend over the study period. Other things remain same; the total investment of the bank will be Rs.90062.81 lakh in 2014\15, which is the highest under the study period.
24. From the analysis, it has been seen that the trend value of total net profit of EBL are in increasing trend during the study period. Other things remain same; the total net profit of the bank will be Rs.7948.00lakh in 2014\15. According to the analysis, the ratio of net profit is increasing as increasing of loan and advances and investment.
25. The coefficient correlation between deposits and loan and advances is 0.9986 which reflects a high and positive relationship between these two variables. Similarly, r>6P.Er. And r is positive nearer to the 1, it can be concluded that there is a strong positive correlation between deposits and loans and advances. Similarly, when it consider the value of coefficient of determination (r^2), 0.9974 , means 99.74% of total variation in the dependent variable has been explained by the independent variable. Therefore, the correlation between deposits and loan and advances is very high significant and strong positive correlation. Thus, this

indicates that the bank is successful in mobilizing its deposits in proper way as loans and advances.

26. The coefficient of correlation between deposits and total investment is 0.78647, which shows a high and positive relationship. Similarly, when it consider the value of coefficient of determination (r^2), 0.61853 , means 61.85% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a significant and positive correlation between deposits and total investments. Thus, this indicates that the bank is successful in maximizing the investments of its deposits.

27. The correlation between loans and advances and Net Profit of the bank is 0.9927, which shows the high and positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r^2), 0.9854, means 98.54% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a very high significant and strong positive correlation between loans and advances and Net profit.

28. The correlation between investments and Net Profit of the bank is 0.7642, which shows the high and positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r^2), 0.5840, means 58.40% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a significant and positive correlation between investments and Net Profit. Thus, this indicates that the bank is successful in maximizing the net profit regarding with investments.

CHAPTER-V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Economic development of the nation is largely depends on the development of different sectors of the national economy such as agriculture, industry, trade, tourism and other sector of infrastructure like as health, education, communication, transportation, electricity, construction etc. which need huge finance. Banking sector is the once which provide funds and finance to it. So, it is to be said that banking is one the most important sector which play vital role for economic development of the nation.

Banks are grouped under the different categories as per the functions they perform. Now a day, Central bank, Commercial bank and development banks are exist in Nepal. Banks which are established to accept deposits and grant loan to the industries, individual and traders with a view to earn profit are known as commercial banks. Commercial bank may be established as the joint stock company.

Investment is one of the important functions of commercial banks and the composition of loans and advances directly affects the performance and profitability of the bank. In today's context, where there is cutthroat competition, the banking business has to compete severely with others due to large numbers of banks with limited market, less investment avenues due to political problems, fluctuating interest rates etc. Today all the banking is facing the problem of default loan and the possibility of certain portion of loans and advances turning into non-performing loans. Investment operation or capital formation is very risky one for the commercial bank in the underdeveloped countries. Mainly earning profit is the motto of each and every commercial bank. The income and profit of the bank is depends upon its lending procedure, lending policy and investment of its fund in different securities. A good investment policy attracts both buyers and lenders which increase both the volume and quality of deposits, loans and investment; the greater the credit created by the bank, the higher will be the profitability. Since, investment is the most risky from the viewpoint of shareholders and the management of the bank, the bank should be cautious while formulating and implementing the investment policy.

The more emphasis is given in the study is to evaluate the investment policy and practices, measure the liquidity, profitability, assets management ratio etc of the bank and compute and measure the growth ratio and relationship of Total Deposits, Total Investments, Total Loans and Advances and Net Profit of Everest Bank Limited and to suggest improve it.

The study is mainly based on the secondary data from Fiscal year 2002\03 to 2007\08. The data have been obtained from the annual reports of the bank, magazines, journals and various published report and unpublished master's degree thesis, websites of the bank and Nepal Stock Exchange. Besides this, personal contracts with the bank personnel have also been made.

Financial as well as statistical tool have been used to analyze and interpret the data and information. Under financial analysis, various financial ratios such as liquidity, asset management, activity, profitability, risks and growth ratio are used. Similarly, under statistical tools like mean, standard deviation, Coefficient of Correlation, Coefficient of variation, trend analysis has been used. The findings from each of these ratios are presented which will give a better picture of the performance of the bank.

5.2 Conclusions

The current ratio of the bank for the study period is 2.152 times on an average. The international of the current ratio is 2:1, though the acceptability of the value depends on the nature of the business and industry. For banks, a current ratio of 1:1 or above to 2:1 is acceptable. Hence, based on this, the liquidity position of the bank is considered as better position from the view point of current ratio. The average of cash and bank balance to deposit ratio is 11.80%. This shows that the bank has enough liquidity to meet the customer's withdrawals demand.

The bank has been able to maintain sufficient percent of liquid assets with respect to its current assets and meet the daily requirement to make payments on customer's deposits withdrawal. The investment of government securities to current assets ratio of the bank is in fluctuating trend with an average ratio of 27.26%. The ratio indicates that the bank has maintained a sufficient amount of liquid assets in government securities to meet the expected future needs. The loan and advances to current assets ratio is 84.27% on an average during the study period. This shows that the bank has mobilized large percentage of its current assets as loans and advances in order to earn high profit rather than keeping its idle as cash and bank balance. Hence the liquidity ratios reveal that the liquidity position of the bank is in better position and is able to meet its short term obligation.

The average of loans and advances to total deposits ratio is 76.45%. This shows that the bank is aggressively lending and takes more risks in order to earn profit. Thus, the bank is able to mobilize properly the total deposits in loans and advances, which has higher return. The investment in total deposit ratio is 26.03% in average. This shows that the bank has satisfactorily invested of its deposits in investment on government securities and share and debentures of other companies. The bank has invested its deposits more in loan and advances than in investment to generate more income.

The interest income to total income ratio of the bank is 83.40% in an average with a increasing except the fiscal year 2006\08 and 2008\09. This shows that the bank has invested its funds in higher income generating activities and able to earn income from interest. Interest expenses to total expenses ratio for the study period is 47.60%. The bank is decreasing its cost of funds over the year. Total income to total expenses ratio is 1.22 times in an average and the ratio seems to be consistent over the year. Thus, it is concluded that a unit of expenses could generate 1.22 units of income. Hence, the productivity of expenses to generate income is shown by this ratio. The return on loan and advances ratio is 2.2% with a fluctuating trend though the returns seem to be not good. Return on total working fund is 1.44% with fluctuating trend. Thus, the bank has not been able to manage its total working funds effectively and efficiency. Similarly, the bank has not been able to attain a stable rate of return on its assets. The return on equity ratio is 21.83% in an average with increasing trend except in 2007\08. This ratio also shows that the bank has efficiently used the funds of the owners and achieved a higher return to shareholder's equity. Though the mean ratio looks good, it is increasing from 2003\04 to 2007\08. Earning per share is 58.19 in an average performance of the bank is satisfactory.

The credit risk ratio is 65.29% in an average with increasing trend till 2005\06 then it is decrease in 2006\07 after that it is again increase during the study period. This shows that the risk of non payment of loans or the chances of default is high. Though, the bank has more stable credit policy. The capital risk ratio of the bank is 5.09% in average with a decreasing trend. Thus, this shows that the assets value of assets is declining over the years.

The growth ratio of the deposits during the study period is in increasing trend which means the bank is able to increasing the deposits by 29.06%. The total loan and advances are in increasing trend during the study period. The lowest amount is Rs.66949.63 lakh and it increased to Rs.239763 lakh in 2008\09. Hence, the growth ratio is 30.12% during the study period. The growth ratio of total investment is increasing by 25.06% over the study period. The bank is increasing its investment in government securities and share and debenture of other companies as increasing to its deposits. The growth ratio of net profit is 36.80% during the study period.

From the trend analysis of deposit, it can be concluded that the total deposit of the bank is in increasing trend. Other thing remaining the same, total deposit of EBL will be Rs. 427293.15 in 2014\15. The total loan and advances of EBL is in increasing trend. Other thing remaining the same total loan and advances of bank in 2014\15 will be Rs. 334534.72 lakh. The trend value of total investment of EBL are increasing trend over the study period. Other thing remaining same, the total investment of the bank will be Rs. 90062.81 lakh in 2014\15. The trend values of total net profit of EBL are in increasing trend during the study period. Other thing remaining the same the total profit of the bank will be Rs 7948.00 in 2014\15.

The coefficient correlation between deposits and loan and advances is 0.9987. This reflects a high and positive relationship between these two variables. Similarly, r>6P. Er and r is positive nearer to the 1, it can be concluded that there is a strong positive correlation between deposits and loans and advances. Similarly, when it considers the value of coefficient of determination (r^2) is 0.9974. Thereafter, the correlation between deposits and loan and advances is very high significant and strong positive correlation. Thus, this indicates that the bank is successful in mobilizing its deposits in proper way as loans and advances.

The coefficient of correlation between deposits and total investment is 0.7865 which shows a high and positive relationship. Similarly, when it considers the value of coefficient of determination (r^2) is 0.6185. Since, r is positive and r> 6P. Er, it can be concluded that there is a high significant and positive correlation between deposits and total investment. Thus, this indicates that the bank is successful in maximizing the investment of its deposits.

The correlation between loans and advances and net profit of the bank is 0.9923, which shows the high and positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r^2) is 0.9854. Since, r is positive and r> 6P. Er. It can be concluded that there is a very high significant and strong positive correlation between loan and advances and net profit. Thus, this indicates that the bank is successful in maximizing the net profit regarding with loan and advances.

The correlation between investments and net profit of the bank is 0.7642, which shows the high and positive relation between two variables. Similarly, when it considers the value of coefficient of determination (r^2) is 0.5839. Thus, it can be concluded that there is high significant and positive correlation between investments and net profit. Thus, this indicates that the bank is successful in maximizing the net profit regarding with investment.

5.3 Recommendations

Based on the above analysis and findings of the study, following recommendations have been put forward with a view to improve the inefficiencies and weakness in regards to the investment policy of Everest Bank Limited.

a. Current ratio shows that the banks ability to meet the current obligation. Generally 2:1 is considered as the standard current ratio but for the financial institutions 1:1 is considered as the standard ratio. The current ratio of EBL seems to be fluctuating. Some years it was 2:1 and some year it was 1:59, but its average ratio is 2:1. It is seen that it holds high current assets which might decrease the profit. So the bank should use the current assets optimally and efficiently. So, it is recommended that the bank should maintain the better and standard current ratio which can help to utilize the deposit and fund in profitable assets and also able to meet current obligation.

b. The main source of commercials banks in collecting deposits from public who don't need that fund recently. Without enough deposit collection, banks cannot operate smoothly. However, the growth rate is not sufficient for the coming year when big industries and programs, construction and infrastructure will be established and developed in the country. So, it is suggested that the bank will lunch the programs and policy for attracting depositors. It could provide deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheque, recurring deposit scheme (life insurance), housewife saving account (Grihani Bachat Khata), Investors account (which is lunched by NMB finance when stock exchange made provision for primary share market investors to open bank account), Kids Saving Account, Remit service etc. So, it is also recommend that it should provide world wide remit service for generating income and collecting deposits.

c. It is also seen that it provide loan highly in construction and production sector, Trade, Service and other sector but very less loan is provide to the agricultural sector. Nepal is land locked and agricultural underdeveloped country. Agriculture is the main source of income and about 80% people depend upon it. So, for the economic development of the country, it should give more emphasis to the agriculture loan. However, the loan and advances to total deposit or credit deposit ratio of EBL during the study period is 76.45% which seems to be better utilization of deposit as meeting the standard ratio. The 70% of CD ratio is considered as the standard ratio. So, it is suggested that to keep it up for the coming years. But very higher than 70% ratio is not good because loan and advances is a risky asset of which can be default by the loan taker.

d. The term investment is very important for commercial bank and main function also. Investment means use of their resources in different income sector. The study shows that the trend of investment of EBL is increasing. Meanwhile, EBL is recommending keeping wide vision in investment while utilizing their resources and investing in different areas.

e. The bank has very nominal investment an shares and debentures of other companies. Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of capital fund, shall be deducted from the core capital fund. So, EBL is suggested to investment more amount in shares and debentures of other companies, So, it can get either dividend from the existing shares and capital gain after selling those shares and debentures in capital market after holding some time.

f. Everest Bank does not have branches in the rural areas of the country. Its branches are limited to the urban areas only. Therefore, Everest bank is recommended to open branches in rural areas too to help in economic development of the country. Nepal Government has also encouraged the joint venture banks to expand banking service in rural areas and communities without making unfavorable impact in their profit. Not only this, the bank has not lots deposits comparing to other joint venture banks. So, it is suggested that the bank should expand its branches in other district and rural areas for collecting unusable amount and change it in productive. Today is the world of competition; the competition is growing day by day in the banking sector. Nepal has been taking the membership of WTO and it is predicted that the many international banks will established since 2010. It must compete to other big international banks. So, it must lunch new programs and policy, format new strategies for getting competitive gain. So as the depositors and loan taker always shall not thinking about other bank and take the facility from the bank.

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