CHAPTER-1

Introduction:

1.1 Introduction of the study:-

The globalization and liberalization has brought various new concepts the successful development of banking sectors. In competitive environment, in needs new concept to check the rival competition for enhancing its organization move, satisfying his customers, and expansion of business transactions?

Industry and commerce play a vital role for the economic development of any country. Many development countries have proved that for over all development of the country industry and commerce are better to agriculture Nepal is an agriculture country, agriculture is still the mainstay of Nepalese economy. This sector alone has proved employment to 80% if the labor force. It contributes about 41% to gross domestic product. Similarly, it contributes about 80% to export trade. Despite the emphasis being given to the development of agriculture sector since the 5th plan, there is no radical change seen in this sector.

In simple language, bank can be defined as a place where the transaction of money takes place. In other words, bank is such an institution that collects scattered deposit and advances loans. A bank collects deposits from different individuals and institution. These collect industries deposits are mobilized by giving, loans to different industries, commercial enterprises, individuals, households etc. In developing countries like Nepal the capacity to save is quite low. This low saving capacity is one of the major causes of bad economic condition of the developing countries. That's why the basic problem of the developing countries is raising the level of saving. Now a days in Nepal different banks such as developing banks, joint venture Banks, industrial Bank, commercial Bank, Agriculture Bank, co-operative Bank etc. are coming into existence with the purpose to collect the scattered saving and put them into productive channels so that saving will be safely and properly utilized for the all round development of the country.

In present 25 Nepalese commercial banks, NIC Bank limited is one of the leading commercial banks. This bank undertakes lots of monetary transaction cared through out the country. Such as it receives deposits from customers, provide loans to different individuals, commercial enterprises. NIC Bank Ltd. provides the facility of remittance and others credit activities as well. So it will require large amount of time and activities performed by NIC Bank Ltd. That's why this report only tries to solve the clear picture of investment policy of NIC Bank limited as much as possible.

1.2 <u>Identification of Research problems</u>:-

First and most essential step in research is identification of the problem. An investigation in not carried out simple for the save of investigation on initiate on investigation. There should be are I occurred ideas that generate the necessity for the investigation to be carried out. The ideas are developed while going through literatures, discourse with experts and continuations of specific topics that will be interesting or unrewarding of investigated. Problems are present as negative of situation prevailing within phenomenon.

Negative are called problem and their answers are called solutions.

The problems are identified by means group participation. A group of knowledge able persons are collected and group statement, which appears most representative of the group, is selected. These statements are arranged in sequential order as they appear to the experts in the subject matter. This statement is called problem. The research study covers following problems.

- faculty assessment
- problems involves in export and import
- uncertainty in risk covering documents
- fluctuation in TT
- Lock of communication feedback knowledge
- Lack of effective leadership quality
- Financial crunch
- All above point are the major research problem when conduct the research study.

1.3 <u>Scopes and objective of the study</u>:-

Industrial commercial Bank established in the view of providing types of commercial facilities to promote the development of the country. The main objectives of the study of the loan process of NIC Bank is to have in depth knowledge's of process by which NIC Bank provides loan to needy person for the development diversification of commercial sector in Nepal.

Any research may have two objectives i.e. academic objectives and utilitarian objectives of academic research, while research for the basic ingredient of academic research, while research for the save of research too

has found favor with some academic. Research provides an analytical framework of investment and its improvement. It establishes the relationship between the different individuals and business persons.
The main scope and objective of research study are as follow:-
Product development competition.

- To meet the competition.
- To study and analyze the risk covering documents.
- To analyze critically the investment terms and conditions.
- To observe the objective and benefits of investment.
- Customer satisfaction objective.
- Economic environmental objective
- To identify the liquidity position of Nepal Industrial & Commercial Bank.
- To examine the relationship between the liquidity and profitability of Nepal Industrial & Commercial Bank.
- To analyze the current assets policy of NIC Bank.
- Product Development Competition.
- To analyze the current liabilities policy of NIC Bank.
- To point out the valuable recommendations and suggestion based on analysis.

The branch office of Nepal Industrial & Commercial Bank established in parsa district, Birgunj. Also provides loans as an investment for different development project. The Nepal Industrial & Commercial Bank also provides various types of commercial inputs.
The report is being prepared to outline the procedure and document needed the secure investment through this report me can understand the basic procedure of the investment policy of Nepal Industrial & Commercial Bank.

1.4 Importance of study:-

Different study reports have thesis ours important in thesis sector area this report of investment policy of Nepal Industrial & Commercial Bank is prepared which play very important role. This report consists investment procedures at 5 fiscal year by using generally accepted ways. I hope this help in classifying and interpreting the real standing of the bank with its major function by the studying investment procedures of Nepal Industrial & Commercial Bank in which banks main objectives is development and modernization of commercial activities has been depended. This field study report is remarkable and has its own importance in thesis chosen area. So I in conclusion I submitted it has its own area of importance.

1.5 <u>Limitation of the study</u>:-

The main limitations of this study will be: -

- The study period covers date for only five fiscal years. (F/Y from 1st Shrawan on 059 to 31Ashadh 2064)
- The study will be mostly on the basis of secondary data collected.
- As the study needs sufficient money order to collect required information through various sources, the researcher could not afford it and the time dimension is very limited.
- The study will be done for the partial fulfillment of M.B.S. program of T.U.

1.6 <u>Sources of study</u>:-

For the depth analysis of any subjects on topic conform information, proof and various documents are needed with out which correct or true information is impossible. So the depth knowledge of subject matter, correct and assess to the mind have decided to study the investment procedure of Nepal Industrial & Commercial Bank, Birgunj branch. For this topic "investment policy" the necessary and correct information related to investment process are collected from Nepal Industrial & Commercial Bank, Birgunj branch and from the co-operative embraces of this branch and basic related to this topic me takes from different book.

1.7 <u>Hypothesis Formulation</u>:-

Commercial banks are those banks whose aim is not to earn only profit but also finance loans to different business sector. Hypothesis is a statement that specifics how two or more measurable variables are related. It is a tentative proposition formulated for empirical testing. It is a declarative statement combining concepts. It is a tentative answer to research question. It is a fact finding investigations, no problems may be raised and the need for formulating hypothesis may not arise. In all analytical and experimental studies, hypothesis should be set upon order to give a proper direction to them.

1.8 <u>Research Methodology</u>:-

Research means define procedure and techniques which guide to study and propounds ways for research viability. Therefore to fulfill the objectives of any study as well set of research design is needed. In this research to fulfill the objectives of this study basically two types of data are applying for gathering from managerial of company personnel and publications of the company. Channel members viz, customers. Shareholders, departmental manager and other where also inquired for this purpose. The methodology used for this research dissertation is:

1. Primary data collection method such as personal interview, information from correspondents, mild questionnaires and schedules assent through enumerators.
2. Secondary data collection method such as various published sources i.e. official, semi-official and unofficial publication and unpublished sources i.e. private office, hospital records etc.

1.9 Statically tools used:-

The research studies the designed systematically with the help of certain statically tools. The presentation of data and statically information interpreted and scrutinized in term of design statically principle. Principle of tabulation, principle of classification, percentage method, diagram, pie-chart, and ratio analysis are extensively used for the systematic analysis are extensively used for the systemic presentation of statistical data and information.

1.10 Focus of the study:-

Investment policy is a first step of the investment. It involves determining the investor's objectives and the amount of his or her invest able wealth. Investor objectives should be stated in term of both risk and return. The investment policy involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. This identification will be based on the investment objectives, amount of investment able wealth, and tax status of the investor.

Bank is a business organization where monetary transaction occurs. It created finds its client's saving and lends the same to needy person or business companies in term of loans, advances and investment. So proper financial decision making is more important in banking transaction for its efficiency and profitability.

Nepal Industrial & Commercial Bank is a successful commercial bank in Nepal. It has been performing vary well in Nepalese banking scenario. Now a day to survive in this competitive atmosphere, Nepal Industrial & Commercial Bank has able to manage all its functional areas very well.

One of such aspects of the organization which should be managed well is investment policy. To compete with rival's investment policy is considered

as vital tool, since it affects all functional areas of any sound organization. So any firm should have the sound investment policy in order to survive in the market.

1.11 **An Introduction to NIC Bank**:-

Nepal Industrial & Commercial Bank Limited which commercial operation on 21 July 1997 is first commenced bank in the country to be capitalized at Rs. 500 million. The bank has been in profitable operation since its inception, recording a compounded annual grown rate of 148% in net profit in the last 3 years. The bank currently has a network a plan to add more in the current years. The bank offers a complete suite of commercial banking products and survives including transaction banking, international trade finance, business banking, product finance, corporate banking and consumer banking, Nepal Industrial & Commercial Bank is one of the most widely held banking companies in Nepal with close to 35000 shareholders. The share of the bank is actively treated in Nepal stock exchange with current market capitalization of about Rs.24 billion. With the years of commencing business the bank has grown rapidly with & branches through out the country with 2 more being planned in the current year. The bank which has been in profitable operation from its inception, has managed robust grown in its overall business and profitability during the recent years.

Nepal Industrial & Commercial Bank is committed to providing superior banking products and financial services to its patrons through efficient and cost effective service delivery, offering of new innovation products and friendly customer service, and at the same time main training confidentially, professionalism & good governance. It consistently upgrades its processing systems and technology support besides broadening its scope, range and quality of services. All its branches are interred- connected through V-sat with lease line optical fiber back ups and are capable of providing on-line real time banking services.

The bank is seriously considering adopting capital adequacy norms under the based accord to the extent applicable to the Nepalese banking industry well before it becomes a regulatory requirement.

The bank is continuously offering new of value added service to customer with commitment to crudity and value to clients. According the bank has been fore fort in launching innovative & superior product with unique customer friendly features with immense success.

1.12 **Board of Directors**:-

The board, supported by the management team comprising of young enthusiastic professionals, has successfully embarked on a multipronged strategy of consolidation, administrative streamlining, human resource up-skirling, strategic cost management, focused nonperforming assets management, balance sheet and treasury management, and control assets growth in tandem with strengthening the credit culture and strategic marketing and sales. The name of the board of directors.

1. Jagdish Prasad Agrawal
2. Tulsiram Agrawal
3. Ashok Kumar
4. Rajendra Kumar
5. Rajendra Aryal
6. Birendra Kumar Sanghi
7. Tej Bahadur Chand
8. Arun Prajuli
9. Laxman Risal
10. Nirmal Kumar Agrawal

1.13 Facilities/services :-

1 Nepal Industrial & Commercial Bank Cash cord (Smart way to carry cash)
2. Nepal Industrial & Commercial Bank Auto loan (move in style)
3. Nepal Industrial & Commercial Bank Personal loan (Any purpose any amount)
4. Nepal Industrial & Commercial Bank Education loan (Get a future)
5. Nepal Industrial & Commercial Bank Travel loan (Enjoy now pay later)
6. Nepal Industrial & Commercial Bank Ghar Subidha
7. Nepal Industrial & Commercial Bank Life saving account
8. Nepal Industrial & Commercial Bank Sikshya Kosh.

1.14 **Organizational structure of Nepal Industrial & Commercial Bank**:-

Organizational structure means structure of relationship between various positions of the organization. It is a structure frame work duties and responsibilities through which an organization functions. It is a structure frame work of duties through which an organization functions. It is an established pattern of relationship among the components of the organization. It is a blue print of how management likes to perform of the various functions. It is a mechanism through which management directs, control, and co-ordinates the activities of the Nepal Industrial & Commercial Bank organization structure of Nepal Industrial & Commercial Bank consists simply of these aspects of pattern of behavior in the organization that are relative stable and change only slowly.

1.15 Customer Relation Service in Nepal Industrial & Commercial Bank:-

Customer means the actual or prospective purchaser of product or services. Customer relation refers the relationship between customer and members of bank. Nepal Industrial & Commercial Bank applies good relation with public, which helps in increasing the businessman power of it.

Following are the fundamental customer relation taken in practice by Nepal Industrial & Commercial Bank.

Nepal Industrial & Commercial Bank gives the required information to the customer on timely, VIZ, to depositors, to barrower, to the shareholder etc.

Nepal Industrial & Commercial Bank gives the required information to the customer one timely VIZ to dep. visitor, to the borrower to shareholders etc.

It introduces the facility available to banking services to the customer.

Sometimes the customer having more credibility gets the service like as staff welfare from Nepal Industrial & Commercial Bank.

It disabuses the loan on easy way by the knowing the psychology of customer by using good public relation.

1.16 Organization of the study

The Study has been organized into five chapters.

Chapter 1- This chapter deals with the subject matter of the study consisting background of the study profiles of the companies. Statement of problem, objective of the study, limitation of the study, Importance of the study, Sources, Focus of the study etc.

Chapter 2- This chapter deals with review of literature. It includes conceptual framework along with review of major books, journals, research work and thesis etc.

Chapter 3- This chapter deals with research methodology. It includes methodology used to achieve the objective of the study, sources of data, population and sample, financial and statistical tools.

Chapter 4- This chapter deals with analysis and interpretation of data using financial and statistical tools and major findings are described in fourth chapter.

Chapter 5- This Chapter is the last chapter, which deals with conclusion and recommendation of the study.

CHAPTER-2

Literature Review

2.1 Introductions

This literature review deals with the reviewing of the available literature in this particular topic or different management experts and students on the topic investment policy. The chapter has been divided in to two regiments. They are conceptual framework and reviser of literature. Conceptual framework provides the conceptual thoughts. Conceptual thoughts about the commercial bank and review of literature purpose the analysis of related book and articles.
In other words, the review of literature means reading for reading sake; it is also not a causal reading like reading of tray or hovel. It is focused and directed towards specific purpose. It is also selective. A reviewed and determined the purpose it starts with the selection of a problem for research, continues through the various stage of the research process and end with report writing. Reviewing different literature for important sources for the there was objective of this chapter. This banking terminology with special references of commercial banking.

2.2 Conceptual Framework :-

Commercial bank is that financial institution which deals in accepting of persons and institutions and in giving loans against securities the concept of bank involves the concept of commerce and bank actually denoted commercial bank. Commercial bank also provides technical and administrative assistance to industries, trades and business. There are different types of banks such as Agriculture bank, industrial bank, central bank, Commercial bank etc.
Commercial bank services the following functions:-

I. To accept deposit.
II. To provide loan.
II. To purchases bills/ letter of exchange.
IV. To transfer money.
V. To serve money.
VI. To work for foreign currency exchange.
Vii. To open letter of credit.
Viii. To help in issuing capital.

Commercial bank act, 2031 B.S. of Nepal has defined it as 'a commercial bank is one which exchange money, departs money, accepts deposit, grants loans and performs commercial banking functions commercial bank forms the public and grants loans in different forms. They purchases and discount bills of exchange, promissory rate, and exchange foreign currency.

2.2.1 Investment Policy

The main aim of the commercial banks is to earn profit. Bank profit through the investment. The money is collected in bank mainly through deposits and capital. The money collected is not kept item after fulfilling the demands of primary and recorder cash reserve the invest these collected fund in different sectors on provide.
to be successful the bank must be able to invest in such a way that it earn minimum profit by taking minimum there are corium profit by taking minimum there are various sector in the society in which the bank can invest like government securities because they are risk free and provided infix rate of retain other sector though teeny province higher rate of retain they also involve different sector so that the risk is misnamed and the rate is maimed this determination of investment of fund in different sector to minimize profit is knows as creating portfolio .
An investor needs a plan that directs his or her effects that plan is called an investment policy. Investment policy is a combination of philosophy and planning on the one hand investment management issues such as

- Why am I investing in the first place or
- To what extent am willing to accept the possibility of large loses.

The answer to these questions will vary too long inverters in accordance with their financial circumstances and temperaments.
Investment policy is also a form of long range strategic planning. it delineates the investors specific gods and new the investor expects these goals to be realized in this sense investment policy comprises the set of guidelines and procedures that directs long term want meant of the investor assets.
Though investment is the source or bank to earn profit it can’t invest all its find cause it need to maintain the certain amount of liquidity is the cash or spend able funds available to bank to send at the dime when they are needed liquidity is the cash air spends able funds available to bank to spend at the time when they are needed. Liquidity is needed for different purpose like payment of chigoes cash resurge etc. the money deposited in the bank has no legendary then they can't retard the amount which cause a negative effect on the other hand of the we can say that the bank need both liquidity and investment to run smoothly a bank should be able to maintain a

balance be meet the liquidity and investment for the effective operation excess liquidity means that the bank has kept the cash idle which could fan-jet been used to profit less liquidity means achieve of loss of reputation in axes of non fulfillment of demand of customers faints deposit this is a crucial aspect of banking bank should be every careful maintaining a balance between the liquidity and investment for the effective operation excess liquidity means that the bank has kept the cash idle which could have been used to warn the profit and loss liquidity means chance of loss of reputation taxes of non fulfillment of demand of customers traits deport this is a crucial aspect of banning a bank should be very careful maintaining a balance beaten the liquidity and investment.
there is often confusion between the loan and investment loan provides to the customer by providing loan the bank creates credit which is a temporary sources of fund an investment on the other has is the outline of its fund for a long period without creating any credit however both loan and investment policy should address a group of issues that includes but is nit restricted to

- Mission statement
- Risk tolerance
- Investment objectives

A critical part of any investment policy involves the preparation of a written investment policy state meant (IPS). An IPS summary the investor key investment policy delusions and explains the rational for the decisions. An IPS serves the same rate for all investors. It enforces logical, disciplined investment decision making, and it limits the temptation to make counterproductive changes to an investment program during period of market stress.

2.2.2 <u>The investment Process</u>

The investment process describes how an investor should go about making decision with regard to what marketable securities to invest in how intensive the investment should be, and when the investment could be made. An investment process five step procedure for making these decagons forms the basis of the investment process.

I) Set Investment Policy:-

The initial step, setting investment policy, involves determining the investor objectives and the amount of his/her invest able wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for on investor to say that his/her objective is to make a lot of money this step in the investment of financial assets for inclusion in the portfolio.

II) Investment Analysis

The second step in the investment process, performing security analysis in salves examining several individual securities within the broad categories of financial assets. There are many approaches to security analysis. However, most of these approaches fall into one of two classifications. The first classification is known as fundamental analyses those who use it are known as fundamental are fundamentals analysis. The second classification is known as technical analysis; analysis who uses this approach to recruit analysis is technical analysts.

III. Portfolio Performing Evaluation:-

The fifth step in the investment process is, portfolio performance evaluation it involves determining periodically how the portfolio performed, in terms of not only the return earned but also the sick experienced by the investor. Thus appropriate measures of return and sick as well as relevant standards are needed.

IV. Portfolio Construction:-

The third step in the investment process is Portfolio Constriction, it involves identifying those specific assets in which to invest as well as determining the proportion of the investor's wealth to put into each one.

V Portfolio Revision:

The fourth step in the investment process, Portfolio revision, Concerns the periodic repetition of the previous three steps, that is over time the investor may change his/her investment objectives, which in turn may to the optimal it provides the motivation for the prices of sensitive's changes meaning that some security that initially were not attractive may become attractive and other that were attractive at one time may no larger be so. Thus the investor may want to add the farmer to his or her portfolio, which simultamepirly deleing the latter.

2.2.3 Principles of Bank investment policies

Bank uses its funds to be profit by providing loans as by investing. The bank should be able to use its fund in a secure and profitable sector; a single wrong step may lean to a grate loss for the bank. Therefore the banks should follow or usually fallows the following lending principles while using it fund for providing loan or while investing the funds.

1. <u>Principle of Liquidity</u>

It is an important principle of banks lending for short periods only because they lend public money, while can be withdraw at many time by departs. They therefore advices loans on the equerry of such assets which are easily marketable and convertible into cash at a short time.

A bank chooses such securities in its investment portfolio which passes sufficient liquidity. its is essential because if the bank needs cash to meet the urgent requirement of its customers it should be in a position to sell the some securities at a very short notice without security the market price much there are certain societies such as central state and local government bonds which are easily seeable without affecting their market polices the share and debentures of large industrial debentures of large industrial concerns also fall in this category. But the share and debentures of large industrial concerns also fall in this liquidity but the share and debentures of ordinary firms are nor easily marketable without bringing down their market. The share and debentures of large industrial concerns also in this category. But the share and debentures of ordinary for not easily marketable without bringing down the market investment in government secustrial houses.

2<u>. Principle of Safety</u>

The safety of funds of funds lend is one other principle of lender safety means that the borrowers should able to reply the loans and interest in time at regular interval without default. The employment of the loans depends upon the natures of security the characters of the barrower his capacity to reply and his financial standing.

Most of the securities involve risk. but the degree varies with the types of securities search of the central government are safer than those of he start government and local bodies and the securities of state government are much secure than the state and local government and of least secure is the securities of industrial concerns in for the share and debentures of industrial concerns are tied to there earworms which may fluctuate with the business activity of the country the bank should also take into consideration the debt repaying ability of the government while investing in there securing are the prerequisites for this it is the case the securities of rich municipality or local body and state government of a prosperous region so in making investment the bank should choose securities shares and debentures of such government local bodies and industrials concerns which satisfy the principle of safety.

3. <u>Principle of Diversity</u>

In choosing its investment portfolio of diversity it should not invest its surplus funds in a particular of diversity it should not invest its surplus funds in a particular type of industry situated in different area of the country. The sourer principle should be fallowed in the case of state government and local boy's diversification aims at winemaking risks of the investment portlier of a bank. The principle of diversity also applies to the advancing of loans to vary of firm's industries business and traders.

4. <u>Principle of Stability</u>:-

Another important principle of a banks investment policy should be to invest sin those stocks and securities which passes a high degree of stability in their prices. The bank cannot afford any loss on the value its securities. It should therefore invest its funds in the share of reputed companies where the possibility of decline in this price is remit. Government bonds and debentures of companies carry fined rate of interest. There value changes with changes in the market rate of interest.

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5. <u>Principle of Profitability</u>:-

This is the cordial principle for mashing investment by aback it must earn securities which assure a fair and stable return as the fund invested. The earning capital securities and shares spend upon the invest rate and the divided rate and the benefits they carry it is largely carry the exemption of their interest fore tones. the bank should invest were in such securities rather than is the shares of new companies which also carry tax exemption this is because of new companies are not safe investment.

6. <u>Principle of Marketability</u>:-

The securities used by the bank to provides loan and the securities which the bank invest must be easily marketable here refers that the securities in which the bank invest are marketable the bank sanitarily sell these securities and fulfill its need of liquidity in the same way if the customer by selling the securities.

7. <u>Principle of National Interest</u>:-

While investing the bank should always focus in the national interest a bank should try to spend maximum of its fund in suitors which provides direct in the development of the nation.

2.3 Introduction of Bank:-

Banks is one of the most important financial institution which deals with money it accept the limit fro public & in return advances loan by creating credit there is much confusion about what bank exactly is or new to define it presale. There are different other institution etc. Which performs actives compassion insurance etc. which performs actions similar to bank globalization and increase in trade & commerce the number of bank has also been increasing sap idly bank are these financial institutions that offers the widest range of services credit saving and payment of services and perform the widest range of financial function of only business firm in economy. There for prof. wacksel has said bank is in fact the heart and center of the modern currency system.

Different writers have defined bank in different ways some of these definition may be listed as follows:-

According to the shorter oxford English Dictionary's -: "A Bank is an Establishment for the custody of money received from or, on behalf of its essential duty is to pay their draft on it , its profit arise from its use of the money left unemployed by them."

Crowder

"A bank is an Establishment which makes individuals such advances of money as may be required and safely made and to which individuals entrust money when not required by them."

"A bank is a individuals are institution who is always ready to receive to receive money on deposits to be return against the cherub of their depositor Sir water life" the banks are infant the heart and center of modern currency system" Prof. Wacksell bank is financial institution which play vital roll in the economic development of country it is the heart of economic sector. Bank also known by mirror of economic development. It is not result of economic development but also cause.

In simple modes me can draw a conclusion that bank is on institution which accepts deposits from the public make the fund availed to those in need, help in remittance of money & even in settlement of debt. The multiplicity of bank service & function has led to bank being labeled "financial supermarket"

2.4 **<u>Types of Bank</u>:-**

There are different types of bank. Today is age of specialization. The wooden economy demand different types of financial devices. A single bank fulfills all the demurs types of bank emerged. Therefore different types of bank emerged some of the banks may stare as follows:-

- Central Bank
- Commercial bank
- Development bank
- Saving bank
- Exchange bank
- Co-operative
- Industrial bank
- Mutual bank
- Pension
- Pension funds
- Equipment bank
- Student
- Labor

2.5 **<u>Origin of Bank in Nepal</u>:-**

It is not known exactly when & how the money & banking system start in Nepal though there are few evidence that they even existed in the 7th century "Manant" during king Mender " Gunk" during the king Gunk a madder, the silver coin in the 12th century during the regime of king Sadashive dev are the few types of money used earlier. Before the development of bank an institution call "Taksar" established in 1989 use to issue coins scientifically &on office all "Tejarath" was also established during the regime of king Ranodip singh in 1933 B.S. which used to provide leans against deposits of gold & silver. It has its branches even outside the valley but Tejarath adduce wasn't give the right of collection of departs.

the first bank established in Nepal is "Nepal Bank Limited(NBL) in 30th last of 1994 under Nepal Bank Act 1994 and this was the begging of the modern banking system since there was no central bank Nepal Bank Ltd. also has the responsibility of issuing Notes. It issued anted since 1st Aswin 2002.

Since every country need a central bank to run the economy efficiently in the country "Nepal Rastriya Bank Act 2012 (1965) which is replaced by Nepal Rastra Bank Act 2058. This bank held the government in the monetary transaction & controls the monetary market of the country and is there for even market of the country and is therefore even known as the

bank of government. After the establishment of the NRB the use of Nepalese currency was given the main focus before this Indian Currency was used in most port of the country. NRB issued Nepalese currency for the first in 7th Flagon 2016.
The commercial and industrial market was continually so just one commercial bank was not enough. The second commercial bank called " Rrastriya Banijay Bank (RBB)" was established in 2022 by the government sector under the Banijya Bank Act 2021 which is now replaced by commercial Bank Act 2031.
The origin of commercial banking can be trace able the ancient Rome and Greece, the practice of storing precious metals and coins at safe place and looting out money for public and private purpose on interest was prevalent the19th century comes with the vast scope of development of commercial banking. It witnessed not only the phenomenal development of modern money changing business to many new important jobs the come make of industrial progress. The 20th century observed the development of various banking institution lightly specialized and sophisticated particularly in advanced countries like U.S.A., U.K. and other. Today various international organization like I.M.F., I.B.R.D., A.D.B. etc. have been developed which are influencing the whole business of the modern world.
According to prof. crew her,' three groups of ancient community played very important role in the development of modern bank. They are mentioned be out

A. Merchant
B. Money lender
C. Goldsmith

a) Merchant: - the merchant, who’s light and wide spared reputation as credit enables him to issue documents what will be taken all over the known world as titles to money. to this day, the tile of merchant banker's is reserve by usage to the order cosmopolitan and ware exclusive private banking ancestry to trader in commodities, mare tangible, than many the function of merchant played important role in commodities, were tangible. Then many the function of merchant played important role in modern banking.

b) Money Lenders: - Lending and barrowing are almost as old as money itself and the village money lenders are found even in unique primitive community's money lender works of course, with his own capital But if there are any members of the community with money to spare, it will be unique natural for them to entrust it to the money lender for investment, in view of his skill and experience in the technique of exaction as soon as the money lenders reaches this sate, he is an embryonic banker. He has become money borrower as will as a moneylender.

c) Goldsmith: - the goldsmith ancestry of the modern bank is purely an English affair. Indeed, the bank as a provided of circulation money is almost entirely an English invention. In conclusion, we can say that banking is not static but dynamic concept and development of modern banking is the product of trial and process of centuries and centuries.

2.5.1 Introduction of Commercial Bank:-

The commercial bank are those bank who pool together the raving of the community and arranging for their productive use. They supply the financial need of the modern business through various mans. In other words we can say that the bank. The concept of bank which fulfills commercial transaction is commercial data. Especially the bank which helps industry, commerce trade and by providing economic, technical and administrative assistance in the commercial bank

"According to the Nepal commercial bank Act 2031 which deals in money exchange, accepting bills, advancing loans and other commercial transaction except some special function done by other specified banks such as co-operative bank, agriculture bank and industrials bank"

A commercial bank in essentially a dealer in money. It is a financial institution which accepts the deviance and time departs from business institution and individuals and engorges in both business and consumer lending. A commercial bank hoe ever differs from a money lender who also deeds in money which belongs to him, the bases of the money which it receives from others it deports. A commercial bank is different from a central bank and the distinction between the two uteri is essentially based on their objects. while the primary objective of commercial bank is the modernization of profit, the central banks is primarily concerned with the effect of its operation soon the functionally of the economy moreover, while there are many completing commercial bank, there is one central bank in the country while the commercial banks competing central bank transacts little, if any, ordinary banking business for general public. It confines itself mainly to controlling operations of the banking systemic the country. Commercial banks ordinarily are simple business or courthouses in return for payments in one from or another such as interest, discounts, fees, commissions, and so on the main aim of a commercial bank is to sack profit like any other business entity or firm.

In the content of Nepal there are Twenty Five Commercial banks established to provide aid in the development of commercial & trade. As the government realized the importance of foreign investment for the development of the country many joint ventures commercial bank are established which dons effectively and are considered the best did for the development industries of the country. In addition to this these are also same regional commercial bank establishes by the national capital and even these banks are trying to complete with the venture bank are providing the effective service for national development. Same of the commercial bank may be listed as follows:-

Joint venture bank

- NABIL BANK LTD.
- EVEREST BANK LIMITED
- NEPAL INVESTMENT BANK LDT.
- STANDARD CHARTERED BANK LDT.
- HIMALAYAN BANK LDT.
- NEPAL SBI BANK LDT.
- NEPAL BANGLADESH BANK LDT.
- BANK OF KATHMANDU LDT.

Other Rational & Regional commercial bank

- Nepal Bank Ltd.
- Rastriya Banijay Bank.
- Nepal Credit & Commercial Bank Ltd.
- Nepal Industrial & commercial Bank Ltd.
- Machhapuchre Bank Ltd.
- Kumari Bank Ltd.
- Agricultural Development Bank
- Global Bank Ltd.
- Citizen Bank International Ltd.
- Prime Bank Ltd.
- Sunrise Bank Ltd.
- Development Credit Bank Ltd.
- Bank of Asia Nepal Ltd.
- Lumbini Bank Ltd.
- Kumari Bank Ltd.
- Laxmi bank
- Siddhartha Bank Ltd.

All the commercial bank to operate in the country should follow the laws of the banking act. The banking law has been amended several times to meet the needs of the economic environment of the country. Now days the commercial bank act 2031 is in practice. This bank should follow the instruction of the Nepal Rastra bank which is also known as the central bank of Nepal. If any bank fails to follow the rules or the instruction of the NRB then they are punished or fined according to the law by the NRB.

2.5.2 **NRB Directive for Establishment of commercial banking In Nepal:-**

According to the new directives of NRB, following are the main policies for the establishment of commercial banking in Nepal.

1) **paid up capital:-**

a) Every bank, which wants to work at national level, must require maintaining at least 100 million rupees of paid up capital.
b) Every bank established under the joint ventures of international bank financial institution should have three years technical service agreement to operate an office in Katmandu.
c) Generally 70% of the total share capital of the commercial banks should be taken by the directors and rest 30% share should be sold to the general public, in case of the banks working at national level. But if established by international bank, they invest only 50% of the total capital, than 50% of the shares are to be sold to general public so that the Nepalese can get opportunity to invest maximum amount.
d) The banks should be registered and all the legal procedures relating to the establishment should be fulfilled.
e) The bank which wants to provide services in regional basis, but not operating in Katmandu valley must maintain 250 million rupees.

II) **Directors Qualification:-**

a) B.com or equivalent in economics, account, finance, law or banking and two years experience in accounting in bank or in financial institutions.
b) A person working as directors in a bank or NRB or any other financial institution can not be director of another bank.
c) Security, brokers, agent or underwriters cannot be the director of the bank.
d) The person who is obliged to or liable to any bank or financial institution and has bad or criminal background cannot be the directors of the bank.
e) The members of the Board or Directors or their family members can not loan facility from the institution.

III) <u>Sale of Shares</u>:-

a) All the shares divided for the general public should be sold within three years after the operating of banking activities, otherwise, the bank cannot distributes share or declare dividend.
b) The shares of the directors can be sold or transferred only after the sale of shares to general public within three years. It is also necessary for the bank to get permission from the NRB for sale or transfer of their shares to third person.

IV) <u>Branch Expansion Policy</u>:-

The bank having its head in Katmandu valley can have only branches in valley. Unless it opens two other branches in the regional basis it cannot run another branch office in the valley.

2.5.3 <u>Function of commercial banks</u>:-

Function of banking is depending on the nature and classification of banking.

The major function of the commercial banks is given below.

I) Accepting Deposit:- According to sir john paged," it is a fair deduction that no person or body, corporate or other wise, can be banker who does not take deposits account take (2) take current account (3) issued and pay the choose and (4) collect choose for his customer. All are related to the accepts deposits in three forms.

They are:

A. Current Accounts
B. Saving Accounts
C. Fixed Accounts
D. Current & Saving Accounts
E. Fixed Variable Accounts
F. Recurring Accounts
G. Other Accounts

II) Advancing Loans: - the second major function of a commercial bank is to provide loaned and advances from the money, which it receives by way of deposits. Directs loans and advances are given to all types of customers against their security of borrower or against of movable and immovable properties. Four forms categorize advancing loans, they are:

A. Overdraft (OD)
B. Cash Credit
C. Direct loans
D. Discounting bills of exchange.

III) Agency services: - A commercial bank under takes the payments of subscription insurance premium, rent etc. and collection of cheque, bills, salaries, pension, dividend, interested on behalf of the customers. The bank charge small amount of commission for these services.
The commercial bank arranged to remit money from a place to another by means of draft, mire transfer etc. And also as representative or correspondent for his customer other banks and financial institutions. Moreover, bank acts as a trustee executes administrator and attorney.

IV) Credit Creation: - credit creation is one of the essential functions of commercial banks. in order to earn profit they accepts deposits and advances loans by keeping a small cash in reserve for day to day transactions when a bank advances a loan, it opens an accounts to draw the money by cheque according to his needs. By the grinding a loan the banks creates credit or deposit.

V) Generally utility services: - A part from agency services the bank also renders useful services known as general usability services. They can be explained as follows:

a) Safekeeping of valuables
b) Assist in foreign trade
c) Making ventures capital loans
d) financial advising
e) offers security brokerage services

2.5.4 <u>Role of commercial bank in economic development</u>.

In international trade, a bank perform very significant role. A bank basically commercial bank plays a role for international trade. Without the help of banking functions these trade will more complex, sophisticated and there is less chances for its survival so bank play a mediator role in international trade transactions. While giving benefits by the international trade a bank also benefited for bank a good image by the society. It enhances the corporate images and helps to competent its rival competitors. Bank helps to make easy transaction, safety, security, surety etc. for his customer can build confidence and their business will beginning in a good manners. Bank helps a guarantor of a party that the party can does in his

transaction easily. So we can a vital role its survival and smoothly running of business.
A well developed banking system is a necessary pre-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In a modern economy, banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the storehouse of the growth of commercial banking in 18th and 19th centuries those facilities the occurrence industrial revolution.
The major problem in almost all underdeveloped countries like Nepal is lack of capital formation and their proper mobilization. In such countries, commercial banks should act as a development bank. Nepal is a small and poor country but the has sufficient natural resources. To utilize those resources capital is required. Commercial banks gather monetary resources from different areas in the form of deposits and provides loan to investing areas like industry, agriculture etc. therefore, the active role of commercial banks. Banks provide facilities to their customers by providing loans, reemitting funds, purchases and sale of bills and other market information. These services help to run the business and other economic activities rapidly as well as smoothly which ultimately helps in economic development.

2.5.5 Highlights on commercial Banking in Nepal:-

Although the first step towards the establishment of a modern bank was taken as late as in 1937 A.D. it does not mean that banking in Nepal is of recent origin. Some crude bank operations were practical even in the ancient time. it is not possible to give a correct chronological history due to the lack of authentic the banking system is traceable for bank into dim ages of the past although the old chronicles contain at places obscure details, inaccurate figures and even impossible facts. However, the history of banking and currency in the country becomes definite only forms the 5th century that is the lichenin period. When the first coins were minted.
Shankadhar, an individual, began lending. And investing money in 11th century, which is regarded as the first step towards banking price. Similarly king jayasthith male added a brick by introducing with and by specifying a caste of "Tank Dhari" assigned for extending loan and accepting fund it is believed that money investing business. Particularly for financing the foreign trade with Tibet, became quite popular during the regime of malls.
The "Tejrath adda" established in 1876 B.S. by Rannodip Singh, with the objective of providing loan in confessional interest rate of 5% expanded the business of institutional banking development.

An integrated and speedily development of the country is possible only when competitive banking services reach every corners of the country. Being the central bank, NRB had its own limitations due to the reluctance of NBL to go the unprofitable sectors. To scope with these difficulties, government set-up RBB in 10th magh 2022 B.S. as a fully government owned commercial bank. It underlying features was to contribute the development of banking system, particularly in the remote area tying in the hilly regions.

2.6 <u>Review of Relevant study</u>:-

Many research have conducted their research on the field commercial banks especially on their financial performance and fund mobilization policy, compliance with NRB directives etc. besides these, there are several books, articles, dissertations and other relevant study concerned with the lending and investment some of the relevant studies.
Their objectives, finding and conclusions and other literature regarding the topic have been reviewed below.

2.6.1 <u>Review of Books</u>:-

A bank is a government regulated, profit making business that operates in competition with other banks and financial institution to serve the saving and credit needs of its customers. The primary business of banks is accepting deposits and investing money. Banks deposits from customer who wants the safety and convenience of deposits service and the opportunity to earn interest on their excess funds. Banks put their deposits funds to other individuals to business and to federal sate and local government.
Hrishiker Bhattacharya in his book banking strategy credit appraisal and investment decision has put the recommendation of tendon committee from the report submitted of tendon committee. The committee has report submitted to this committee. The committee has prepared this report in 1975, however these recommendation still deserve great significance in the sector of credit appraisal and investment. Breaking away from the traditional methods of credit appraisal, the system proposal by the committee enjoyed upon the borrowrs:

a) To assess the need based credit of the banker on a rational basis.
b) To ensure proper end use of bank credit by keeping a close watch on the borrower's.
c) To improve the financial discipline of the borrower and.
d) To develop healthy banker borrower relationship.

The committee examined the existing system of investing and recommended the following borrowed charges in the investing system.

a) The credit needs of borrowers are assessed on the basis of their business plans.
b) Bank credit only is supplementary to the borrower's resources and on the replacement of them, i.e. banks not are finance one percent of barrower's requirements.
c) Borrowers are required to held inventory and receivables according to norms prescribed by the reserve bank of India from time to time.
d) Credit to made available in different components only, depending upon the nature of holding various current assets.
e) in order to facilities a close watch on the operations of barrowers, they are required to submit, at regular intervals, data regarding their business and financial operation, both for the past and future periods.

The committee held that at any time a business is required to hold the following current for the past future periods.

a) Raw Materials including stores ands other items uses in the manufacturing process.
    a. Stocks- in process
    b. Finished goods
    c. Receivables
    d. Spares

In India, the definition of the business of banking and the large number of permissible function for banks are given in the banking regulation Act 1948(BR Act).

The investment polices of banks are conditional to great extent, by the national policy framework every banks as to apply his own judgment for arriving at a credit decision, keeping of, his bankers credit policy also in mind. "Investment is the essence of commercial banking, consequently the formulation and implementation of sound investment policies are among the important responsibilities of bank director and management. Well conceived investment policies and careful investing practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit.

The function of capital in banks and other financial institution is substantially different from that in most other business enterprise for e.g., in manufacturing concern, the capital fund is used primarily for acquisition of fixed assets, while in banking organization the function of capital is primarily to provide guarantee fund its usage in fixed assets acquisition, which is hardly more that 15% capital performs a grants function in other enterprise too, but not so predominantly, the capital of a manufacturing concern is something of a cushion for long and short terms creditors to fall back on , but this is only one of its purpose. Bank capital has almost not other purpose.

2.7 Importance of credit in banking sector:-

The term credit may be defined broadly or narrowly. Speaking broadly, credit is finance made available by one party i.e. lender, seller, or shareholder owner to another. The former may be a pure a seller supplying payment or a shareholder/owner of a corporate/non- corporate firm making funds available to the firm viewed as separate entity.

More generally, the term credit is used narrowly for only debt finance. Thus credit is simply defined as opposite of debt. Dept is the obligation to make future payments. Credit is the claim to resale these payments. Both are credit in the same act of barrowing and lending. this act is special kind of exchange transaction, to every sales these is an equal purchases since, by divination, sale and purchase are two sides to the same transaction. Similarly in credit transaction, the amount longed is equal to the amount borrowed at any point of time; there is certain amount of credit of any one kind or all kinds of outstanding. It is a revolving stock. Once a loan is repaid, the amount received can be advanced to the same party or same other or parties, any increment (decrement) in the stock of credit prepared represent a positive (negative) in the credit per period. Credit should be carefully distinguished from money. Even bank credit is not the same things as the holding public. It is the liability of the banking system and the government.

In a credit economy, that is economy with borrowing and lending each spending unit can be placed in any one of the three categories: deficit spenders, surplus spenders, and balanced spenders, according as its total expenditures is grater than, less than, or equal than to its total. The chief function of credit is to that the financial system able to promos, saving, investment, better allocation of resources, and growth in the economy. it is also worth remembering that if credit is not well management it can cause inflation or deflation and unemployment it can also leads to mobilization of resources, excessive concentration of income and wealth in few hands, and exploitation of the weak and the poor.

2.8 Lending Criteria:-

As we know, for the effective operations of any business, the concerned body should follow certain rules and regulation and guidance, similarly a bank involved in credit business effectively and successfully. It a loan is provided without proper investigation it wills loss the principle and interest. These rules and regulation are as follows.

a. Credit Information: Bank should collect all information about creditor, later which may create problem. the bank should find out the credit information of the person of businessman who comes to request for loan credit information such as the loan proponent's character, the property and their reality, a bank can get all information about loan proponent and the businessman. It can be a great help to the bank.

b. Personal Character: Before providing loan, a bank should make an inquiry and examination of a loan. The bank should study whether the personal has good character with injection to pay the loan or not, whether he is person of criminal nature or not, whether a creditor has a field petition against him in the court for recovery of debt or not.

c. Capacity or competency: First of all, it should be checked out whether the person is a capable under low to make a contract with bank or not i.e. according to the contract act 2056. if he is (capable) a competent person, there after the bank should know what kind of qualification the proposal maker after the bank should know what kind of qualification the proposal maker does have and in which subject or business he is related with, whether he has competency or skill in that business of not.

d. Capital: if any person or businessman comes to make a proposal for a loan in a bank, economic condition should be examined. Its demand for money should be watched with the status of his household condition, how much the some of money he wants to invest in his business.

e. Security: Security is considered the most important thing of the criteria while providing the loan of a bank. It should not provide loan without security. The security too is of many types performance should be given to the security, which can be sold immediate in the market. Bank should ask for security such as land or any other assets before providing loan.

f. External Environment: Bank should always evaluate the external condition or environment of the industry, business shown by the loan proponent, whether the business shown by the proponent is saleable or useable in the market or not, the proposal of loan proponent should not be approved.

g. As we know, that prices alums keep fluctuating in market, so bank should deduct 20% from the actual prices and lends the vest amount as credit.
h. If the borrower is unable to pay the bank amount is given or stipulated period then the creditor has to pay 2% to 5% penalty in addition to the actual credit amount.
i. If the creditor does not pay the lend amount with in given period it's, lastly he/she doesn't give any response to that information then the bank should sell the securities kept by the creditors.

2.9 Documents needed for lending Loan:-

a) Citizenship Certificates
b) Industry of business registration certificate
c) Industry income tax registration certificate
d) Revenue remittance certificate of current fiscal year
e) Registration certificate of household of land collateral purpose.
f) Four sides adjoining neighborhood certificate from municipality or concerned office.
g) Engines estimate of value of house.
h) Feasibility report
i) Details security document.

2.10 Loan Approval Process:-

The loan approval process and working method of a bank are really important. The person or the business organization come to borrow loan so, a bank should know the process and working method about it. Loan is also an investment of the bank. A bank provides loan to its customers. The loan approval processes of bank as follows:

a. Evaluation of loan proposal: - After a proposal is submitted by a person, and institution, project, bank makes a deep study and analysis from different angles on the proposal. Before approving the loan proposal the bank evaluates all necessary documents for providing loan. If the bank feels the loan according and invest the money in the approved sector.

b. The types of loan: - After accepting the proposal of a borrower. The bank discusses on there subjects, what types of loan the projector or the person wants surely, the nature of the loan differentiates from loan proposal of the proponent. Generally, there are many types of loan like social loan, business loan, primary loan, sector loan, industrial loan, hire purchase and the employee's loan etc.

c. Determination of loan Amount: - After classifying the loan category, a bank determines the limitation of a loan. Infect the proponent writes in his proposal; what amount of loan the customer is needed. The bank may or may not give the amount, which proponent he has demanded. It is the matter depended on the will of the bank.

d. Preparation of necessary document: - the bank should prepare some document while providing loan to the loan proponent. Only after preparing the legal documents, an evidence of the loan taken by borrower. The loan bond and the documents related to security are of such documents.

e. Loan accepting charge: - after completing all processes the bank decides to provide loan to the loan proponent. According to this decision, the bank opens an account in the same of the borrower, deposits the proposed loan in it. In some condition, the bank can recover the change from the proponent if he doesn't take the loan.

2.11 Legal Consideration While Investing Money:-

Providing loan is one of the important functions of a bank. So in curse of providing loan to a person the bank should fines certain loan. But some time due to certain circumstances a person is unable to pay back the amount to bank. The bank must consider all the guidelines and policies developed by the central bank.

Loan to a single borrower are limited to prevent the concentration of the bank's assets. Secondly the limitations of unsecured loans are also to be considered. The bank must also keep on watching in legal point of view. Thirdly, the margin set by the regularity authority must also be followed so that the bank is always at minimum risk. But this action can only be taken the time of credit deal by taking into account the legal consideration. To make the credit business legally valid the following point should be considered by the bank.

a) Bank should not perform loan transaction with a person is minor or who has not complete 16yrs of age.
b) Bank should not perform loan transaction with mental deficiency person or unsound mind person.
c) Bank should not accept the securities provide by the person until he/she gives full proof that it belong to him/her.
d) If the security is provided in term of loan ownership than the bank should ask for certain document and keep it as. And if they found

any doubt that the loan cannot be recovered than the bank can size these documents to recover loan.

e) While providing loan to a partnership firm a bank should must receiver or collect information relating to financial condition of this firm or states in society and these partnership firm should be registered in the related HIS MAJESTY'S office, tax office, VAT office etc.

f) A bank should have knowledge about the purpose for which loan is taken. It should prepare a contract mentioning there in all the important clauses. The bank should get the signature as well as thumb print of both right and left hand of the person to who loan is given.

2.12 Lending procedure of NIC Bank ltd.

Nepal Industrial & Commercial bank provided loan according to the rules regulation and policies determinates by HMG and if the bank has taken help from any foreign institution than they have to also consider their policy before providing loan. Lending procedures of Nepal Industrial & Commercial bank is explained as follows:

a) **Applications form:** loan application is the primary source of information given in a systematic manner required for assessment of the proposal. In that form full information about project for which loan is being sought etc. document such or nationality certificate, security documents etc. must be attached.

b) **Pre-investment inspection: -** before providing loan, bank must investigate about the application not only that but loans investigates about their securities and evaluate the projector.

c) **Project Appraisal: -** project appraisal is the process of judging the soundness of credit proposal by careful assessment of the risks involved in extending credit to the proposal submitted by the borrowers. After analysis of details the effective project from which then principle and interest of loan can be given time and which is financially effective, that project for approvals is forwarder to the loan committee.

d) **Loan Approval: -** after the project approval the project to application from pre-invested inspection report, project approval etc. is studied in depth by the loan committee on NIC bank which has in its committee manager, head of A/C section, head of loan section and three other persons of department. It the find the project effective, and profitable they grant the loan if they find it not they reject it. After acceptance information is given to concerned person and original paper to the concerned person is asked.

e) **Loan Agreement: - A**fter loan approval information is given to concerned person to present with his nationality certificate, recommendation of village development committees, co-operative society of original documents of ownership of stipulated security. but after receiving all three documents loan are still not agreed unit and unless that bank is satisfied with the presented documents and also the complete knowledge and information about stipulated security whether it is ownership is true or false.

f) **Loan Distribution: -** when the agreement is made between bank and borrower after completing all the formalities. Now bank term to provide loan to the borrower by planning he/she may take amount in installation.

g) **Regular Inspection/Follow up: -** bank's duty is not completed after granting loan but now the main duty of bank is started after this loan distribution. Bank should supervise regularly whether the amount is utilized in right manner or not. Difficult of the farmer should be checked or studied time to time. While surviving if they found that the loan amount is misused, bank should immediately stop loaning and that can also give penalty.

h) **Collection: -** bank starts the step on collecting money of granted loan with the interest amount after the maturity period. While starting this process. Bank remind orally as through telephone to pay the amount of loan without maturity date. After the bank can send reminder letter to collects dues. now its duty of debtor to pay the loan amount along with the interest but if the debtors goes against the bank within the given time or before paid up the loan amount bank may send first reminder letter to him/her, if there is no response to that reminder letter, bank send second reminder letter third reminder letter. if there is no response to the letter of they don't care then regional office of Nepal Industrial & Commercial bank take action on the behalf of bank and if he/she don't case about this action than this case is transfer to head quarter office of Nepal Industrial & Commercial Bank Katmandu. The bank publish name of debtor in thirty five days in daily standard newspaper. If needed bank can take action against mortgage kept by the debtor and get the money of granted loan, if needed take help from revenue office, land department office, police station, district office etc.

2.13 **Bank Guarantee:-** A guarantee is a define and irrevocable understanding by a bank (guarantor) on behalf of its customer (debtor) to make payment up to a specified sum of money to beneficiary (creditor) on demand in case of default by its customer. A guarantee implies that the debtor fulfill the contract. This is nest a guarantee of financial compensation to the creditor caused by debtor's cause's loss to the creditor. Hence, the creditor asks for the guarantee issued by a bank so that his loss is financially sometimes. Personal customers also may need a bank guarantee arises mostly in business.

- Parties to a Bank Guarantee
- Bank Beneficiary/Creditor Employer
- Debt/Account Party/Supplier
- Guarantor/Surety

Transaction Flow

- Stage I Creditor-Debtor
- Stage II Debtor- Guarantor
- Stage III Guarantor- Creditor

First, there will be contract between the creditor and debtor for discharging some job i.e. construction of a building. If the building is not contracted as per the contract, the creditor (building owner) suffers loss. he agree to give this job to the debtor(contactor) but demand a bank guarantee for the amount of expected loss, issued in his favor. The debtor has to approach the bank for issuance of a guarantee; it has to make payment to the creditor up to the guarantee amount whether it itself with the credit standing of the debtor before issuance of a guarantee. This is why a bank guarantee also called demand guarantee.

2.14 <u>Conclusion</u>:-

In conclusion, the literature renews deals the importance of banking sector in Nepalese economy. It also deals about the major function & works in economy. This chapter also refers to how modern concept is surviving in banking like investment policies. The literature review also explains about how the new concept is used and what its challenges in the present global scenario are. This chapter also tells us the different facilities, kind, settlements procedure and other aspect, which is relate of credit transaction that helps to make easy for international trade.

CHAPTER-3

RESEARCH METHODOLOGY

3.1 Introduction:-

Research methodology is that way by which the research problem can be solved systematically. It helps to analyze various aspects of research works on loan procedure. This study is deeply related with the application of investment and collections of loan, regarding the objectives to analyze, examine and interpret the application of loan procedure. It is therefore, required an appropriate research methodology. The research methodology study and explain why particular method or techniques is used. It also highlights about the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated.

This chapter describes the metrology employed in this study. It consists of:

- Research design
- Population and sample
- Source of data
- Data Processing procedure
- Tools and techniques of analysis
- Financial tools

3.2 Research Design: the purpose of the research metrology is to describe the research procedure. This includes the overall research design. The research design is less descriptive but more perspective because the historical secondary data have been mainly employed for analysis. Research design is a plan structure and strategy for investigation conceived so as to obtain answer to research questions and to control variances.

The study aims to portraying accurately up on the investment policy and its impact on overall financial position of the bank. The research design followed for this study is basically a historical. Empirical, and descriptive cum analytical research methodology. The research design, the research must explain why the particular design was used what is its merits are for the project and hand.

Since every research has some imperative design so the following are the main design use in this process.

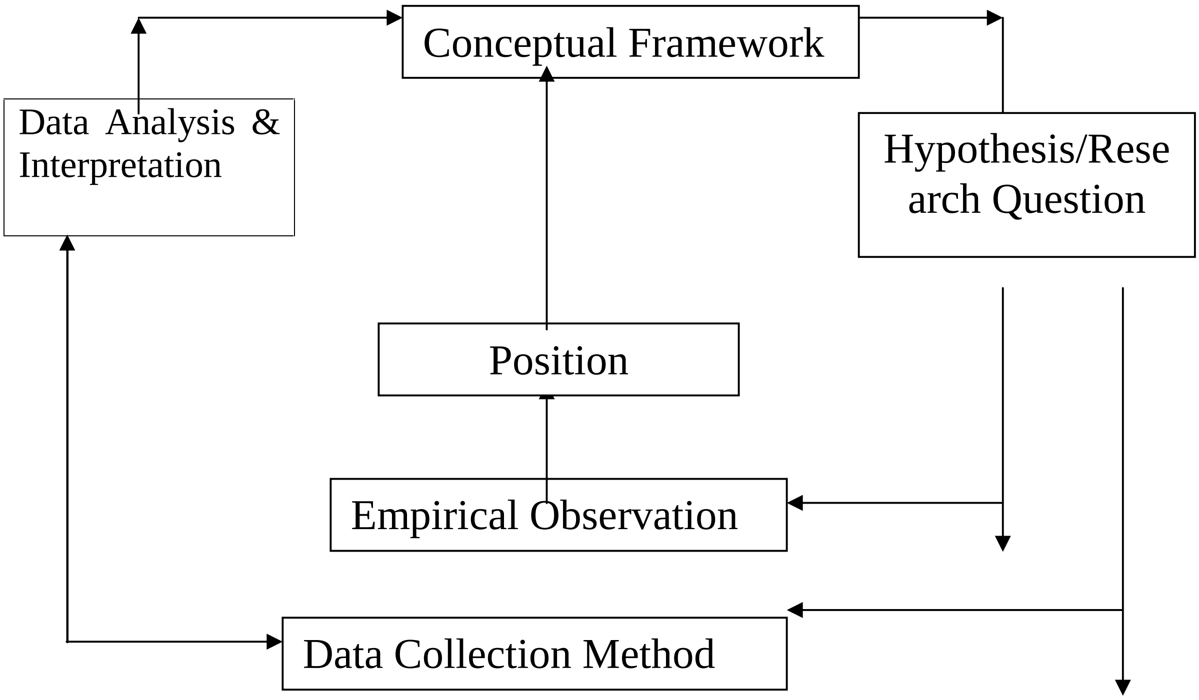

Fig. No.1 Research Process

On the basis of above diagram to prepare a thesis research develop a conceptual framework, the research raise some genuine question in which some empirical has been made and generator preposition that justifies the conceptual framework. Again to examine the hypothesis, the research collects the data both from primary and secondary methods than the data should recollected and are to be analyzed and interpreted with help to statistical tools.

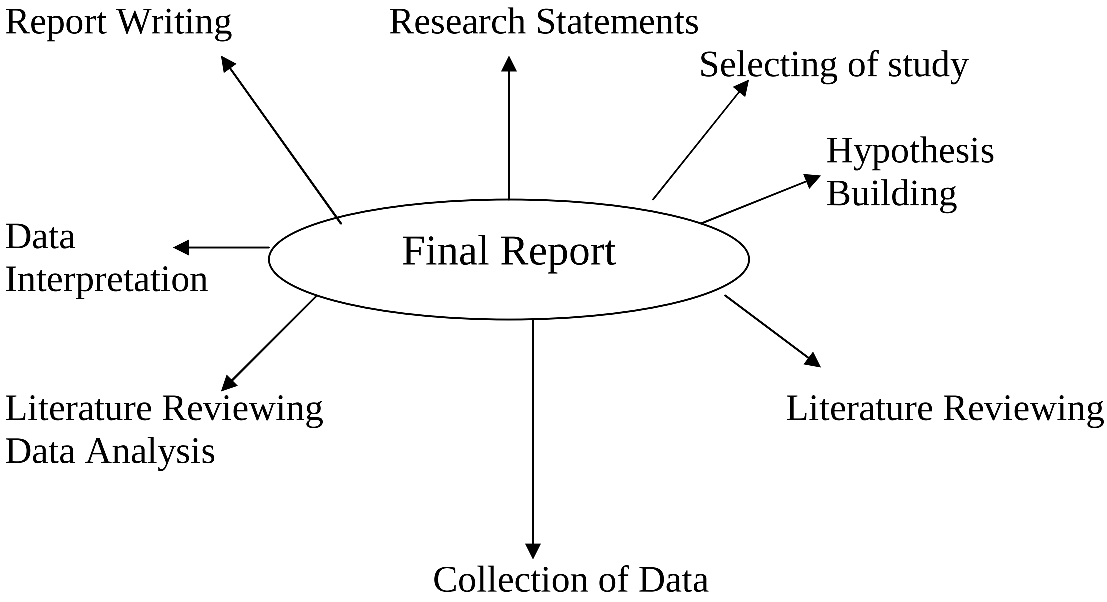

Fig. No.2 Research Spiral

Fig. No.2 Research Spiral

The above researches design tells us that the material needs to complete the thesis work in the L/C operation. First of all subject was choose then help was taken from and commercial bank (Nepal Industrial & Commercial Bank) was visited for collection of data. Data was analysis for interpretation and finally the report was complete this work.

3.3 <u>Population and Sample</u>:-

In Nepal, till now Twenty Five commercial banks are existence. Among then few are government owned banks, few are joint venture banks and few are private banks. To carry out this study Nepal Industrial & Commercial Bank limited, Nepal first commercial bank has been taken as a sample. In this procedure, it is first necessary to indicate the nature of the Universe executives must be defined and the geographical limits specified. If there were any difficulties is identifying the sampling units in the field, the procedures used overcoming such difficulties must be explained.

3.4 <u>Source of Data</u>:

To attain the objective of this study, both primary and secondary data have been used. The data and information that have been used in this study have been collected from the following sources.

- Official record and publications of Nepal Industrial & Commercial Bank.
- Published and unpublished related documents.
- Books, Booklets, Magazines published by Nepal Rastra Bank.
- Personal approach and review.

3.5 <u>Data Processing Procedure</u>:

Data are analyzed by using simple methods so that everyone would easily understand it. The obtained data presented in various tables, diagrams and chart, which definitely helps to reach towards meaningful interpretation of the presented data. Four the seek of convenience, the calculations that can not be shown in the body part of the following procedures has been followed for this study:

3.6 <u>Data Collection techniques</u> :-

Necessary data collected from various are analyzed and presented in tables formats. To analyze the collected data, statistical as well as financial tools are used.

A report can be workless if interpretation is faulty, even if valid and reliable data have been collected. A should success at a interpretation may be very closely related to mention ability of the report writes, even the most intelligent person can not be expected to draw sound conclusion from faulty information and interpretation. Sound conclusion can be drawn only when information has been properly collected, interpreted.
The purpose of this chapter is to given an introduction to the mechanism of data analysis and interpretation. We will look first at some basics of research including auditing and coding data that must be addressed is four data tabulation. Then in the latter sector of the chapter, we will discuss several tabulation methods and quantitative method commonly used for the analysis of numerical data.

3.7 DATA ANALYSIS TOOLS

Presentation and Analysis of the collected data is the core of the research work. The collected raw data will be first presented in systematic manner in tabular forms and them be analyzed by applying different financial and statistical tool to achieve the research objectives. Besides these, some graph charts and tables will be presented to analyze and interpret the findings of the study.
The tools applied:

3.7.1 Financial Tools

Financial tools basically help to analyze the financial strength and weakness of a firm. Ratio analysis is one of the important financial tools that have been used in the study. A ratio is simply one number expressed in term of another and such it express the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient, Logarithmic graph and break-even chart are the graphic forms of expressing a ratio. Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decision. Even though there are many ratios to analyze and interpret the financial statement only have been covered in this study. Different types of ratio have been used in this study.

3.7.1.1 Liquidity Ratios

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligation or its current liability. It measures the speed with which banks assets can be converted into cash to meet deposit withdrawal and other current obligation. As a financial analytical tool, following four liquidity ratios has been used to come into the facts and findings of the study.

(i) Current ratio

This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities.
Current assets includes cash, balance with other banks, balance held aboard, inter-bank lending, bills purchased/discounted, forty percentage of loan and advances, investment on government securities, interest receivable and staff loan and advances. Similarly, current liabilities include current deposit, sixty percentage of saving deposits, forty percentages of fixed deposits (assumption), other deposit (margin), Foren deposits. Expense payable, Bonus payable, Income tax payable and proposed dividend.

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on the circumstance of the business and the nature of business.

(ii) Cash and bank balance to total deposit ratio

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

$$\frac{\text{Cash \& bank balance}}{\text{Total Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheque and other cash items, balance with domestic and foreign banks. The total deposit includes current deposits, saving deposits, fixed deposits, call deposits and other deposits.

(iii) Cash and bank balance to current assets ratio

This ratio measures the proportion of most liquid assets i.e. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash.

The ratio is computed by dividing cash and bank balance by current assets, started as under.

$$\frac{\text{Cash \&bank balance}}{\text{Current assets}}$$

(iv) Investment on government securities to total current assets ratio:-

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

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

3.7.1.2 Asset Management Ratios:-

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

(i) Loan & Advances to total deposit ratio

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

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

(ii) Total investment to total deposit ratio

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

$$\frac{\text{Total investment}}{\text{Total deposits}}$$

The numerator includes investment on government securities, debentures and bond, shares in subsidiary companies, shares in other companies and other investment

.

(iii) Loan and advances to working fund ratio

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

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

Here, the denominator includes all assets of on balance sheet items but excludes off balance sheet items like letter of credit, letter of guarantee etc.

iv) Investment on government securities to total working found ratio.

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

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

v) Investment on shares and debentures to total working fund ratio.

This ratio shows the bank's investment in shares and debentures of the subsidiary and other companies. This ratio can be derived by dividing investment on shares and debentures by total working fund mentioned as under.

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

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

vi) Total outside asset to total deposit ratio

Loan & advance and investment comprise the total outside assets of a bank. The ratio measures how well the deposits liability has been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances by total deposits.

$$\frac{\text{Total outside asset}}{\text{Total deposit}}$$

Vii) Loan & Advances to total outside assets ratio

This ratio measures the contribution made by loan & advances in total amount of loans and advances and investments. The proportion between investment and loan and advances measures the management's attitude towards more risky assets. Loans & Advances are more risky and also generate more returns in comparison to investments. This ratio is computed by dividing loan & Advances by total outside assets as under,

$$\frac{\text{Loan and Advances}}{\text{Total outside asset}}$$

viii) Investment on government securities to total outside assets ratio,

This ratio measures the proportion of the banks investment in risky area and risk tree areas. This ratio is computed by dividing investment on government securities by total outside asset as under,

$$\frac{\text{Investment on government securities}}{\text{Total outside asset}}$$

ix) Total outside assets to total assets ratio

Loan & Advances and investments are the outside assets of commercial banks. This ratio is calculated by dividing total outside assets by total assets

$$\frac{\text{Total outside assets}}{\text{Total asset}}$$

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

.

x) Total Off-Balance sheet operation to Loan & Advances ratio

The OBS operation shows the bank's efficiency in conducting modern off-balance sheet transaction in comparison to loan and advances i.e. issue of letter of credit, letter of guarantee etc. this ratio shows the proportion of fee-based off-balance sheet activities to fund based loan and advances of the bank. Now a day's fee-based off-balance sheet activity play an important role for the better performance of a bank. this ratio is calculated by dividing total OBS operation by loan and advances, which is stated as hereunder,

$$\frac{\text{Total OBS operation}}{\text{Loan and Advances}}$$

3.7.1.3 Activity of Performing Ratio

Activity ratio measures the performance efficiency from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds

.

I) Loan loss provision to total loans and advances ratio

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

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

ii) Non-performing loans to total loans & advances ratio

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

$$\frac{\text{Non-performing loans}}{\text{Total loans and advances}}$$

3.7.1.4 Loans & Advances Portfolio

To analyze the portfolio behavior of loans and advances of the bank for the study period, the ratios of loans & advances granted to various sectors of economy and for various purpose to total volume of loans and advances have been measured, Under this topic the following ratios have been studied.

(I) Priority sector lending to total loans & advances ratio

This ratio measures the contribution of banks lending in priority sector as directed by NRB. Under the priority sector, credit to agriculture and agro based business, cottage and small industries, service sector and other business are included. Credit to the deprived sector is also a part of priority sector lending. The priority sector lending requirement is 12% for the study period, except for the year 2002/2003, for which it is decreased to 70%. This ratio is calculated by dividing priority sector lending by total loans and advances as under,

$$\frac{\text{Priority sector lending}}{\text{Total loans and advances}}$$

ii) Sector wise loan and advances classification

Here, the total and advances diversified to different of the economy are calculated. Total economy has been classified into five sectors as agricultural sector, industrials/production sector, trading/commercial sector, service sector and other, these ratios are computed by dividing sector wise loan and advances by total and advances.

3.7.1.5 Profitability ratios

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher under this topic the following profitability ratios of Nepal SBI Bank Ltd. have been studied.

i) Interest income to total income ratio

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

$$\frac{\text{Interest Income}}{\text{Total income}}$$

ii) Total interest earned to total outside assets ratio

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

$$\frac{\text{Total interest earned}}{\text{Total outside assets}}$$

The denominator includes loan and advances, bills purchased and discounted and all types of investment. This numerator comprises total interest from loans and advances and investments.

iii) Interest expenses to total expenses ratio

This ratio measures the portion, of total interest expenses in the volume of total expenses. The high ratio indicates the low operational expenses and vice versa. This ratio is computed by dividing interest expenses by total expenses, which is presented hereunder,

$$\frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

iv) Total interest earned to total working fund ratio

This ratio is calculated to find out the percentage o interest to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working fund. This ratio is calculated by dividing total interest earned by total working fund. This is stated as,

$$\frac{\text{Total interest earned}}{\text{Total working fund}}$$

v) Total interest paid to total working fund ratio

This ratio is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. This ratio can be calculated by dividing total interest paid by total working fund, which can be presented as,

$$\frac{\text{Total interest paid}}{\text{Total working fund}}$$

vi) Total income to total expenses ratio

The comparison between total expenses and total income measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured but the ratio of total income to total expenses. The high ratio is indicative of higher productivity of expenses and vice versa. This ratio is calculated by dividing total income by total expenses.

$$\frac{\text{Total Income}}{\text{Total expenses}}$$

vii) Total income to total working fund ratio

This ratio measures how efficiently the asset of a business is utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated, by dividing total income by total assets as stated hereunder,

$$\frac{\text{Total income}}{\text{Total working fun}}$$

viii) Return on loan and advances ratio

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

$$\frac{\text{Net profit (loss)}}{\text{Loans and advances}}$$

ix) Return on total working fund ratio (ROA)

This ratio measures the overall profitability of all working funds i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working fund. This can be mentioned as,

$$\frac{\text{Net Profit) (Loss)}}{\text{Total working fund}}$$

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

(x) Return on equity ratio (ROE)

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

$$\frac{\text{Net Profit Loss}}{\text{Total equity capital}}$$

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

(xi) Earning per Share (EPS)

EPS refers to net profit divided by total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is computed by dividing total net profit (loss) by total number of shares

$$\frac{\text{Net Profit (Loss)}}{\text{Total number of shares}}$$

(xii) Net Interest Margin

Net interest margin is general term is the difference between the interest received from investment on loan and advances and interest paid on deposits collected by the bank. It shows the bank' efficiency to earn high profit to meet various costs. Higher ratio shows the higher profitability and vice versa. This ratio is computed by dividing the difference between interest revenues from earning assets less interest costs on borrowed funds by total earning assets.

$$\frac{\text{Interest revenues from earning assets-Interest costs on borrowed funds}}{\text{Total earning assets}}$$

Here interest revenues from earning assets is the total interest income of the bank and interest costs on borrowed funds is the total interest expenses of the bank. Total loan and advances comprises the total earning assets of the bank.

3.7.1.6 Growth Ratios

To examine and analyze the expansion and growth of the banking business, following growth are calculated in this part of the study. (i)

- Growth ratio of total deposits
- Growth ratio of loan and advances
- Growth ratio of total investment
- Growth ratio of net profit

3.7.2 Statical Tools

Some important tools are used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis has been used.

3.7.2.1 Mean

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted and given by the formula:

$$\mathbf{X} = \frac{\mathbf{\Sigma\bar{X}}}{\mathbf{N}}$$

Where, $\bar{X}$ = Mean of the values,

N = Number of pairs of observations.

During the analysis of data, mean is calculated by using statical formula 'AVERAGE' on excel data sheet on computer.

3.7.2.2 Standard Deviation

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter σ (read as sigma).
The formulas to calculate the standard deviation are given below:

$$\sigma = \sqrt{\frac{\sum X}{N}}$$

Where, $\bar{X} = (X - X)$

During the analysis of data, standard deviation is calculated by 'using the statical formula 'STDEV' on excel data sheet on computer.

3.7.2.3 Coefficient of variation

The standard deviation calculated in the above formulas gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variable based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability. The coefficient of variation (C.V.) is given by the following formula and this gives the percentage.

$$\text{Cofficient of variation (C.V.)} = \frac{\sigma}{\bar{X}} \times 100$$

3.7.2.4 Measures of Correlation

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of value of coefficient of correlation is measured by probable error. The correlation coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively. This tools analyzes the relationship between those variables of the bank which are helpful to make appropriate investment policy regarding deposit collection, fund mobilization & profit maximization. The Karl Pearson coefficient of correlation (r) is given the following formula:

$$\text{Coefficient of correlation (r)} = \frac{\Sigma xy}{N\sigma x\sigma}$$

Where,

X = (X-X').
Y = (Y-Y').
σx = Standard Deviation of series X,
σy = Standard Deviation of series

During the analysis of data, correlation coefficient is calculated by using the statical formula 'CORREL' on excel data sheet on computer.

$$\text{Probable error of r (P.Er.)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

The Karl Pearson coefficient of correlation r always falls between -1 to +1. The value of correlation in minus signifies the negative correlation & in plus signifies the positive correlation. As the value of correlation coefficient reaches near to the value of zero, it is said that there is no significant relation between the variables.

The coefficient of correlation has been interpreted based on probable error (P.Er). If the value of correlation coefficient is grater then 6 times the value of probable error, the correlation coefficient is deemed as significant& reliable. If the value of correlation coefficient is less than probable error, the correlation coefficient is said to be insignificant & there is no evidiance of correlation.

In this section of the study, Karl Pearson's coefficient of correlation has been used to find out the relationship between the following variables:

I. Correlation between Deposits & Loans and Advances
II. Correlation between Deposits & Investments
III. Correlation between Loan & Advances and net Profit
IV. Correlation between investment & net profit

CHAPTER -IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, the data collected from various sources have been presented and analyzed to measure the various dimensions of the problems of the study and in major findings of the study are presented systematically.

4.1 Measuring the Liquidity Position of the Banks

A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs to the community, to meet demands foe deposit withdrawal, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long-run profitability of the bank. To measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated and a brief analysis of the same has been done as below.

4.1.1 Current ratio

This ratio indicates the ability of the bank to meet it's current obligation. This is the broad measure of liquidity position of the bank. This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities. current assets includes cash (NRs), cash (foreign currency), balance with other banks, balance held aboard, inter-bank lending, bill's purchased/discount, 40% of loan and advances (assumption), investment on government securities, interest receivable and staff loan and advances. Similarly, current liabilities include current deposits, 60% of Saving Deposits. 40% of Fixed Deposits (assumption). Other deposits (margin), Forex deposits. Expense payable, Bonus Payable, Income Tax Payable and Proposed Dividend. It is derived by dividing total current assets by total current liabilities. (Detail in Appendix - I). The current ratios of NIC are given in the following table1.

Table - 1

Current ratios (Times)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	1.01	1.18	1.11	1.00	0.96	1.05	0.12	9.52

(Source: Appendix-I)

The above table 1 shows that the current assets of NIC Bank have exceeded current liabilities in average, in the study period five year. The highest ratio is 1.18 in 2060/2061 while the lowest ratio is 0.96 in the year 2063/2064 with an average ratio of 1.05 during the study period. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V.) between the ratios for the study period is 9.52%, which shows that the current ratios during the study period are not so consistent. In general, the bank is able to meet its short-term obligations but the ratio is being decreasing during the years.

Tough the optimal standard of current ratio should be 2:1; the conventional measure of liquidity is not applicable in banking business. Banking business holds big portion of deposits as a core deposit (the minimum level of deposits which the commercial bank hold at all the times) and this deposit remains all the time throughout the year. This core deposit forms the fixed liability of the bank through it is current in nature. So the ratio maintained by the commercial banks at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Therefore the above current ratio analysis of the bank over the five years period indicates that the bank has satisfactory liquidity position.

4.1.2 <u>Cash and bank balance to total deposit ratio</u>

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of the most liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposits. (Detail in Appendix-II). Both higher and lower ratios are not desirable. The reason is that if the bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, it may fail to make payments for the demands of the depositors. So, sufficient and appropriate cash reserve should be maintained properly.

Table - 2

Cash and bank balance to total deposit ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	11.93	18.49	8.50	11.22	11.56	12.34	3.3	26.74

(Source: Appendix - II)

The above table 2 shows that the cash and bank balance to total deposit ratio of NIC has fluctuating trend. The highest ratio is 18.49% in 2060/2061 and the lowest is 8.50% in 2061/2062. The mean of the ratios for the study period is 12.34% and the C.V. between them is 26.74%. On the basis of the C.V. it can be concluded that the ratios are variable and less consistent.

Though the ratios are not consistent, the cash and bank balance position of NIC Bank with respect to deposits is better to serve its costumer deposit withdrawal demands. Commercial banks have to maintain its cash and bank balance in terms of total deposit as directed by NRB time to time. Otherwise they are imposed penalty. A high ratio of non-earning cash and bank balance may be unfit which indicates the banks inability to invest into short-term marketable security, treasury bills, etc ensuring enough liquidity which will help the bank to improve its profitability.

4.1.3 Cash and bank balance to current assets ratio

This ratio shows the percentage of the banks most liquid fund over current assets of the bank. This ratio is computed by dividing cash and bank balance by current assets. (Detail in Appendix - III)

Table - 3

Cash and bank balance to current assets ratio (%)

	Fiscal Year							
Bank	**059/060**	**060/061**	**061/062**	**062/063**	**063/064**	Mean	S.D	C.V
NIC	19.75	27.35	12.48	16.18	16.66	18.48	5	27.06

(Source: Appendix - III)

The above table 3 shows that the cash and bank balance to current assets ratio of NIC Bank has fluctuating trend. The highest ratio is 27.35% in 2060/2061 and the lowest is 12.48% in 2061/2062. The mean of the ratios for the study period is 18.48 % & the C.V. between them is 27.06 %. On the basis of C.V. the ratios are seemed to be variable and less consistent.

In conclusion it can be said that NIC Bank is in good position in terms of its cash and bank balance but it does not mean that it has mean that it has mobilized its more funds in profitable sectors. It actually means that NIC Bank can meet its daily requirements to make payments on customer deposit withdrawals.

4.1.4 <u>Investment on government securities to current assets ratio</u>

This ratio examines the portion of a commercial banks current asset, which is invested on government securities. More or less, each commercial bank is interested to invest their collected fund on different securities issued by the government time to time to utilize their excess fund and/or for other purpose. Though government securities are not so liquid as cash and bank balance, they can easily be sold in the market or they can easily converted into cash in other ways and they are risk free also. So they are additional source of liquidity for the bank to support cash & bank balance to meet unexpected liquidity needs on adverse situations. This ratio is calculated by dividing the amount invested on government securities by current ratio (detail in Appendix - IV)

Table - 4

Investment on government securities to current assets ratio (%)

Bank	**Fiscal Year**					**Mean**	**S.D**	**C.V**
	059/060	**060/061**	**061/062**	**062/063**	**063/064**			
NIC	5.06	13.85	28.31	29.05	26.29	20.51	9.49	46.27

(Source: Appendix - IV)

The above table 4 shows that investment on government securities to current assets ratio of NIC Bank has increasing trend till 2062/2063. The mean of the ratios for the study period is 20.51 % & the C.V. between them is 46.27 %. On the basis of C.V. it can be concluded that the ratios are more volatile and inconsistent.

In the initial period of study, NIC Bank did not invested its fund on government securities but latter on it started to invest on government security and liquidity position of the bank from the point of view of investment on government securities is good.

4.2 <u>Asset Management ratios</u>

This ratio measures the efficiency of a commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit maintaining the appropriate level of liquidity. Asset management ratio measures the efficiency of the bank to manage its asset in profitable way satisfactorily. By the help of following ratios, asset management ability of Nepal Industrial & Commercial Bank Limited has been analyzed.

4.2.1 Loan & Advances to total deposit ratio

This ratio measures the extent which the bank is successful to mobilize its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. This ratio is calculated by dividing loans and advances by total deposits (detail in Appendix - V).

Table - 5

Loan & Advances to total deposit ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	82.26	80.22	68.50	67.53	64.23	72.55	7.27	10.02

(Source: Appendix - V)

The above table 5 shows that Loan and advances to total deposit ratio of the bank is 82.26 % in 2059/2060. It is decreased to 64.23 % in 2059/2060, which is lowest of the study period. So, it has decreasing trend. The mean of the ratio is 72.55 % with 10.02 % C.V. between them, which shows the ratios are satisfactorily consistent over the study period. This ratio is also called C.D ratio i.e. Credit- deposit ratio and around 70 % of C.D ratio is taken as standard. From this point of view, the loan and advances to total deposit ratio of the bank is continuously going slightly down.

4.2.2 Total investments to total deposit ratio

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial or non-financial organized institutions. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of portfolio management of bank assets, various factors such as excess availability of fund, liquidity requirement, central bank norms, etc, are to be considered in general.

This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success to mobilize deposits in securities and vice versa. This ratio is calculated by dividing total investment by total deposit (detail in appendix - VI).

Table - 6

Total investments to total deposit ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	8.04	10.6	20.5	21.08	19.89	16.02	5.54	34.58

(Source: Appendix - VI)

The above table 6 shows that the total investment to total deposit ratios of NIC Bank are in fluctuating trend during the study period. The highest ratio is 21.08 % in 2062/2063 & lowest is 8.04 % in 2059/2060 with mean ratio of 16.02 %. The C.V. of 34.58 % between them shows that the ratios are less consistent and more variable. In the later period of study, the bank is increasing its mobilization of resources on investment. It may be due to the slack in the different sectors of the economy due to which banks are unable to mobilize its fund in loan and advances.

4.2.3 Loan and Advances to total working fund ratio

Loan and advances of any commercial bank represents the major portion in the volume of total working fund. This ratio measures the volume of loans & advances in the structure of total assets. The high degree of this ratio indicates the good performance of the bank in mobilizing its fund by way of lending function. However, in its reverse side, the high degree of this ratio is representative of low liquidity ratio either. Granting the loans and advances always carries a certain degree of risk. Thus this asset of banking business is regarded as risky assets. This ratio measures the management attitude toward risk assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice versa. The interaction between risk & return determines this ratio. This ratio also shows the credit risk taken by the bank towards mobilizing is funds into different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. This ratio is computed by dividing loan and advances by total working fund i.e. total assets (detail in appendix no. VII)

Table - 7

Loan and Advances to total working fund ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			

NIC	73.25	68.75	60.81	60.66	58.65	64.43	5.61	8.71

(Source: Appendix -VII)

Table 7 shows that the ratio ranges from the minimum of 58.65 % in 2063/2064 to the maximum of 73.25 % in 2060/2061. The mean of the ratio is 64.43 % and the C.V. between them is 8.71 %, which shows the ratios are consistent over the study period. This shows that the loan and advances comprises 64.43 % in average of the total asset of the bank.

4.2.4 Investment on Government securities to total working fund ratio

This ratio measures the contribution made by investment on government securities in total working fund of the bank. Besides mobilizing its major portion of funds in the form of loan and advances, banks invest their funds in purchasing different types government securities. They do so mainly to utilize the excess funds for income generation without taking more risk and to maintain the adequate level of liquidity since these securities are more liquid assets than loan &advances. A high ratio indicates better mobilization of fund as investments on government & securities 7vice versa. This ratio is calculated by dividing investment on government securities by total working fund (detail in appendix no. VIII)

Table - 8

Investment on Government securities to total working fund ratio (%)

Bank	**Fiscal Year**					**Mean**	**S.D**	**C.V**
	059/060	**060/061**	**061/062**	**062/063**	**063/064**			
NIC	2.72	8.03	17.12	18.09	16.66	12.52	6.09	48.65

(Source: Appendix -VIII)

Table 8 explains that the ratio has ranged from 2.72 % in 2059/2060 to 18.09 % in 2062/2063. The ratio has an increasing trend for 3 years in the study period. The mean of the ratio is found to be 6.09 % with 48.65 % C.V. between them, which indicates the ratio is variable and less consistent over the study period which is because the bank started investing in early 2058.

4.2.5 Investment on share &debentures to total working fund ratio

This ratio measures the contribution made by investments on shares and debentures government securities in total working fund of the bank. Nowadays, commercial banks invest its fund not only on government securities, but also invest on shares and debenture of other different types of companies. A high ratio indicates better mobilization of fund as investments on shares and debentures and vice versa. This ratio is calculated by dividing investment on shares & debentures by total working fund (detail in appendix no. IX).

Table - 9

Investment on share &debentures to total working fund ratio (%)

Bank	**Fiscal Year**					**Mean**	**S.D**	**C.V**
	059/060	**060/061**	**061/062**	**062/063**	**063/064**			
NIC	0.15	0.35	0.32	0.27	0.473	0.31	0.1	31.94

(Source: Appendix -IX)

Table 9 explains that the ratio has ranged from 0.155 % in 2059/2060 to 0.473 % in 2063/2064. The ratios have a fluctuating and little increasing trend in the study period. The mean of the ratio is found to be 0.31 % with 31.94 % C.V. between them, which indicates that the ratio is more variable and less consistent over the study period.

4.2.6 Total outside assets to total deposits ratio

Loan & advances &investment comprise the total outside assets of a bank. They are the major area of the fund mobilization of commercial banks for income generation. Loan & advances are the first type of application of funds, which has more risk as comparable to investment & gives more returns. Investment is the cushion against the liquidity risk & at the same time it gives return. Loan & Advances and investments to total deposits ratio indicates the firms fund mobilizing power in gross. The main source of banks fund is its deposits. Thus, this ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan & advances & investment by total deposits (details in appendix no. X)

Table - 10

Total outside assets to total deposits ratio (%)

Bank	**Fiscal Year**					**Mean**	**S.D**	**C.V**
	059/060	**060/061**	**061/062**	**062/063**	**063/064**			
NIC	90.29	90.82	89.00	88.60	84.11	88.57	2.36854	2.67

(Source: Appendix -X)

Table 10 shows total outside assets to total deposit ratio of the bank is consistent over the study period, except for the year 2063/2064. The maximum ratio is 90.82 % in 2060/2061 & minimum ratio is 84.11 % in the year 2058/2059. The mean of the ratios is 88.57 % & C.V. between them is 2.67 %. On the basis of C.V. it can be concluded that the ratios are satisfactorily consistent during the study period.

4.2.7 Loan & advances to total outside assets ratio

Loans & advances &investments made by the bank comprise the total outside asset of a commercial bank. This is the portion of assets employed by the bank for the purpose of income generation. This ratio measures the contribution made by the loans & advances in total amounts of loans & advances & investments. The proportion between investment & loans & advances measures the managements & attitude towards more risky assets and lower risky assets. Loan & advances are more risky & also generate more returns in comparison to investments. The total mobilized fund i.e. loans and advances & investments in whole don't provide the quality of assets that a bank has credited. Thus this ratio measures the risk of the banking business also. The high ratio indicates the mobilization of funds in more risky area & vice versa. This ratio is computed by dividing Loan & Advances by total outside assets (detail in appendix no. XI).

Table - 11

Loan & advances to total outside assets ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	91.10	88.33	76.97	76.21	76.35	81.79	6.53	7.99

(Source: Appendix -XI)

Table 11 shows that loan & advance to total outsides assets ratio ranges from the minimum 76.21 % in 2062/2063 to the maximum of 91.10 % in 2059/2060. The mean of the ratios is 81.79 % & the C.V. between them is 7.99 %, which shows that the ratios are consistent over the study period with decreasing trend.

4.2.8 Investment on government securities to total outside assets ratio

This ratio measures the proportion of the banks investment in risky area & risk free areas. Total outside asset contains loan & advances & investments. This is the portion of total assets engaged in income generation. Loan & advances are major generating assets of the bank. But there is high risk in advancing loan & advances. Investments activity involves the purchasing of securities issued by government & other institutions & purchasing of shares & debentures issued by other organized institutions. Though investments activities are safer then the loan and advances from risk point of view, their rate of return is lower than the return from loan & advances. From the risk point of view, investment activities are classified into two categories, investment on government securities and others. Investment on government securities is considered as risk free investment and other investments are considered as risky one. Thus this ratio measures the amount of risk free investment made by the bank while mobilizing its funds. This ratio is computed by dividing investment on government securities by total outside assets (detail in appendix no. XII). this ratio measures the risk of banking business also. This also reflects the management's attitude toward risky assets & risk free assets. The high ratio indicates the mobilization of funds in safer area & vice versa. However, safety doesn't provide with satisfactory return. So, a compromising ratio between risk and profit should be maintained.

Table - 12

Investment on government securities to total outside assets ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	3.38	10.31	21.67	22.73	21.69	15.96	7.76	48.66

(Source: Appendix -XII)

Table 12 shows that NIC Bank had invested very little fund on government securities in the beginning years with ratio 3.38 % in 2059/2060. Highest ratio is 22.73 % in 2062/2063. The mean of the ratios is 15.96 % & C.V. between them is 48.66 %, which shows that the ratios are highly volatile and less consistent.

4.2.9 <u>Total outside assets to total assets ratio</u>

Loans & advances & investments are the outside assets of commercial banks. These are the proportion of assets employed by the bank for the purpose of the income generation. This ratio shows the ability of the bank to utilize its funds into income generating assets. A high ratio indicates better mobilization of funds in the form of income generating assets and vice versa. This ratio is calculated by dividing total outside assets by total assets (detail in appendix no. XIII).

Table - 13

Total outside assets to total assets ratio (%)

	Fiscal Year			

Bank	059/060	060/061	061/062	062/063	063/064	Mean	S.D	C.V
NIC	80.41	77.83	79.01	79.59	76.82	78.73	1.27	1.62

(Source: Appendix -XIII)

Table 13 explains that the ratios are more or less consistent during the study period. The mean of the ratio is found to be 78.73 % with 1.62 % C.V. between them, which indicates that the ratios are consistent and less variable during the study period.

4.2.10 **Total Off-Balance sheet operation to Loan & Advances ratio**

This ratio shows the proportion of fee-based off-balance sheet activities to fund based loan &advances of the bank. Now a day's fee-based off-balance sheet activity plays an important role for the better performance of the bank. These fee based activities are very much dependent on mode of operation, management strategy, banking network with foreign banks, etc. A commercial bank should be not concentrate only on fund-based activities such as loan & advances, investments on different sectors & so on. But it should pay its attention to increase fee-based off-balance sheet activities. Income generated through the fee based off-balance sheet activities constitutes a significant proportion in the total income of most of the commercial bank's income statement. A high ratio indicates the high OBS transaction &vice versa. This ratio is computed, by dividing total OBS transaction by total loan and advances (detail in appendix no. XIV).

Table - 14

Total Off-Balance sheet operation to Loan & Advances ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	48.57	44.02	40.96	40.44	39.82	42.76	3.24	7.59

(Source: Appendix -XIV)

Table 14 explains that the ratios are ranged from 39.82 % in 2063/2064 to 48.57 % in 2059/2060. The ratio has decreasing trend. The mean of the ratios is found to be 42.76 % with 7.79 % C.V. between, which indicates that the ratios are not consistent during the study period & has shown decreasing trend.

4.3 Activity or Performing Ratios

In this section, the lending efficiency in terms of quality & turn over is measured. Here different ratios are used to analyze the lending efficiency of the bank. For this purpose the relationship of different variables of balance sheet and profit & loss account have been established. The following ratios are analyzed for this purpose.

4.3.1 Loan loss provision to total loans & advances ratio

The ratio of loan loss provision to total loans and advances describes the quality of assets that a bank is holding. Nepal Rastra Bank has directed the commercial banks to classify its loans & advances into the category of pass, sub-standard, doubtful & loss to make the provision of 1, 25, 50 & 100 percentage respectively. Nepal Rastra Bank has classified the pass loan as performing loans & other three types of loans as non-performing loans. This volume of non-performing loan is called non-performing asset (NPA) of the commercial bank. Loan loss for provision set aside for performing loans is defined as General Loan Loss Provision & loan loss provision set aside for non-performing loan is defined as Specific Loan Loss Provision. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loan and advances. Loan loss provision on the other hand signifies the cushion against future contingency create by the default of the borrowers. The low ratio shows the good quality of assets in the total volumes of loans & advances. The high ratio signifies the relatively more risky assets in the volume of loans and advances. The loan loss ratio shows how efficiently the bank manages its loan & advances and makes effort for Timely recovery of loans. This ratio is calculated by dividing the loan loss provision by total loans and advances (detail in appendix no. XV).

Table - 15

Loan loss provision to total loans & advances ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	1.84	3.53	3.61	4.63	11.62	5.05	3.41	67.49

(Source: Appendix -XV)

The above table 15 exhibits that the ratio for the study period has increasing trend. The ratio ranges from 1.84 % in 2059/2060 to 11.62 % in

2063/2064 with an average of 5.05 %. The C.V. between is 67.49 %, which indicates that the ratios are variable & consistent with the increasing trend.

4.3.2 Non-Performing loans to total loans and advances ratio

This ratio measures the proportion of non-performing loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank have. Higher ratio reflects the bad performance of the bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the non performing loans by total loans and advances (detail in appendix no. XVI).

Table - 16

Non-Performing loans to total loans and advances ratio

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	7.01	7.89	20.72	17.04	21.52	14.83	60.23	41.97

(Source: Appendix -XVI)

The above table 16 exhibits that the ratios for the study period are fluctuating over the years. The ratio ranges from 7.01 % in 2059/2060 to 21.52 % in 2063/2064 with an average of 14.83 %. The C.V. between them is 41.97 %, which indicates that the ratios are variables.

The non-performing assets for commercial banks should be in single digit i.e. less than 10 % as per standard. The mean NPA level of NIC Bank is 14.83 %, which is high than the standard level.

4.4 Loans & Advances portfolio

(Analyzing the portfolio behavior of Loan and Advances)

In this chapter, we examine the portfolio managements of loan and advances. Bank advances loan to various sector of economy and to various types of borrowers. Similarly, it invests fund in various types of securities and shares. In this chapter, to analyze the port folio behaviors of loans and advances of the bank for the study period, the ratios of loans & advances granted to various sectors of economy and for various purposes to total volume of loans and advances have been measured.

4.4.1 Priority sector lending to total loans & advances ratio

This ratio measures the contribution of banks lending in priority sector. Priority sector lending is also called directive credit. Nepal Rastra

Bank has regulated the commercial banks to provide credit to priority sector from their total lending portfolio. In the course of non- compliance, the commercial banks are compelled to pay for penalty. Under the priority sector, credit to agriculture and agro based business, cottage and small industries, service sector and other business are included. Credit to deprived sector is also part of priority sector lending. But now NRB has decided to deregulate the priority sector lending on phase wise basis. For the year 2002/2003, the priority sector lending requirement is decreased to 7 % from 12 % and by year 2007/2008 the priority sector lending requirement will be completely deregulated. This ratio is calculated by dividing priority sector lending by total loans and advances (detail in appendix no. XVII).

Table - 17

Priority sector lending to total loans & advances ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	11.96	12.93	13.56	10.85	12.14	12.29	0.92	7.50

(Source: Appendix -XVII)

The above table 17 shows that the ratios are ranged from 11.96 % in 2059/2060 to 13.56 % in 2061/2062. The mean of the ratios is found to be 12.29 % with 7.50 C.V. between them, which indicates that the ratios are almost consistent and non variable over the study period.

4.4.2 <u>Sector wise loan and advances classifications</u>

Here, the total loan and advances disbursed to different sectors of the economy are calculated. Commercial bank should have to diversify its loan and advances to different sectors. They cannot pour all of its productive assets into a single sector, which eventually increases the risk factors. Total economy has been classified into five sectors as under.

- Agriculture Sector
- Industrial/ Production Sector
- Trading/ Commercial Sector
- Service Sector
- Others: Include miscellaneous credit to staffs, Loan against Fixed Deposit Receipt, Loan against The security shares and debentures, personal loans, consumer's loans etc.

This ratio is computed by dividing sector wise loan and advances by total loan and advances (detail in appendix no. XX).

Table - 18

Sector wise loan and advances of Nepal Industrial & Commercial Bank Limited (*Loans and advances disbursed to different purposes sectors of the economy in %*)

Sectors			F.Y			Mean	S.D	C.V
	2059/060	060/061	061/062	062/063	063/064			(%)
Agricultural	0.02	0.91	0.27	0.39	0.40	0.40	0.325	81.40
Industry/ Production	50.03	46.28	49.84	54.89	54.31	51.07	3.557	6.96
Trading/ Commercial	23.69	27.56	18.32	17.25	18.88	21.14	4.359	20.60
Service	5.83	14.02	13.84	15.67	18.23	13.52	4.6439	34.35
Others	20.43	11.23	17.72	11.8	8.17	13.87	5.0399	36.34
Total	100	100	100	100	100	100	-	-

(Source: Appendix -XX)

The above table 18 explains NIC Bank's diversification of lending in different sectors. NIC Bank has mostly used its funds in production sectors. In average, lending in industrial, commercial, others, service and other sector take the first, second, third, fourth and fifth place with mean percentage of 51.07 %, 21.14 %, 13.87 %, 13.52 % & 0.40 % respectively in the lending portfolio of the bank. The lending in agricultural sector is very nominal comparing to others. The ratios are fluctuating over the study period raging from minimum of 0.02 % to maximum of 0.91 %. The mean of the ratios is 0.4 % with 81.40 % C.V. between them, which suggests that the ratios are highly volatile and less consistent.

4.5 Profitability ratios

The main objective of commercial bank is to earn profit by providing different types of banking services to its customers. No bank can survive without profit. Profit is the indicator of efficient operation of a bank. Profitability ratios are the best indicators of overall efficiency. Higher profitability ratio shows the higher efficiency of a bank and vice versa. Through the following ratios, effort has been made to measure the profit earning capacity of NIC Bank.

4.5.1 Interest income to total income ratio

This ratio measures the volume of interest income of total income of the bank. This ratio helps to measure the bank performance on how well they are mobilizing their fund for the purpose of income generation. This ratio also helps to measures the banks performance on other fee-based activities, since after investing functions fee-based activities are the major source of the banks income generation. The high ratio indicates the high contribution made by the lending and investing activities and vice versa. This ratio can be computed by dividing interest income to total income (detail in appendix no. XVIII).

Table - 19

Interest income to total income ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	75.00	78.99	81.5	82.54	80.92	79.79	2.66	3.33

(Source: Appendix -XVIII)

The above table 19 shows the ratios are consistent over the study period ranging from the minimum of 75 % in 20590/2060 to the maximum of 82.54 % in 2062/2063. The mean of the ratios is 79.79 % & the C.V between them is 3.33 %, which shows the consistency of the ratio over the study period. These ratios suggest that the large proportion of the income is generated from mobilizing the fund to loan and advances 7 investment activities.

4.5.2 <u>Total interest earned to total outside assets ratios</u>

The main assets of the commercial bank are its outside assets in the forms of loan and advances and investments employed for income generation purpose. This ratio reflects the extent to which the banks are successful to earn interest as major income from the outside assets. A high ratio indicates high earning power of total outside assets & vice versa. This ratio is computed by dividing total interest income by total outside assets (detail in appendix no. XIX).

Table - 20

Total interest earned to total outside assets ratios (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	10.43	9.84	10.76	9.65	8.59	9.86	0.75	7.58

(Source: Appendix -XIX)

The above table 20 explains that the ratios are consistent over the period ranging from 8.59 % in 2063/2064 to 10.76 % in 2061/2062. The mean of the ratio is found to be 9.86 % with 7.58 % C.V. between them, which indicates that the ratios are satisfactorily consistent during the study period.

4.5.3 **Interest expenses to total expenses ratio**.

This ratio measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operational expenses and vice versa. Interpreting in other way the high ratio can be due to the costly sources of funds. This ratio is computed by dividing interest expenses by total expenses (detail in appendix no. XX).

Table - 21
Interest expenses to total expenses ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	58.54	54.67	51.00	114.13	72.27	70.12	23.15	33.02

(Source: Appendix -XX)

Table 21 shows the ratios are in decreasing trend ranging from the year 2060 to 2062 but fluctuating after that for next two years being highest in the year 2062/2063. The mean of the ratios is 70.12 % with 33.02 % C.V., which shows that the ratios are not consistent over the study period.

4.5.4 **Total interest earned to total working fund ratio**

This ratio reflects the extent to which the bank is successful in mobilizing its total assets to generate high income as interest. A high ratio is an indicator of high earning power of the banks total assets and vice versa. This ratio is calculated by dividing total interest income by total assets (detail in appendix no. XXI).

Table - 22
Total interest earned to total working fund ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	8.39	7.66	8.51	7.68	6.60	7.77	0.68	8.74

(Source: Appendix -XXI)

The above table 22 shows that the ratios are ranging between 6.60 % in 2063/2064 to 8.51 % in 2061/2062. The mean of the ratios is found to be 7.77 % with 8.74 % C.V. between them, which indicates that the ratios are satisfactorily consistent over the study period.

4.5.5 Total interest paid total working fund ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund & vice versa. This ratio is calculated by dividing total interest expenses by total working fund (detail in appendix no. XXII).

Table - 23

Total interest paid total working fund ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	5.34	4.98	5.02	4.39	9.98	5.94	2.04	34.37

(Source: Appendix -XXII)

Table 23 explains that the ratios are little bit fluctuating over the years. The ratio ranges between 4.39 % in 2062/2063 to 9.98 % in 2063/2064. The mean of the ratios is found to be 5.94 % with 34.37 % C.V. between them, which means the ratios are not much consistent over the period.

4.5.6 Total income to total expenses ratio

The comparison between total expenses and total income measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is indicative of higher productivity of expenses and vice versa. This ratio is calculated by total expenses (detail in appendix no. (XXIII).

Table 24

Total income to total expenses ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	122.55	106.51	106.1	242.21	59.10	127.30	61.25	48.12

(Source: Appendix -XXIII)

Table 24 explains that the ratios are fluctuating during the study period ranging from the minimum 59.10 % times in 2063/2064 to the maximum 242.21 % in 2062/2063. The mean of the ratios is found to be 127.30 % with 48.12 % C.V., which shows that the ratios are inconsistent during the study period.

4.5.7 Total income to total working fund ratio

This ratio measures how efficiently the asset of the business is utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing the total income by total assets (detail in appendix no. XXIV).

Table - 25

Total income to total working fund ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	11.18	9.70	10.44	9.31	8.16	9.76	1.02	10.51

(Source: Appendix -XXIV)

The above table 25 explains that the ratios are in fluctuating trend of the study period ranging from the minimum 8.16 % in 2063/2064 to the maximum 11.18 % in 2060/2061. The mean of the ratios is found to be 9.76 % with 10.51 % C.V. between them, which indicates that the ratios over the study period are consistent.

4.5.8 Return in loan and advances ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank through its mobilizing funds in the form of loans and advances. A high ratio indicates great success to mobilize fund as loans and advances and vice versa. This ratio is calculated by dividing net profit by loan and advances (detail in appendix no. XXV). Table 27 shows the return on loan and advances ratios of NIC for the study period.

Table - 26

Return in loan and advances ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	2.81	0.86	0.99	0.03	-9.62	-0.99	4.41	-446.96

(Source: Appendix -XXV)

Table 26 explains that the ratios are fluctuating with overall decreasing trend from the year 2060 to 2064. The mean of the ratios is found to be -0.99 % with -446.96 % C.V. between them, which indicates that the ratios are very variable and inconsistent during the period of study.

4.5.9 <u>Return on working fund ratio (ROA)</u>

Return in the result of investment and it measures the profit earning capacity of the inevitable recourses into different types of assets. Total working fund of the bank means its total assets. If the banks total working fund is well managed and efficiently utilized, return on such assets will be higher and vice versa. This ratio is calculated by dividing net profit by total working fund (detail in appendix no xxvi). The following table 28 shows the profitability position of NIC Bank with respect to total assets for the study period.

Table-27

Return on total working fund ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	2.06	0.59	0.60	0.02	-5.65	-0.48	2.67	-562.06

(Source: Appendix -xxvi)

Table 27 explains that ratio is fluctuating during the study period. The ratio is in decreasing order over the five year. The mean of the ratio is found to the -0.48 % with -562.06% C.V. between them, which indicates that the ratio is more variable and inconsistent during the study period.

4.5.10 Return on equity (ROE)

This ratio measures the amount profit that a rupee of shareholders fund has generated. The high ratio is indicating of high return to shareholders equity and vice versa. This ratio is calculated by dividing by net profit by total shareholders fund (Detail in Appendix No. XXVI)

Table-28

Return on equity (%)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	22.61	6.46	8.48	0.33	-174.51	-27.33	73.95	-270.63

(Source: Appendix-XXVII)

The above table28 shows that the ratio is fluctuating during the study period with over all decreasing trend. The mean ratio is -27.33% with

C.V. between them 55.03%, which shows that the ratio is move variable and inconsistent during the study period.

4.5.11 Earning Per Share (EPS)

EPS Refer to net profit divided by total number of shares outstanding. The amount of EPS measures the efficiency of firm in relative terms. The figure is the indication of the over all good or bad performance of an organization. How far an organization is able to use its resources to generate profit is determining by the profit it has earned. This ratio is computed by dividing total net profit by total no of shares (Detail in appendix No.XXVIII)

Table - 29
Earning per share (in Rs.)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	82.81	18.27	19.86	0.73	-104.13	3.51	60.61	1727.01

(Source: Appendix-XXVIII)

Table 29 shows that EPS are fluctuating over the years in decreasing trend. The mean EPS during the study period is found to be Rs.3.51 with 1727.01 % C.V. between them, which shows that the earning is very variable and inconsistent over the period of study.

4.5.12 Net Interest Margin

Net interest margin in general term is the difference between the interests received from investment on loan and advances and interest paid on deposits collected by the bank. In others words this is the gross income in percentage from the intermediation cost of any bank. It shows the bank's efficiency to earn high profit to meet various costs i.e. office expenses, staff expenses etc and to provide attractive return to the shareholders. Generally, net interest margin of 4 % and above is considered better. this ratio is computed by dividing the difference between interest revenues from earning assets less interest costs on borrowed funds by total earning assets (detail in appendix no. XXIX).

Table - 30

Net Interest Margin (Rs.)

Bank	Fiscal Year					Mean	S.D	C.V
	059/060	060/061	061/062	062/063	063/064			
NIC	3.79	3.16	4.81	4.14	-4.39	2.30	3.39	147.23

(Source: Appendix-XXIX)

Table 30 shows that Net Interest Margin ratios are fluctuating over the years in the study period. The mean NIM during the study period is found to be 2.30 with 147.23 % C.V. between them, which shows that the net interest margin is inconsistent over the period of study.

4.6 Measuring Correlation between Different Variables

4.6.1 Correlation between Deposits and Loans and Advances

The correlations between total deposits and loans and advances describe the degree of relationship between these two items. How a unit increases in deposit impact in the volumes of loans and advances is measured by the correlation. Here, deposit is the independent variable (detail in appendix no. XXX).

Table - 31
Correlation between Deposits and Loans and Advances

Bank	Correlation Coefficient (r)	P.Er.	6* P. Er.	Remarks
NIC	0.755	0.77	0.129	r> 6*P.Er.

(Source: Appendix-XXX)

The above table 31 shows that the correlation coefficient (r) between deposits and loans & advances of the bank is 0.755 and probable error multiplied by six is found to be 0.129 Since r > 6*P.Er., and r is positive, it can be inferred that there is positive correlation between deposits and loans and advances during study period.

4.6.2 Correlation between total deposits and total investment

The correlation between total deposits and total investment describe the degree of relationship between these two items. How a unit is increases in deposits impact in the volume of investment is measured this correlation. Here deposit is the independent variable and the investment is the dependent variable (detail in appendix no. XXXV).

Table - 32

Correlation between total deposits and total investment

Bank	Correlation Coefficient (r)	P.Er.	6* P. Er.	Remarks
NIC	0.958	0.024	0.146	r > 6*P.Er.

(Source: Appendix-XXXI)

The above table 32 shows that the correlation coefficient (r) between deposits and total investment of the bank is 0.958 and probable error multiplied by six is found to be 0.146. Since r > 6*P.Er., it is insignificant and there is correlation between total deposit and and total investments during study period in NIC.

4.6.3 Correlation between total loan and advances and total net profit

The correlation between total loan and advances and total net profit measures the degree of relationship between these two variables. The value of (r) explains weather a percentage change in loans and advances contribute to increase the same percentage of net profit. Loans and advances is independent variable and total net profit is dependent variables (detail in appendix no. XXXII).

Table - 33

Correlation between total loan and advances and total net profit

Bank	Correlation Coefficient (r)	P.Er.	6* P. Er.	Remarks
NIC	-0.250	1.696	0.282	r<6*P.Er

(Source: Appendix-XXXII)

The above table 33 shows that the correlation coefficient (r) between loan and advances and total net profit of the bank is -0.250 i.e. negative and probable error multiplied by six is found to be 0.282. Since r < 6*P.Er., the relation is insignificant. That is the increase or decrease of total loan and advances does not effect to total net profit in Nepal Industrial & Commercial Bank Limited.

4.6.4 Correlation between total investment and total net profit.

The correlation between total investment and total net profit measure the degree of relationship between this two variable. The value of (r) explains weather a percentage change in investment contribute to increase the same percentage of net profit. Investment is independent variable and total net profit is dependent variables (detail in appendix no. XXXIII).

Table - 34

Correlation between total investment and total net profit

Bank	Correlation Coefficient (r)	P.Er.	6* P. Er.	Remarks
NIC	-0.52	0.22	1.32	r<6*P.Er

(Source: Appendix- XXXIII)

The above table 34 shows that the correlation coefficient (r) between total investment and total net profit of the bank is -0.52 i.e. negative and probable error multiplied by six is found to be 1.32. Since r < 6*P.Er., it is insignificant and there is no correlation between total investment and total net profit in NIC Bank Ltd. .

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

This chapter includes two aspects of the study. First aspect of the study focuses on summarizing the fact-finding of the study and making concluding remarks upon them. While the second aspect of the study focus on making some useful suggestion and recommendation based on finding of the study to improve the investment policy of Nepal Industrial & Commercial Bank Limited.

5.1 Summary

The development of any country largely depends upon its economic development. Economic development demands transformation of saving or investible resources into the actual investment. Capital formation is the prerequisite in setting the overall pace of the economic development of a country. It is the financial institution that transfers funds from surplus spending units to deficit units.

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institution like banks are a necessity to collect scattered saving and put them into productive channels. In the absences of such institution it is possible that the saving will not be safely and profitably utilized within the economy. It will be diverted aboard or channeled into unproductive conspicuous consumption including real estate speculation.

Investment operation of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial banks depends upon its investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment.

The major source of income of a bank is interest income from loans and investment and fee based income. As loans and advances dominate the asset side of the balance sheet of any bank; similarly earning from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded the most of the bank failure in the world are due to the shrinkage in the value of loans and advances.

Hence loan is known as risky asset and investment operation of commercial banks is very risky one. Risky of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society by helping for the growth of economy while non-performing loans erodes even existing capital. Considering the important of lending to the individuals banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

Though several commercial banks have been established in our country within short period of time, stable, strong and appropriate investment policy has not been followed by the commercial banks to earn sufficient return. They have not been able to utilize their funds more efficiently and productively. Thus proper utilization of the resources has become relevant and current issue for the banks. The directors and guidance provided by NRB are the major policy statements for Nepal Commercial Banks. However, a long term and published policy about their operation is not found even in the joint venture banks.

The main objective of the study is to evaluate the investment policy o NIC Banks Ltd. and to suggest measures to improve the investment policy of the banks. The study has been constrained by various common limitations.

The study is based on secondary data from F/Y 2059/2060 to 063/064. The data have been basically obtained from annual report & financial statements, official records, periodicals, journals & bulletins; various publish reports & relevant unpublished mater's thesis. Besides this, personal contacts with the bank personnel have also been made. Financial as well as statical tools have been deployed in order to analyze and interpreted the data and information. Under financial analysis, various financial ratios related to the investment function of commercial bank i.e; liquidity ratio, asset management ratio, activity ratio load and advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some relevant statical tools i.e; co-efficient of correlation and trend analysis have been used. This analysis gives clear picture of the performance of the bank with regard to its investment operation.

5.2 Conclusion

Liquidity

The current ratio of the bank over the five year is 1.05 times on an average. Although the current ratio of 2:1 is considered as standard, acceptability of the value depends on the industry. For the banks a current ratios of 1:1 or above would be considered acceptable. Therefore the liquidity position of NIC is normal from the view point of current ratio.

The cash and bank balance to total deposit ratio is also sufficient to meet the short term obligation of the bank. The mean cash and bank balance to total deposit ratio of 12.34% shows that the bank has enough liquidity. But the ratios are less consistent over the study period.

Similarly 18.48% of mean cash and bank balance to current assets ratio shows that one-fifth of the current asset is very liquid. 27.06% C.V. shows that the ratios are not consistent.

The investment on government securities to current assets ratios is 20.51% on an average during the study period, which indicates that the bank has maintained sufficient amount of there assets to meet future liquidity needs. But the ratios over the study period are highly volatile.

Hence, the above result shows that the liquidity position of NIC is good enough to meet the short term obligations. The maintenance of the liquidity also depends upon the past withdrawal trend of the bank. The inconsistency of the ratios shows the lack of specific corporate policy about the maintenance of liquidity. The proportion of the cash and bank balance to current assets is little bit high, which shows that the bank is maintaining more idle cash that can be invested to government securities to get return.

Asset Management

The mean CD ratio of the bank is 64.63% which is slightly high. It shows that the bank is aggressive in lending. The ratios are satisfactorily consistent over the study period.

The mean investment to total deposit ratio is 16.02% & the ratios are more volatile. The increasing trend of the ratio suggests that the bank is increasing its investment on government securities and shares & debentures of other companies. The loan and advances to working fund ratio is 64043% in average and the ratios are consistent also. This shows that NIC has satisfactorily utilized its total assets for the purpose of income generation. Two-third of the total asset in average is mobilized in productive area.

NIC Bank has invested only 12.52% of fund from total asset on government securities on average. The ratios are inconsistent also. So the bank has less investment on risk-free area, which has less return also. The inconsistency of the ratio shows that the bank has not specific policy for the investment on government securities.

The bank has very nominal investment on shares & debentures of other companies. The mean investment is 0.31% on study period and the ratios are inconsistent.

The mean total outside asset to total deposit ratios is 88.57% and the ratios are less variable then the study period. It shows that out of total deposits liability, the bank has utilized about 88.57% of it in income generating assets. The loan and advances to total outside assets ratio of the bank is 81.79% on an average during the study period and the ratios are consistent during the period. It shows that the bank has given priority to invest in more income generating assets as loan and advances. Investment on government and securities to total outside assets ratio is 15.96% on an average during the study period but the ratios are not consistent and more variable during the period. It indicates that the bank does not have any specific and stable policy regarding how much to invest in risk free assets and hoe much more risky assets for the purpose of income generation. The bank has more aggressive risk taking approach. There is possibility of high risk in investment done by the bank.

Total outside assets to total assets ratios is found to be 78.73% on an average during the study period and the ratios are consistent. It shows that bank is utilizing more proportion of its assets for income generating purpose. Total off-balance sheet operations to loans and advances ratios is found to be 42.76% on an average during the study period and the ratios are in decreasing trend with variability between them during the period. It shows that the bank is not focusing well on fee based OBS transactions in comparison to loan and advances. The proportion of growth of loan an advances and OBS transaction is not consistent. Volume of loan and advances increases more than OBS transactions.

Hence, the above result show the asset management efficiency of the bank, which is directly related to the investment policy of the bank. The bank has utilized about 90% of its deposits liability into income generating assets and most of them in the form of loans and advances. The bank has given priority to invest in risky assets than in risk free assets to total outside assets. The bank has been utilizing about 78% of its total assets for income generating purpose, which shows the aggressive risk taking policy of the bank. About 65% of C.D ratio also suggests the aggressive lending policy of the bank. Similarly, the bank does not seem to have proper policy to increase the fee based OBS transactions in comparison to loan and advances.

Activity

Loan loss provision to total loan and advances ratio is found 5.05% on an average during the study period and the ratios are in increasing trend and are variable due to their continuous increasing nature year by year. This increasing nature of loan loss provision indicates that the quality of loans becoming degrading year by year i.e., it seems that amount of non performing loans is increasing and possibility of default in future is increasing. The loan loss provision for the performing loan is 5.05% of total loan and advances. So, the higher ratio of loan loss provision more than 1% signifies that the bank is having certain proportion of non-performing loan.

The analysis shows that non- performing loans to total loans & advances ratio of NIC is 5.05% on an average during the study period. The ratio has been fluctuating over the years and although the highest ratio are found in 2063/2064 which is 11.62%. The bank has increased the ratio in the year. This shows the bank is aware of Non-performing loans problem. But it is still above the international standard.

Loan & Advances Portfolio

Priority sector loans to total loans and advances ratio is found 12.29% on an average during the study period and the ratios are almost consistent. The average ratio required is 12%, except for the year 2059/2060 & 2060/2061, the bank is not fulfilling the directive credit requirement every year.

Sector wise portfolio analysis of the loans and advances shows that the bank has given priority to industrial or production sector for lending. On an average during the study period the bank has advanced 51.07% on average of loans and advances to industrial sector and the ratio is consistent also. The bank has invested very normal fund in the agricultural sector i.e., 0.4% on average. Lending in commercial sector is 21.14% on average and less consistent. Service sector lending on an average is found about 13.52% and the ratios are in increasing trend.

Hence, the analysis shows that the lending portfolio of NIC Bank is not well managed. The bank is not fulfilling the NRB requirement for priority sector lending. The sector wise lending portfolio it is not properly diversified. Half of the fund is poured in a single sector i.e., industrial/production sector. The industrial sector lending is considered as more risky then commercial and service sector lending. The investment in a single sector increases the portfolio risk. Because of the same reason the bank is suffering from great problem in recovering the loans provided.

Profitability

Interest income to total income ratio of the bank is 79.79% on an average during the study period and the ratios are consistent. The average interest income total outside asset is 9.86% during the study period and the ratios are consistent. Interest expenses to total expenses ratio is 70.12% on average and the ratios are in decreasing and again in increasing trend. This shows that the bank is decreasing its cost of fund over the year. This also shows that the bank has high proportion of operating and overhead expenses.

There is 9.86% of interest income on total asset on average. The ratios are satisfactorily consistent also. So, the interest earning capacity of total asset is favorable. The mean interest is paid to total working fund ratio is 5.94% and the ratios are not consistent. This shows that the cost of fund utilizing in the form of different assets to generate income has not been consistent during the study period.

Total income to total expenses ratio is found to be 127.3% on an average during the study period and the ratios are also found to not be consistent over the years. Total income to total assets ratio is found to be 9.76% on an average during the study period and the ratios are consistent. This shows that the earning power of the assets is consistent and it is generating income at the consistent rate.

Return on loan advances ratios is -0.99% on an average during the study period and the ratios are fluctuating in high with decreasing trend. This shows that the bank has not been able to formulate and adopt the appropriate policy to increase the profitability although loan and advances has been increasing continuously.
Return on total assets ratio is -0.48% on an average during the study period and the ratios are very variable between them. This shows that the bank has not been able to achieve stable rate of return on its assets. Return on equity ratio is -27.33% on an average during the study period and the ratios are in decreasing trend with fluctuations over the years and the ratios are very inconsistent and more variable. This shows that though the mean ratio of ROE is very poor, it is decreasing sharply during the recent years.

Earning per share is Rs.104.13 in negative on average during the study period and the ratios are inconsistent and in decreasing trend. Though the mean ratio is highly volatile and decreasing, trend of the ratio suggests that the bank has not stable policy to get the consistent earning per share.

Net interest margin is 2.3% on average during the study period and the ratios are inconsistent. This shows that the bank has satisfactory net interest margin and is doing satisfactory to recover the costs and to earn profit. The inconsistency of the ratios shows that bank has not specific policy to get the consistent net interest margin over the period. Hence the above result shows that the bank does not have any specific policy to increase the profitability of the bank. The interest earning capacity of total loan and advances, total outside assets and total working fund are consistent. Net interest margin of the bank is also satisfactory. But the profitability ratios like return on loan and advances, return on assets, return on equity, earning per share etc are more volatile and are in very poor condition with decreasing trend over the year. This shows that the non- operating expenses of the bank like provision for loan loss is increasing, which is decreasing the profitability of the bank. Interest income has high contribution to the total income of the bank. This shows that the bank has less proportion of income from fee based transactions. Interest expenses contribute about 58% of the total expenses of the bank, which shows the bank has high proportion overhead expenses. In overall, investment policy adopted by the bank is not appropriate from the profitability point of view.

Correlation

The correlation analysis shows that the correlation coefficient r between deposits and loans and advances of the bank is 0.75 and is more than six times the probable error, which infers that there is very strong positive correlation between deposits and loans and advances during study period. The analysis shows that there is also significant correlation between total deposit and total investment. Similarly there is negative correlation between total loan and investment and total net profit and it is less than six times the probable error. So, the total loan and advances and total net profit are not correlated during the study period. The same is for total investment and total net profit and they are also not correlated during the study period. This analysis shows that the increase of deposit, loan and advances and investment is not contributing to increase the net profit of the bank. The net profit of the bank may decrease even if total loan and advances and investment of the bank are increasing

5.3 Recommendations

On the basis of analysis and findings of the study, following recommendations can be made as suggestions to overcome the weakness and less effectiveness in the exiting investment policy of the NIC.

5.3.1 Before mobilizing fund well, NIC is recommended to increase its deposit to lower the credit /deposit ratio in certain extent. The bank has to collect a large variety of deposit schemes. The bank should explore the new deposit product to attract the deposit considerably. For this bank should be lunch the new schemes like prize scheme, gift schemes, child deposit schemes, recurring deposit schemes etc. As the competition on the bank sector is increasing, bank should follow the innovative approach to bank marketing.

5.3.2 As the amount of investments made by the bank is found very little and also inconsistent during the period, the bank is recommended to increase the investment which helps to utilize the idle funds into income generation as well as minimizes risk and also helps to maintain optimal level of liquidity. Increasing the amount of investment on government securities also helps the bank to maintain an equilibrium level of risk free and risky assets.

5.3.3 Interest income from loan and advances and investment has dominance to the total income of the bank. Income from fee-based transactions has low proportion. The portion of OBS transaction is found decreasing in comparison to loan and advances. Now a day most of the commercial banks are getting more benefits and increasing their earnings through the enhancement of the fee-based OBS transactions. So, the bank is recommended to give more priority to increase the fee-based OBS transactions to generate more income.

The non performing loan of the bank is increasing and it is above the satisfactory level. So, the bank management is recommended to give due consideration towards the NPA management on time. The bank has to give its effort towards the recovery of the loan. For this bank has to form the loan monitoring and recovery committee in its central level which keeps the updated database of total loan and advances and its repayment trend. Bank is recommended to adopt the aggressive loan recovery and follow-up policy, simililarly the improper project appraisal also increase the chances of the loan and advances. So the bank is recommended to follow-up the scientific project appraisal approach and train the employee in the loan section accordingly.

5.3.4 The bank is advised to examine carefully from time to time the portfolios management strategy to maintain equilibrium in the portfolio of loan and investment and make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize the return. The bank has been lending more than 50% of its credit to industrials only during the study period, but at present this sector is not doing well. so the bank is recommended not to expand its business in this sector so heavily, instead it is advised to give more focus to increase its volume of credit to other sectors specially to retail financing. Bank must develop new lending products. Banking sectors is going on consumer credit all over the world by financing the consumer goods. So, NIC is recommended to focus the fixed income generating people and lunch new credit product like housing loan, education loan, car loan etc. The bank has to concentrate on customer oriented lending policy to sustain in the competitive banking business.

Similarly, the bank is not fulfilling its lending requirement towards the priority sector. It is the inefficiency of the bank's management. It may not affect highly towards the profitability of the bank but it may degrade the image of the bank towards the regulatory authority. Bank has to duty followed the legislative of the central bank. Bank also has to give its attention towards the national interest of the country. But due to the lack of reliable lending opportunities and fear of losing the principle in rural sector, all commercial banks including NIC has been less oriented towards the priority sector and deprived sector lending function. Hence it is recommended that the government and Nepal Rastra Bank should take appropriate action to initiate the commercial banks to attract to flow credit in rural economy so that we can expect the increase in the priority and derived sector lending by the banks. Posing the compulsions by directives does not create long term healthy if lending practices unless the commercial banks are not self motivated to flow credit in this sector.

5.3.5 The bank should be careful in increasing net profit in a real sense to maintain the confidence of shareholders, depositors, its customers and the general public. The overall profitability of the bank is very poor and has been decreasing during the period resulting the sharp decrease in the return of the shareholders. The return on loan and advances, return on total assets, return on equity, earning per share all is decreasing. Although the sources of fund and its utilization have been increasing and also the total income of the bank has been increasing, the bank has not been able to increase the profitability. One of the reasons for this is more increase in the operating expenses of the bank as well as increase in the loan loss provisioning. Therefore the bank is recommended to decrease the expenses of the bank by controlling the operating expenses as well as by controlling the interest fee deposits. It is also recommended to increase the income by enhancing the fee-based OBS transactions as well as utilizing the excess liquid funds in the form of investments.

5.3.7 The bank is recommended to adopt innovative approach to marketing. In the light of growing competition of the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective total to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way is optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore the new market areas. For these purpose, the bank the bank is recommended to form a strong marketing department in its central level, which deals with the banking products, places, price and promotion.

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APPENDIX - I

(NIC)

Current Ratio

(Rs. in Million)

Fiscal Year	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (Times)
2059/2060	5,193.00	5,140.01	1.01
2060/2061	6,432.85	5,445.72	1.18
2061/2062	7,207.10	6,484.25	1.11
2062/2063	8,877.55	8,902.05	1.00
2063/2064	8,415.23	8,722.43	0.96

APPENDIX - II

(NIC)

Cash & Bank Balance to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)
2059/2060	1,025.82	8,600.81	11.93
2060/2061	1,759.31	9,514.46	18.49
2061/2062	899.51	10,580.65	8.50
2062/2063	1,436.47	12,807.38	11.22
2063/2064	1,401.77	12,125.58	11.56

APPENDIX - III

(NIC)

Cash & Bank Balance to Current Assets Ratio

(Rs. in Million)

Fiscal Year	Cash & Bank Balance (Rs)	Current Assets (Rs)	Ratio (%)
2059/2060	1,025.82	5,193.00	19.75
2060/2061	1,759.31	6,432.85	27.35
2061/2062	899.51	7,207.10	12.48
2062/2063	1,436.47	8,877.55	16.18
2063/2064	1,401.77	8,415.23	16.66

APPENDIX - IV

(NIC)

Investment on Government Securities to Current Asset Ratio

(Rs. in Million)

Fiscal Year	Investment on Government Securities (Rs)	Current Assets (Rs)	Ratio (%)
2059/2060	262.56	5,193.00	5.06
2060/2061	891.04	6,432.85	13.85
2061/2062	2,040.45	7,207.10	28.31
2062/2063	2,578.86	8,877.55	29.05
2063/2064	2,212.54	8,415.23	26.29

APPENDIX - V

(NIC)

Loan & Advances to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	Total Loan & Advances (Rs)	Total Deposit (Rs)	Ratio (%)
2059/2060	7,074.91	8,600.81	82.26
2060/2061	7,632.42	9,514.46	80.22
2061/2062	7,247.98	10,580.65	68.50
2062/2063	8,648.74	12,807.38	67.53
2063/2064	7,787.69	12,125.58	64.23

APPENDIX - VI

(NIC)

Total Investment to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	Total Investment (Rs)	Total Deposit (Rs)	Ratio (%)
2059/2060	691.08	8,600.81	8.04
2060/2061	1,008.64	9,514.46	10.60
2061/2062	2,168.92	10,580.65	20.50
2062/2063	2,699.17	12,807.38	21.08
2063/2064	2,411.72	12,125.58	19.89

APPENDIX - VII

(NIC)

Loan & Advances to Total Working Fund Ratio

(Rs. in Million)

Fiscal Year	Total Loan & Advances (Rs)	Total Working Fund (Rs)	Ratio (%)
2059/2060	7,074.91	9,658.21	73.25
2060/2061	7,632.42	11,102.23	68.75
2061/2062	7,247.98	11,918.51	60.81
2062/2063	8,648.74	14,257.97	60.66
2063/2064	7,787.69	13,277.15	58.65

APPENDIX - VIII

(NIC)

Investment on govt. Securities to Total Working Fund Ratio

(Rs. in Million)

Fiscal Year	Investment on govt. Securities (Rs)	Total Working Fund (Rs)	Ratio (%)
2059/2060	262.56	9,658.21	2.72
2060/2061	891.04	11,102.23	8.03
2061/2062	2,040.45	11,918.51	17.12
2062/2063	2,578.86	14,257.97	18.09
2063/2064	2,212.54	13,277.15	16.66

APPENDIX - IX

(NIC)

Investment on shares & Debentures to Working Fund Ratio

(Rs. in Million)

Fiscal Year	Investment on shares & Debentures (Rs)	Total Working Fund (Rs)	Ratio (%)
2059/2060	15.00	9,658.21	0.16
2060/2061	38.40	11,102.23	0.35
2061/2062	38.40	11,918.51	0.32
2062/2063	38.40	14,257.97	0.27
2063/2064	62.74	13,277.15	0.47

APPENDIX - X

(NIC)

Total Outside Asset to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	Total Outside Asset (Rs)	Total Deposit (Rs)	Ratio (%)
2059/2060	7,766.00	8,600.81	90.29
2060/2061	8,641.06	9,514.46	90.82
2061/2062	9,416.90	10,580.65	89.00
2062/2063	11,347.91	12,807.38	88.60
2063/2064	10,199.41	12,125.58	84.11

APPENDIX - XII

(NIC)

Loan & Advances to Total outside Asset Ratio

(Rs. in Million)

Fiscal Year	Total Loan & Advances (Rs)	Total Outside Asset (Rs)	Ratio (%)
2059/2060	7,074.91	7,766.00	91.10
2060/2061	7,632.42	8,641.06	88.33
2061/2062	7,247.98	9,416.90	76.97
2062/2063	8,648.74	11,347.91	76.21
2063/2064	7,787.69	10,199.41	76.35

APPENDIX - XII

(NIC)

Investment on govt. Securities to Total outside Asset Ratio

(Rs. in Million)

Fiscal Year	Investment on govt. Securities (Rs)	Total Outside Asset (Rs)	Ratio (%)
2059/2060	262.56	7,766.00	3.38
2060/2061	891.04	8,641.06	10.31
2061/2062	2,040.45	9,416.90	21.67
2062/2063	2,578.86	11,347.91	22.73
2063/2064	2,212.54	10,199.41	21.69

APPENDIX - XIII

(NIC)

Total Outside Asset to Total Asset Ratios

(Rs. in Million)

Fiscal Year	Total Outside Asset (Rs)	Total Asset (Rs)	Ratio (%)
2059/2060	7,766.00	9,658.21	80.41
2060/2061	8,641.06	11,102.23	77.83
2061/2062	9,416.90	11,918.51	79.01
2062/2063	11,347.91	14,257.97	79.59
2063/2064	10,199.41	13,277.15	76.82

APPENDIX - XIV

(NIC)

Total OBS Operation to Loan & Advances Ratio

(Rs. in Million)

Fiscal Year	Total OBS Operation (Rs)	Total Loan & Advances (Rs)	Ratio (%)
2059/2060	3,436.46	7,074.91	48.57
2060/2061	3,359.77	7,632.42	44.02
2061/2062	2,968.75	7,247.98	40.96
2062/2063	3,497.40	8,648.74	40.44
2063/2064	3,101.21	7,787.69	39.82

APPENDIX - XV

(NIC)

Total Loan Loss Provision to Total loan & Advances Ratio

(Rs. in Million)

Fiscal Year	Total Loan Loss Provision (Rs)	Total Loan & Advances (Rs)	Ratio (%)
2059/2060	130.48	7,074.91	1.84
2060/2061	269.35	7,632.42	3.53
2061/2062	261.87	7,247.98	3.61
2062/2063	400.73	8,648.74	4.63
2063/2064	905.15	7,787.69	11.62

APPENDIX - XVI

(NIC)

Total Non Performing Loan to Total Loan & advances Ratio

(Rs. in Million)

Fiscal Year	Total Non Performing Loan (Rs)	Total Loan & advances (Rs)	Ratio (%)
2059/2060	495.60	7,074.91	7.01
2060/2061	601.87	7,632.42	7.89
2061/2062	1,502.09	7,247.98	20.72
2062/2063	1,473.59	8,648.74	17.04
2063/2064	1,675.97	7,787.69	21.52

APPENDIX - XVII

(NIC)

Priority Sector Lending to Total Loan & advances Ratio

(Rs. in Million)

Fiscal Year	Total Priority Sector Lending (Rs)	Total Loan & advances (Rs)	Ratio (%)
2059/2060	845.89	7,074.91	11.96
2060/2061	987.15	7,632.42	12.93
2061/2062	983.10	7,247.98	13.56
2062/2063	937.96	8,648.74	10.85
2063/2064	945.31	7,787.69	12.14

APPENDIX - XVIII

(NIC)

Interest Income to Total Income Ratio

(Rs. in Million)

Fiscal Year	Total interest Income (Rs)	Total Income (Rs)	Ratio (%)
2059/2060	810.05	1,080.00	75.00
2060/2061	850.53	1,076.80	78.99
2061/2062	1,013.71	1,243.83	81.50
2062/2063	1,095.50	1,327.20	82.54
2063/2064	876.51	1,083.18	80.92

APPENDIX - XIX

(NIC)

Total Interest Earned o Total Outside Assets Ratio

(Rs. in Million)

Fiscal Year	Total interest Income (Rs)	Total Outside Asset (Rs)	Ratio (%)
2059/2060	810.05	7,766.00	10.43
2060/2061	850.53	8,641.06	9.84
2061/2062	1,013.71	9,416.90	10.76
2062/2063	1,095.50	11,347.91	9.65
2063/2064	876.51	10,199.41	8.59

APPENDIX - XX

(NIC)

Interest Expenses to Total Expenses Ratio

(Rs. in Million)

Fiscal Year	Total interest Expenses (Rs)	Total Expenses (Rs)	Ratio (%)
2059/2060	515.85	881.25	58.54
2060/2061	552.74	1,011.02	54.67
2061/2062	597.88	1,172.33	51.00
2062/2063	625.36	547.94	114.13
2063/2064	1,324.55	1,832.72	72.27

APPENDIX - XXI

(NIC)

Total Interest Earned to Working Fund Ratio

(Rs. in Million)

Fiscal Year	Total interest Income (Rs)	Total Working Fund (Rs)	Ratio (%)
2059/2060	810.05	9658.21	8.39
2060/2061	850.53	11102.23	7.66
2061/2062	1013.71	11918.51	8.51
2062/2063	1095.50	14257.97	7.68
2063/2064	876.51	13277.15	6.60

APPENDIX - XXII

(NIC)

<u>Interest Paid to Total Working Fund Ratios</u>

(Rs. in Million)

Fiscal Year	Total interest Paid (Rs)	Total Working Funds (Rs)	Ratio (%)
2059/2060	515.85	9658.21	5.34
2060/2061	552.74	11102.23	4.98
2061/2062	597.88	11918.51	5.02
2062/2063	625.36	14257.97	4.39
2063/2064	1324.55	13277.15	9.98

APPENDIX - XXIII

(NIC)

<u>Total Income to Total Expenses</u>

(Rs. in Million)

Fiscal Year	Total Income (Rs)	Total Expenses (Rs)	Ratio (%)
2059/2060	1080.00	881.25	122.55
2060/2061	1076.80	1011.02	106.51
2061/2062	1243.83	1172.33	106.10
2062/2063	1327.20	547.94	242.21
2063/2064	1083.18	1832.72	59.10

APPENDIX - XXIV

(NIC)

<u>Total Income to Total Working Fund</u>

(Rs. in Million)

Fiscal Year	Total Income (Rs)	Total Working Fund (Rs)	Ratio (%)
2059/2060	1080.00	9658.21	11.18
2060/2061	1076.80	11102.23	9.70
2061/2062	1243.83	11918.51	10.44
2062/2063	1327.20	14257.97	9.31
2063/2064	1083.18	13277.15	8.16

APPENDIX - XXV

(NIC)

Return on Loan & Advances

(Rs. in Million)

Fiscal Year	Net Profit (Rs)	Total Loan & Advances (Rs)	Ratio (%)
2059/2060	198.75	7,074.91	2.81
2060/2061	65.78	7,632.42	0.86
2061/2062	71.50	7,247.98	0.99
2062/2063	2.64	8,648.74	0.03
2063/2064	(749.54)	7,787.69	-9.62

APPENDIX - XXVI

(NIC)

Return in Working Fund

(Rs. in Million)

Fiscal Year	Net Profit (Rs)	Total Working Fund (Rs)	Ratio (%)
2059/2060	198.75	9658.21	2.06
2060/2061	65.78	11102.23	0.59
2061/2062	71.50	11918.51	0.60
2062/2063	2.64	14257.97	0.02
2063/2064	(749.54)	13277.15	-5.65

APPENDIX - XXVII

(NIC)

Return on Equity (ROE)

(Rs. in Million)

Fiscal Year	Net Profit (Rs)	Total Equity Capital (Rs)	Ratio (%)
2059/2060	198.75	879.05	22.61
2060/2061	65.78	1018.13	6.46
2061/2062	71.50	843.26	8.48
2062/2063	2.64	800.60	0.33
2063/2064	(749.54)	429.51	-174.51

APPENDIX - XXVII

(NIC)

Earning Per Share (EPS)

(Rs. in Million)

Fiscal Year	Net Profit (Rs)	No. Of Equity Shares (Rs)	Ratio (%)
2059/2060	198.75	2.40	82.81
2060/2061	65.78	3.60	18.27
2061/2062	71.50	3.60	19.86
2062/2063	2.64	3.59	0.73
2063/2064	(749.54)	7.20	-104.13

APPENDIX - XXIX

(NIC)

Net Interest Margin

(Rs. in Million)

Fiscal Year	Total interest Revenue (Rs)	Total Interest Costs (Rs)	Total Earning Assets	Ratio (%)
2059/2060	810.05	515.85	7765.99	3.788
2060/2061	850.53	552.74	9416.90	3.162
2061/2062	1013.71	597.88	8641.06	4.812
2062/2063	1095.50	625.36	11347.90	4.143
2063/2064	876.51	1324.55	10199.41	-4.393

APPENDIX - XXX

(NIC)

Correlation between Total Deposit & Total Loan & Advances

Fiscal Year	Deposit (X)	Loan & Advances (Y)	U=(X-10,000)	U^2	V = (Y-7000)	V^2	UV
2059/2060	8,600.81	7,074.91	-1,399.19	1957732.66	-6295.089	39628145.52	8808025.578
2060/2061	9,514.46	7,632.42	-485.54	235749.09	632.418	399952.53	-307064.2357
2061/2062	10,580.65	7,247.98	580.65	337154.42	247.98	61494.08	143989.587
2062/2063	12,807.38	8,648.74	2,807.38	7881382.46	1648.74	2718343.59	4628639.701
2063/2064	12,125.58	7,787.69	2,125.58	4518081.83	787.69	620455.54	1674296.535
	Sum = (Σ)		3,628.88	14,930,100.47	-2,978.26	43428391.25	14,947,887.17

Now, we have,

$N = 5$ $\quad\quad$ $\Sigma V = -2978.25$

$\Sigma U = 3628.88$ $\quad\quad$ $\Sigma V^2 = 43428391.25$

$\Sigma U^2 = 14{,}930{,}100.47$ $\quad\quad$ $\Sigma UV = 14{,}947{,}887.17$

Correlation co-efficient can be calculated by using following formula:

$$r = \frac{N.\Sigma\, UV - \Sigma U\,.\,\Sigma V}{\sqrt{[N\Sigma U^2 - (\Sigma U)^2]}\ \sqrt{[N\Sigma V^2 - (\Sigma V)^2]}}$$

$$r = \frac{5\text{x}14947887.17 - (3628.88)\ (-2978.25)}{\sqrt{[5 \text{ x } 14930100.47 - (3628.88)^2]}\ \sqrt{[5 \text{ x } 43428391.25 - (-2978.25)^2]}}$$

$r = 0.755992185$

$r^2 = 0.571524184$

Problem error or the correlation coefficient

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

$$= 0.6745 \quad \frac{1 - 0.5715}{2.2361}$$

$= 0.1292$

6 P.E. (r) = 0.77

APPENDIX - XXXI

(NIC)

Correlation between Total Deposit & Total Investment

Fiscal Year	Deposit (X)	Total Investment (Y)	U=(X-10,000)	U^2	V = (Y-2000)	V^2	UV
2059/2060	8,600.81	691.08	-1,399.19	1957732.66	- 1,308.92	1713271.57	1831427.775
2060/2061	9,514.46	1,008.64	- 485.54	235749.09	- 991.36	982794.65	481344.9344
2061/2062	10,580.65	2,168.92	580.65	337154.42	168.92	28533.97	98083.398
2062/2063	12,807.38	2,699.17	2,807.38	7881382.46	699.17	488833.10	1962824.645
2063/2064	12,125.58	2,411.72	2,125.58	4518081.83	411.72	169513.36	875142.9742
	Sum (Σ)		3,628.88	14,930,100.47	- 1,020.47	3382946.64	5,248,823.73

Now, we have,

$N = 5$ $\qquad$ $\Sigma V = 1020.47$

$\Sigma U = 3628.88$ $\qquad$ $\Sigma UV = 3382946.64$

$\Sigma U^2 = 14,930,100.47$ $\qquad$ $\Sigma V^2 = 5248823.73$

Correlation co-efficient can be calculated by using following formula:

$$r = \frac{N.\Sigma\ UV - \Sigma U\ .\ \Sigma V}{\sqrt{[N\Sigma U^2 - (\Sigma U)^2]}\ \sqrt{[N\Sigma V^2 - (\Sigma V)^2]}}$$

$r = 0.958627705$

$r^2 = 0.918967077$

Problem error or the correlation coefficient

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

$= 0.024442872$

$6\ P.E.\ (r) = 0.146657234$

APPENDIX - XXXII

(NIC)

Correlation between Total Loan & Advances & Total Net Profit

Fiscal Year	Total Loan & Advances (X)	Net Profit (Y)	U=(X-7,000)	U^2	V = (Y + 70)	V^2	UV
2059/2060	7,074.91	198.75	74.91	5611.66	268.75	72226.56	20132.33125
2060/2061	7,632.42	65.78	632.42	399952.53	135.78	18436.21	85869.71604
2061/2062	7,247.98	71.50	247.98	61494.08	141.50	20022.25	35089.17
2062/2063	8,648.74	2.64	1,648.74	2718343.59	72.64	5277.01	119769.4198
2063/2064	7,787.69	(749.54)	787.69	620455.54	-679.54	461778.69	-535269.2257
	Sum (Σ)		3,391.74	3,805,857.39	-60.87	577740.72	-274,408.59

Now, we have,

N = 5 ΣV = -60.87

ΣU = 3391.74 ΣUV = -274408.59

$\Sigma U^2 = 3805857.39$ $\Sigma V^2 = 577740.72$

Correlation co-efficient can be calculated by using following formula:

$$r = \frac{N.\Sigma UV - \Sigma U . \Sigma V}{\sqrt{[N\Sigma U^2 - (\Sigma U)^2]}\sqrt{[N\Sigma V^2 - (\Sigma V)^2]}}$$

r = -0.250154081

r = 0.062577064

Problem error or the correlation coefficient

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

= 0.282765426

6 P.E. (r) = 1.696592559

APPENDIX - XXXIII

(NIC)

Correlation between Total Investment & Total Net Profit

Fiscal Year	Total Investment (X)	Net Profit (Y)	U=(X-2,000)	U^2	V = (Y + 70)	V^2	UV
2059/2060	691.08	198.75	-1,308.92	1713271.57	268.76	72226.56	-351772.25
2060/2061	1,008.64	65.78	-991.36	982794.65	135.78	18436.21	134606.8608
2061/2062	2,168.92	71.50	168.92	28533.97	141.50	20022.25	23902.18
2062/2063	2,699.17	2.64	699.17	488833.10	72.64	5277.01	50789.51574
2063/2064	2,411.72	(749.54)	411.72	169513.36	-679.54	461778.69	-259781.444
	Sum (Σ)		-1,020.47	3,382,946.64	-60.87	577740.72	-691468.859

Now, we have,

$N = 5$ $\Sigma V = -60.87$

$\Sigma U = -1020.47$ $\Sigma UV = -691468.859$

$\Sigma U^2 = 3382946.64$ $\Sigma V^2 = 577740.72$

Correlation co-efficient can be calculated by using following formula:

$$r = \frac{N.\Sigma UV - \Sigma U . \Sigma V}{\sqrt{[N\Sigma U^2 - (\Sigma U)^2]} \sqrt{[N\Sigma V^2 - (\Sigma V)^2]}}$$

$r = -0.520078375$

$r^2 = 0.270481517$

Problem error or the correlation coefficient

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

$= 0.220052868$

$6 P.E. (r) = 1.320317205$

APPENDIX - XXXIV

VALUES AT SIGHT OF THE ONE BANKS

Rs. in Million

NIC	YEARS				
	2060	2061	2062	2063	2064
➢ Current Assets	5,193.00	6,432.85	7,207.10	8,877.55	8,415.23
➢ Current Liabilities	5,140.01	5,445.72	6,484.25	8,902.05	8,722.43
➢ Cash & Bank Balance	1,025.82	1,759.31	899.51	1,436.47	1,401.77
➢ Total Deposit	8,600.81	9,514.46	10,580.65	12,807.38	12,125.58
➢ Investment on Gov. Securities	262.56	891.04	2,040.45	2,578.86	2,212.54
➢ Loan & Advances	7,074.91	7,632.42	7,247.98	8,648.74	7,787.69
➢ Total Investment	691.08	1,008.64	2,168.92	2,699.17	2,411.72
➢ Total Working Fund	9,658.21	11,102.23	11,918.51	14,257.97	13,277.15
➢ Investment on Share & Debenture.	15.00	38.40	38.50	38.40	62.74
➢ Total outside Asset	7,766.00	8,641.06	9,416.90	11,347.91	10,199.41
➢ Total Asset	9,658.21	11,102.23	11,918.51	14,257.97	13,277.15
➢ Total OBS Operation	3,436.46	3,359.77	2,968.75	3,497.40	3,101.21
➢ Total Loan Loss Provision	130.48	369.35	261.87	400.73	905.15
➢ Non Performing Loan	495.60	601.87	1,502.09	1,473.59	1,675.97
➢ Priority Sector Lending	845.89	987.15	983.10	937.96	945.31
➢ Interest Income/Total Interest Earned	810.05	850.53	1,013.71	1,095.50	876.51
➢ Total Income	1,080.00	1,076.80	1,243.83	1,327.20	1,083.18
➢ Interest Expenses	515.85	552.74	597.88	625.36	547.94
➢ Total Expenses	881.25	1,011.02	1,172.33	1,324.55	1,832.72
➢ Net Profit	198.75	65.78	71.50	2.64	(749.54)
➢ Total Equity capital	879.05	1,018.13	843.26	800.60	429.51
➢ No. of equity share	2.40	3.60	3.60	3.60	7.20