INVESTMENT POLICY OF JOINT VENTURE COMMERCIAL BANK

(Reference with Himalayan Bank Ltd. & Standard Chartered Bank Ltd.)

By:

Rajeet Maharjan

Shanker Dev Campus

Campus Roll No: 1755/064

Symbol No.:7353/065

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RECOMMENDATION

This is to certify that the thesis

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Rajeet Maharjan

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has been prepared by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

Dr. Silu Bajracharya	Prof. Dr. Kamal Deep Dhakal	Asso. Pro. Prakash Singh Prdhan
(Thesis Supervisor)	(Head of Research Dpartment)	(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

by

Rajeet Maharjan

Entitled

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the

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Viva-Voce Committee

Head, Research Dpartment ……………………

Member (Thesis Supervisor) …………………….

Member (External Export) …………………….

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..…………………...

Rajeet Maharjan

Researcher

DECLARATION

I hereby, declare that the work reported in this thesis entitled **“**Investment policy of Joint venture commercial bank reference with Himalayan Bank Ltd. & Standard Chartered Bank Ltd.**”** Submitted to Office of the Dean, Faculty of Management, T.U. is my original work done in the form of partial fulfillment of the requirements for the degree of Masters of Business Studies (M.B.S.) under the supervision and guidance of Dr. Silu Bajracharya, Shanker Dev Campus.

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RAJEET MAHARJAN

Researcher

Roll No: 1755/064

Shanker Dev Campus

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ABBREVATION

&	: And
NRB	: Nepal Rastra Bank
B.S.	: Bikram Sambat
JVB's	: Joint Venture Banks
SCBNL	: Standard Chartered Bank Nepal Ltd.
HBL	: Himalayan Bank Ltd.
AD	: After Decade
EBIT	: Earning before interest and tax
EPS	: Earning per share
P.Er.	: Probable Error
P/E	: Price Earning Ratio
C/D	: Credit Deposit Ratio
r	: Coefficient of Correlation
r^2	: Coefficient of Determination
C.V.	: Coefficient of Variation
S.D.	: Standrad Deviation
Ltd.	: Limited
No.	: Number
Rs.	: Rupees
T.U.	: Tribhuvan University
F.Y.	: Fiscal Year
USA	: United States of America

CHAPTER-I
INTRODUCTION

1.3 General Background of the Study

Banks are the Key organization that is carrying out the entire task arises in the economic revolution of the nation. They are the principal source of credit that provides most important sources of short-term working capital for business and is increasingly active in recent years in making long-term business loans for new plants and equipment. It can employ their credits on the industrial sectors, business sectors and different other productive sectors to develop and diversify it. To develop and spread industry, to boost the trade and commerce activities, employment generation and in foreign business, the bank cannot be ignored or rather Bank is the must.

The Commercial Bank is simply a business corporation organized for the purpose of maximizing the value of shareholder's wealth invested in the bank at an accepted level of risk. They are different from other firm, as their performance is akin to their financial structure. The amount of the banks capital risks of its loans, and the nature of its deposits affect its ability to make money and remain profitable.

An aggressive pursuit of such an objective requires that an institution be continually on the look out for new opportunities for further revenue growth, greater efficiency, and more effective planning and control. Therefore, Banks like other firms in the economy are out to operate at a profit. They are closely regulated and scrutinized than a typical business firm. The banks hold saving of the overall health of the economy, regulators and the public subject them to constant scrutiny.

Joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production trade) Gupta, (1984:15-25). They are the commercial banks firmed by jointing two or more enterprises for purpose of carrying out specific operation such as investment in trade, business and industries well as in the form of negotiation between various groups industries or traders to achieve mutual exchange of goods and services.

The primary objective of these Joint Venture banks is always to earn profit by investing or granting loan and advances to people associated with trade, business, industry etc. That means they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic acclivities of the country.

The banks will generate their income in a different way. They collect money from savers and lend it to borrowers. They make profit by paying less for saving than what they charge to the borrowers. Banks also generate income by providing other services for which they charge fees and commissions. Such services include trust administration, safety deposit, account services and others. Meanwhile, banks have also entered into financial advisory services, foreign trading, processing and investments.

The success of any organization, which in other words means the maximization of the wealth of its shareholder, depends amount other thing on its Sound Investment Policy. Development factor of country is mobilization of domestic resources and their investment for productive use to the various sectors. Integrated and speedy development of the country is possible only when competitive banking services reach every nooks and corners of the country. The fundamentals principals of investment must be followed thoroughly for profitable investment.

Good investment policy ensures maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market but there is no profitable place to invest. Flowing of money hundred times more than required when there were called by the banks and financial institutions is the example of high liquidity in the money market. At the same time the banks and financial institutions are offering very low deposit interest rate. In this situation Nepalese Joint Venture banks are required to explore new opportunities to make investment if they want to survive in the competitive market.

The prosperity of industry and trade is essential and more important for a country to step into development. Therefore the bank must consider national interest and government emphasis for the economic growth of a country. Since, the prosperous economic condition of a country is represented by the development of the industry, trade and business, which is the main ground to the banks to conduct its activities and to fulfill its objective of profit making. The proper investment policies help in development of a country as well as to achieve the objective of profit making.

1.4 Statement of the Problem

Every business firm can take advantages through appropriate Investment policy because long-run profitability depends on its sound investment besides other factors. The problem of lending has become very serious in the context of Nepal, due to the lack of sound investment policy followed by the commercial banks. Commercial banks invest their funds in limited area. The credit extended by the banks agriculture and industrial sector is not so satisfactory to meet the growing needs in the present economical progression. The main reasons of unsound investment policy are due to the lack of proper analysis on financial risk, interest rate of management risk, business risk, liquidity risk, default risk and purchasing risk etc.

Granting loan against insufficient deposit, overvaluation of land and building motor aged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound investment policy sighted in the banks. Therefore the study surrounds and deals with following aspects of the joint venture banks.

The study problems are identified as below:

a. Do these banks mobilize their funds adequately?
b. What is the relationship of investment with total deposit and its impact to the firm profit earning?
c. How effectively & efficiently does these banks follow the investment policy?
d. What is the effect of NRB directives ?
e. What is the effect of the investment decision to the total earning of the bank.

1.3 Objectives of the Study

Capital accumulation is essential for economic development of the Nation. Capital is scarce resource. The economical development of any country depends upon the effective mobilization of the accumulation of capital. The main objective of this commercial banks namely: Standard Chartered Bank Ltd., and Himalayan Bank Ltd.

Besides, following are the specific objectives:

a. To evaluate the liquidity management, asset management efficiency, profitability, risk portion and investment practices of Standard Chartered Bank Ltd., and Himalayan Bank Ltd.
b. To analyse the trends of deposit utilization towards total investment to loan and advances and its projection for next five years.
c. To evaluate the growth of loan and advance and total investment with respective growth rate of the total deposit and net profit.
d. To study the funds mobilization and investment policy with respect to fund based off Balance sheet transaction and fund based on Balance sheet transaction.
e. To provide suggestions and recommendations for the policies that have been adopted by the sample organization based on the financial analysis for its future development.

1.7 Significance of the Study

Investment activity is the lifeblood of any financial institution because only deposit collection carries no meaning. If it is utilized in proper investment then only better return and sustainability is possible. Therefore, to this significance on account this study on behalf of the firm's investment policy and its relationship is justified as a specific subject matter.

1.8 Limitations of the Study

This study is simply a partial requirement of MBS program. Due to the occurrence of unforeseen circumstances, every study or research is always accompanied by some limitations viz; Inadequate coverage of commercial banks, time period taken and other variables. Some commonly attributed limitations of this study are as follows:

a. This study is limited to only a period of 5 years trend of concerned JVB's and hence the conclusion drawn confines only to the above period.
b. The study is based on secondary data collected from the bank.
c. Out of numerous affecting factors, only those factors related with fund mobilization as loan & advance, investment in government securities and other financial institutions are considered in this study.
d. This study deals with only two Joint Venture commercial banks such as Standard Chartered Bank Nepal Ltd. and Himalayan Bank Ltd. Other commercial banks have not been considered.
e. This thesis is particularly based on the data as derived from the published annual report of three banks along with NRB directives.
f. The ratios analyzed should not be taken as the authorized ratios of the bank.

1.9 Scheme of the Study

Since the study carried out to different stages and procedures, as it needed the study is organized in the following chapters in order to make the study easy to understand.

Chapter: 1 Introduction

This chapter deals with subject matter of the study consisting of background of the study, focus of the study, statement of the problem, significance of study, limitation of the study and hypothesis formation.

Chapter: 2 Review of Literature

This chapter deals with review of the different literature of the study field. It includes theoretical review along with the review of major books. Journals, research works and thesis.

Chapter: 3 Research Methodology

This chapter deals with research methodology to be adopted for the study consisting research design, source of data, population sample etc.

Chapter: 4 Data Presentation and Analysis

This chapter deals with presentation analysis and interpretation of data. It consists testing of hypothesis, analysis of questionnaires, analysis of open-end opinions and major findings of the research.

Chapter: 5 Summary, conclusion & Recommendation

This chapter deals covers the summery, conclusion and recommendation of the study.

CHAPTER- II
REVIEW OF LITERATURE

Review of literature is basically a stock talking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research review of the existing literature would help to check the chances of duplication in the present study. Thus one can find what studies have been conducted and what remains to go with. This chapter highlights the literature available related to the present study.

2.1 Conceptual Framework

2.1.1 Conceptual Review

A Commercial Bank is business organization that receives and holds deposits of fund from others, makes loans or extends credits and transfers funds by written orders of deposits (The Encyclopedia American: 1984).

Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services (Principle of Bank operation: 1972).

A Commercial banker is dealer in money and substitute for money, such as cheques or bill of exchange. He also provides a variety of financial services (The New Encyclopedia Britannia:1985).

Commercial Bank Act 2031 BS of Nepal has defined that, "A Commercial Bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for cooperative, agriculture, industry or for such specific purpose." (Commercial Bank Actz; 2031 B.S.)

The commercial banks are established under the Commercial Bank Act, 2031 in Nepal that has been amended regularly. It has been amended for six times till today. Now commercial bank act, 2049 is active. This Commercial bank Act, 2031 has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

Financial activities are necessary for the economic development of the country and commercial banking is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the must because this subject is relevant for all surrounding that mobilize fund in different sectors in view of return.

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most important one. In the words of H. D. Cross, "Commercial banks bring into being the most important ingredient of the money supply, demand deposit through the credit in the form of loan and investments." (Crosse, 1963)

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

The banks are such types of institutions, which deal in money and substitute for money. They deal with cash, credit and credit instruments. Good circulation of credit of credit is very much important for the bank. Unsteady and unevenly flow of credit with ad-hoc decisions harms the economy and the bank as well. Thus, to collect fund utilize it in good investment, is a very difficult and important task tor such organization. An investment of fund may be the question of life and death for the bank.

According to Clark F.J. (1963), "Investing involves making a current commitment of funds in order to obtain an uncertain future return. It is a risky business that demands information. To process information effectively and select the best investment require goals that are clear cut and realistic."

In the words of Gitman and Jochnk (1990), “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns."

According to Dowrei & Fuller (1950), "For our purpose, in the study of financial institutions the investment problem will revolve around the concept of managing the surplus financial asset in such a way, which will lead to the wealth maximization and providing a significant further source of income. Thus the investment in such a way as to make it for providing benefits to the suppliers of the funds by letting third party to use such resources. However, the investments need to be a procedural task. It must follow a definite investment process, which definitely begins from the formulation of proper investment policy."

Sharpe and Gorden, defines investment as, "Investment, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value."

Thus investment is the most important function of commercial banks, it is the long-term commitment of bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautious while investing their funds various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

Investment is the most important function of guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk.

According to Singh and Singh (1983), "The investment (credit) policies of banks are conditional, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping, of course, his bank's credit policy also in mind."

Bexely James B. (1987), express his views as, "Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan, and establishing responsibility for day to day management of those assets."

According to Chandler L. V. (1973), "A banker seeks optimum combination of earning, liquidity and safety while formulating investment policy."

He further adds, the formulation of sound lending policies for all banks should have adequate and credit consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and asset pledged to security borrowing interest rate policy, etc.

Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.1.2 Important Aspects Related to Study

In this section of the study, efforts have been made to clarify the meaning of some important terms frequently used in this study. They are given as:-

1. Deposits

Deposit means the amount in current, saving or fixed account of a bank or financial institution. For a commercial bank, deposit is the most important source of liquidity. For bank's financial strength, it is treated as a barometer. In the word of Engene, "A bank's deposits are the amounts that it owns to its customers." Deposits are the Lifeblood of the commercial bank. Though they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits. The deposit of a bank is affected by various factors like:-

- Types of customers.
- Physical facilities of bank.
- Management and accessibility of customers.
- Types and range of the services offered by the bank.
- Interest rate paid on the deposit.

In addition to the above, the prevailing economic conditions exert a decisive influence on the amount of deposit the bank receives.

2. Loan and Advances

Loan, advances and overdrafts are the main source of income for a bank. Bank deposits can be crossed beyond a desired level but the level of loan, advances and overdrafts will never cross it. The facilities of granting loan, advances and overdrafts are the main services in which customers of the bank can enjoy. Funds borrowed from banks are much cheater than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to chapter interest rate. Further, an increase in economic and business activities always increase the demand for funds. Due to limited resources and increasing demand for loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. These are the undesirable effects of too low interest rate.

3. Investment on Government Securities, Shares and Debentures

Commercial banks invest on government securities, share and debentures to earn some interest and dividend. This is the second source of income to the bank. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons, some of them are:-

- It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers
- It may wish to have high-grade marketable securities to liquidate, if its primary source of reserves becomes inadequate.
- It may also be forced to invest because the demands for loans has decreased or it not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained with a view to the nature of bank's liabilities. This is because depositors may demand funds in great volume without previous notice to banks; the investment must be of a type that can be marketed quickly with little or no shrinkage in value.

4. Investment on Other Company's Shares and Debentures

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

5. Other Use of Funds

Commercial banks must maintain the minimum bank balance with Nepal Rastra Bank as prescribed by bank. Similarly they have to maintain the cash balance in local currency in the vault of the bank. Again a part of the funds should be used be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computer, stationary etc.

6. Off-Balance Sheet Activities

Off-balance sheet activities cover the contingent liabilities i.e.; Off-balance sheet activities involve contracts for future purchase or sale of assets or liabilities in these activities are contingent obligations. There are not recognized as assets or liabilities in balance sheet. Some good examples of these items are letter of credit (L.C.), letter of guarantee commission, bills for collections etc. Nowadays, such activities are stressfully highlighted by some economists and finance specialists to expand the modern transaction of bank, these activities are very important as they are the good source of profit to the bank, though they have risk.

2.1.3 Features of Sound Lending and Investment Policy

The income and profit the bank depends upon its lending procedure, lending policy and investment of its funds in different securities. The greater the credit crated by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial savings of a background country like Nepal.

Some necessities or some of the main charactertics for sound lending and investment policies which must be considered by the commercial banks have been given by many authors as:-

1. Liquidity
2. Profitability
3. Safety and Security
4. Propose of Loan
5. Diversification
6. Tangibility
7. Legality

2.1.4 Review of NRB Directives

Banking business is challenging day by day not only from the external element but also within the bank. It is observed from different element of the society that banking in Nepal is not being operated in such a manner to deserve sufficient public confidence. It is also not operated with due consideration of its long-term financial health. In order to safeguard from further damage on to the banking sector and to have a healthy competition within the sector new directives on code of ethics may help a lot to this banking industry. As authorized by section 22 of the NRB Act, Nepal Rastra Bank (Center Bank) has been Bank Act 2012, empowered to issue legal provisions and directives for commercial banks including JVB's and financial institutions regarding banking operations, currency and credits. Review of few directives related to this study is described below:

1. Regulation Relating to Maintenance of Minimum Capital Fund.

With the objectives to develop a healthy, capable and secured banking system for promoting economic growth of the country a swell as to protect the interests of depositors, as provided under Section 23 (1) of Nepal Rastra Bank Act 2012 relating to development and regulation of banking system, this directives is respect of maintenance of minimum capital fund by commercial banks has been issued in exercise of authority under section 14 (a) of commercial banking Act, 2031. The total capital fund is the sum of core capital and supplementary capital. On the basis of the risk-weighted assets, the bank should maintain the prescribed proportion of minimum capital funds as per the following timetable.

Required Capital Funds On The Basis Of Weight Risk Assets (%)

Time Table	Core Capital	Capital Fund
Fiscal Year 2058/59	4.5%	9.0%
Fiscal Year 2059/60	5.0%	10.0%
Fiscal Year2060/61	6.0%	12.0%

The Core capital is the summation of 007 Paid–up capitals, retained earning and general reserve, share premium, undistributed profit and non-redeemable preference shares capital balance in the share premium account. Similarly, Supplementary capital has been defined to the include redeemable preferences share capital, provision for loan-loss, Assets fund, Exchange equalization fun and any other unspecified reserves.

If at the end of the fiscal year, the amount of the capital fund of any company becomes less than the percentage as specified by the bank, such company shall have to recover such amount by transferring required amount from its net income to reserve fund or by issuance of new shares within the forthcoming fiscal year.

2. Regulation Relating to Loan Classification and Loan Loss Provisioning

Effective from FY 058/59 (2001/2002), Banks should classify outstanding loans and advances on the basis of aging of principle amount. Loans and Advances should be classified into the following four categories.

a. **Pass**: - Loans and Advances whose principle amount are not past due and past due for a period up to three months shall be included in this category. These are classified and defined as performing Loans.
b. **Substandard:** - All loan and advances that are past due for a period of three months to six months shall be included in this category.
c. **Doubtful:** - All loans and advances, which are past due for a period of six months to one year, shall be included in this category.
d. **Loss:** - All Loans and advances which are past due for a period of more than one year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loan and advance falling in the category of sub-standard, doubtful and loss are classified and defined as Non-performing loan. Loans and advances fully secured by gold, silver, fixed deposit receipts and HMG securities should be included under pass category.

Loan Loss Provisioning

However, where collateral of fixed deposit receipt of HMG securities of NRB bond is placed as security against loan for other purposes, such loan has to be classified on the basis of aging. The Loan loss provisioning, on the basis of the outstanding loans and advances and bills purchased classified as per this directives should be provided as follows:

Classification of Loan and Required Provisioning

Classification of Loan	Loan loss provision
Pass	1%
Sub-standard	25%
Doubtful	50%
Loss	100%

Loan loss provision set aside for performing loan is defined as "General Loan Loss provision" and loan loss provision set aside Non-performing loan is defined as "Specific loan loss provision". Where the loan is extended only against the personal guarantee, a statement of the assets equivalent to the personal guarantee amount not claimed by any other should be obtained and classified as per above and where the loan fall under the category of pass, Sub-standard and Doubtful in additional provision by 20% point should also be provided.

3. Regulation Relating to Single Borrower Credit Limit

With the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrowers to the bank loans, NRB has directed commercial banks may extend credit to single borrower limit. According to the directive, Commercial banks may extend to a single borrower or group of relevant borrowers the amount of fund based loans and advances up to 25% of the core capital fund and Non fund base off-balance sheet facilities like of credit, guarantee, acceptances, and commitments up to 50% of its core capital fund. The banks are required to adjust as per new regulation in phase, wise manner as follows:

Relating to Single Borrower Credit Limit

Time Table	Fund based credit	Non fund based facilities limit
By end of Asadh 2059	40% of core capital	75% of core capital
By end of Asadh 2060	25% of core capital	50% of core capital

But incase of Advances and facilities to be used for the purpose of importing specified merchandises by the following public corporation, the exemption in limit of credit and facilities is not applicable:-

Name of Corporation	Merchandise
Nepal oil Corporation	Petrol, Diesel, Kerosene & LP gas
Agriculture Input Corporation	Fertilizer, Seeds
Nepal Food Corporation	Cereal

4. Regulation Relating to Minimization of Risk Inherent in the Activities of Commercial Banks.

With an objective to minimize the risk relating to liquidity, interest rate, foreign exchange and credit arising from the commercial banking activities, this directives has been issued in exercise of authority under section 22 of NRB act, 20212 (with amendment) and 38 of commercial banking act, 2031 board (with amendment).

a. Classification of Risks:

For the purpose of monitoring the risk relating to commercial banking activities, it has been classified into the following groups;

a) Liquidity risks
b) Interest Rate risks
c) Foreign Exchange risks
d) Credit and Investment risks

b. Arrangement for Minimization of Liquidity Risks:

a) In order to minimize the liquidity risks, banks shall group the assets and liabilities into their appropriate maturity period of various time intervals. Foe the purpose, the liquidity profile as per the enclosed format Directives Form No. 4 shall be prepared quarterly and submit, within 15days from the closure of the quarter (end of Asoj, Poush, Chaitra and Asadh), to this bank's Banking Operation Department and Inspection and Supervision Department.

b) The Banks shall, on the basis of maturity periods, classify the time interval as follows:

   1) Assets and Liabilities having maturity period of 0-90 days.
   2) Assets and Liabilities having maturity period of 91-180 days.
   3) Assets and Liabilities having maturity period of181-270 days.
   4) Assets and Liabilities having maturity period of 271-365 days.
   5) Assets and Liabilities having maturity period of over 1 year.

c) Assets and Liabilities having maturity period shall be included under the time interval as provided in cause 2(B) above.

d) Liabilities without fixed maturity period (for instance, current deposits) required the adoption of the following conventions:

Liabilities Without fixed Maturity Period

a. Of the total current deposit liabilities of the bank, the amount of core deposit and the portion of compensating balance (minimum required balance) shall be included under time interval of "over one year period". The realistic estimation of such proportion of current deposit has to be made by the commercial banks themselves. Proportion of current deposits, which the banks generally maintain on permanent basis, shall be considered as "Core Deposit".

b. Saving deposits should be treated as long term liabilities and included under "over one year period" category.

c. Arrangement for Minimization of Interest Rate Risks:

a. The likely fluctuation in the interest rates would affect the profitability of the banks. Accordingly, with a view to minimize the interest rate risk, banks should adopt the following means:

   1. Generally, the maturity mismatches of assets and liabilities result in increasing the interest rate risk affecting the profitability. According the "Gap Analysis" adopted for minimization of interest rate risks.
   2. In order to manage and minimize the interest rate risk, banks shall prepare quarterly statement as per the enclosed format Directives Form No.5 and submit within 15 days from the closure of the quarter (end of Asoj, Poush, Chaitra and Asadh), to this bank's Banking Operation Department and Inspection and Supervision Department.

b. Time interval for monitoring interest rate risks

   For the purpose of monitoring rate risks, banks shall classify the time interval of the assets and liabilities on the basis of maturity periods as follows:

   1. Assets and liabilities having period of 0-90 days.
   2. Assets and liabilities having period of 91-180 days.
   3. Assets and liabilities having period of 181-270 days.
   4. Assets and liabilities having period of 271-368-5 days.
   5. Assets and liabilities having period of over 1 year.

c. Assets and Liabilities having without fixed maturity periods required the adoption of set of conventions as follows:

<u>Assets without Fixed Maturity Period</u>

A floating rate loan with interest adjusted periodically shall be treated as having a time interval according to the stated adjustment interval.

1. A Term loan with a floating interest rate tied to the movements of a specific rate (for instance, interest rate of Treasury bill) should be assigned a minimum time interval period.

<u>Liabilities without Fixed Maturity Period</u>

2. Of the total current deposit liabilities of bank, the amount of Core Deposit and the portion of compensating balance (minimum required balance) shall be included under time interval of "over on year period". The realistic estimation of such proportion of current deposit has to be made by the commercial banks themselves. Proportion of current deposits, which the banks generally maintain on permanent basis, shall be considered as "Core Deposit".
3. Saving deposits should be treated as long term liabilities and put into the "over one year period" category.

d. Measurement of GAP

1. The GAP between assets and liabilities should be measured by subtracting the total liabilities from the total assets pertaining to each time intervals. Such GAP may either be positive or negative.
2. For the purpose of minimizing the interest rate risk, the cumulative gap of each time interval should also be measured. The cumulative gap is measured by summing the individual gaps up to and including gap under considered
3. Possible change in interest rate should be estimated. For the purpose, generally the effect that may arise from changes of interest rates by one percent may be considered.
4. The expected changes in interest rate estimated per clause 3(d) should be adjusted to each of the time interval. For the purpose, the change in interest rate adjusted interest rate (IRC) should be multiplied by the following ratio:

   =days in the time interval /365 days

   for instance, where interest rate is changed by 1 percent,

   in the case of 90 days time interval,

   90/365 x 0.01 = 0.0025

5. With a view to examine the effect on profitability of the bank on account of change in interest rate, the cumulative gap of various time intervals shall be multiplied by the interest rate determined per Clause 3(d)(4).

d. Arrangement for Minimization of Foreign Exchange Risks

a. For the purpose of monitoring the effect in the financial position of the banks owing to possible changes in the foreign exchange rates, banks shall submit particulars as per the enclosed format Directives Form No.6 on weekly basis within 7 days from the closure of the week, to NRB, Inspection and Supervision Department.

b. In order to minimize the risk arising from changes in foreign exchange rates, banks shall maintain EXCHANGE FLUCTUATION FUND as required to Accounting policies and format of financial statements (Directives No.4) issued by NRB

c. Banks should group the currency-wise foreign exchange into short term and long term maturity periods and exhibit the net position under both the categories. For this purpose, short term is defined to cover a period of one month or less.

d. The limit of bank's daily net position of foreign exchange has been fixed up to maximum of 30 percent of the core capital. Where the net position exceeds such limit, the respective bank shall put efforts to bring down the same to the limit. In case the net position is not adjusted to the limit with in one month, action under NRB Act, 2012 may be initiated. For the purpose of calculation of daily net position, the banks liabilities towards letters of credit and forward exchange contract shall be deducted.

e. Arrangement for Minimization of Credit & Investment Risks

The directives issued by this bank in respect of "Regulations relating classification of Loan and Advances and Provisioning Requirements (Directives No.2)" and Regulations relating to limit on credit exposure and facilities provided by commercial banks to a single borrower group of related borrowers and single sector of he economy (Directives No.3) are considered basis for minimization of risk relating to credit and Investment.

5. Arrangement for Minimization of Interest Rate Risks.

According to previous directives, the difference between the interest provided and interest charged (spread rate) should not be more than 5%. This difference is calculated on the basis of weighted interest provided and the weighted interest charged. But according to the directives of circular issued on 16th July 2002 (32 Ashad 2059), the requirement to maintain average interest spread at 5% has been withdrawn for the time being.

6. Regulation Relating to Investment in Shares and Securities by Commercial Banks

1. Arrangement as to implementation of investment policy under approvable of the board of directors

   Banks should prepare written policy relating to investments in the shares and securities of the organized institutions. Such policies should be implemented only under the approval of the board of directors. There should be no restriction as to investment by the banks in the securities of organized HMG and securities issued by NRB.

2. Arrangement relating to investment in shares and securities of any one organized institution.

a. Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution. Any amount of investment made in excess of this limit for the purpose of calculation of the capital fund, should be deducted from the core capital fund.

b. The amount in investment in share and securities of any one organized institution in which the banks has financial interest should be limited to 10% of the paid of capital of such company and the cumulative amount of such investment in all the companies in which the banks has financial interest should be limited to 20% of the paid of capital of the bank. For the purpose of calculation of capital fund the amount of such investment in shares and securities should be deducted from the capital fund.

c. The total amount of investment should be restricted to 30% of the paid of capital of the bank. Any amount of investment made in excess of 30% of paid of capital of the bank for the purpose of calculation of the capital fund should be deducted from the core capital fund.

d. Banks should invest in the share and securities of organized institutions, which are already listed in the stock exchange or where arrangement exists for listing within one year.

e. Where the share and securities are not listed within period prescribed, provisioning equivalent to the whole amount of such investment adjustment reserve. The outstanding amount in such reserve should not be utilized for any other purpose till the said share and securities of the organized institution is listed. The outstanding amount in investment adjustment reserve should be included under supplementary capital.

f. Banks should not invest in any shares, securities and hybrid capital instrument issued by any banks and financial institutions licensed by NRB. Where such investment exists prior to issuance of this directive such investment should be brought within the restrictive limitations imposed by this directive within 3 years i.e. by the close of fiscal year 2060/61.

2.2 Review of Related study

In this section, effort has been made to examine and review of some related research papers, Articles and journals published in different economic journals, World Bank discussion papers, magazines, newspapers and other related books and publications. There are not much articles published related to investment management in Nepal.

Mr. Shiva Raj Shrestha (2055) has given a short glimpse on the "Portfolio management in commercial banks, theory and practice." Mr. Sherstha has highlighted following issues in the article. The portfolio management becomes very important both for individuals as well as institutional investment assets subject to the following aspect:-

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

However, Mr. Sherstha has also presented following approach to be adopted for designing a good portfolio and its management:

- To find out the investible assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability, etc.
- To find out the risk of the securities depending upon the attitude of investors toward risk.
- To develop alternative investment strategies for selecting a better portfolio, which will ensure a trade-off between risk and return so as to attach the primary objective of wealth maximization at lower risk.
- To identify securities for investment to refuse volatility of return and risk

Mr. Shrestha has presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skills manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence.

Mr. Sekhar Bahadur Pradhan (2053) has presented a short glimpse on investment in different sectors, its problem and prospects, through his article "Deposit mobilization, its problem and prospects".

In the light of this Mr. Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:

a. Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
b. Unavailability of the institutional services in the rural areas.
c. No more mobilization and improvement of the employment of deposits in the loan sectors.
d. Due to the lack of education most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

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

Prf. Amrit Man Sherstha (2054), in his article "Nepalma Banijya Bank Haruko Bhumika", has pointed out some important activities and its present scenario. In his words these activities are to be studied and revised as soon as possible, otherwise these may be disaster for the sound and effective banking system. The article is written in Nepali language. Some of the main points of his articles are given as:

a. Possibility of capital flight: - In Nepalese perspective, capital flight become a major problem. Whatever capitals were constructed in Rana regime, were already flowed outside the country. Due to the mis-implementation of "Bhumi Sudhar" most of the constructed capitals were also flowed away outside the country. Due to the unstable political situation, the possibilities of capital flight seem to be developed in high scale. In this controversial situation joint venture banks become the main source or medium of capital flight. Therefore this problem and situation should be seriously studied and analyzed so that corrective action can be taken as soon as possible.
b. Minimum Deposit amount: - In these years, it can be seen that moat of the commercial banks and other financial institutions have increased the minimum deposit amount (threshold). This policy may harass the lower level depositors. It also affects the banking habits of lower level depositors negatively. That is way this must also be analyzed and implemented after doing long homework.
c. Debt recovery and its effectiveness:- In these years, it can also be seen that effective debt recovery is also a great problem of banks due to the misinterpretation of use of loan more than this, gap between banks and debtors (i.e. effective supervision). Therefore banks should use a team of experts for effective evaluation of collateral and effective use of loan from the debtors' side. This must be said a effective and crucial step toward the debt recovery from the government side that "Debt Recovery Act" is announced to be implemented during Ninth five years plan.

2.3 Review of Thesis

Before this, several thesis works have been conducted by carious students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization, capital structure, etc. Some of them, as supposed to be relevant for the study are presented below.

Mr. Indira Pokharel (1983) conducted a study on "Investment pattern and policy of Rastriya banijya bank" with the objective of:-

- To review the present investment policy of Rastriya banijya bank.
- To examine whether the bank has been fully utilizing the deposits mobilized or not.
- To establish the relationship between deposits, loans and advances and the effect on them by the change of interest rate.
- To recommend for the improvements in the investment policy.

The research was conducted mainly on the basis of secondary data. Interview technique has also been used to collect information on the investment policy of the bank.

The research findings of study of the study are concluded as:-

- Form the study of investment pattern of Rastrya Banijya Bank, it is observed that the investment is mainly towards the security of gold and silver.
- From the study if has been revealed that has never been any clear and specific investment policy. In fact the bank is running its business without having any definite direction, except to follow the directives issued by the Rastra bank from time to time in some specific matters.

- The deposit raised by the banks is not properly utilized. This also reflects the lack of definite policy of the Rastriya Banijya Bank.
- The effect of changes in interest rate has neither contributed to raise deposits nor has been favorable in investment extension.
- Time to time checking and supervision by the bank should be faithfully followed.

Dr. Sunity Sherstha (1993) has conducted a study on "Investment planning of commercial banks in Nepal" with the objectives of-

- To evaluate the financial performance of commercial banks in Nepal.
- To examine the investment of commercial banks of Nepal with reference to securities, loan & advances.
- To establish the relationship of bank portfolio variables with the national income and interest rates.

The research was conducted on the basis of primary and secondary data of commercial banks.

The research findings of the study are summarized as:-

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve levels of the banks allow idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.
- The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but of asset found to be statistically same. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.
- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of

commercial banks in shares and securities is Norman and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.

- Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
- Investment in various sectors has a positive impact on the national from their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.
- Priority sector lending showed positive impact on the national income.

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

- To evaluate the liquidity, asset management efficiency and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other Joint venture banks.
- To discuss fund mobilization and investment policy of NABIL Bank Ltd. in respect to its fee-based off-balance sheet transactions and free-based on-balance sheet transactions in comparison to other JVBS.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit of NABIL Bank Ltd. in comparison to other JVBS.
- To find out the relationship between deposits and total investment, deposit and loan and advances, and net profit and outside assets of NABIL Bank Ltd. in comparison to other JVNS.

The research findings of the study are as follows:-

- The liquidity position of NEPAL Bank Ltd. is comparatively worse than that of other JVBS. NABIL Bank has more portion as investment on government securities.
- NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBS.
- Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBS. The mean ratio of return on loan and advances of NABIL Bank Ltd. has been found slightly lower than that of other JVBS. Similarly the mean ratio of total interest earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBS.
- Though NABIL Bank ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profile in comparison to that of other JVBS (i.e. Nepal Grindlays Bank Ltd, and Nepal Indosuez Bank Ltd.).
- There is significant relationship between deposit and loan advances as well as outside assets and net profit but not between deposit and total investment in case of both NABIL Bank ltd. and other JVBS.

Mr. Prabin Bajracharya (2057) conducted a study on "Investment of commercial Banks in priority sector" with the objective of:-

- To analyzes the trend of investments in private sectors for 10 years from 2047 B.S. to 2056 B.S.
- To analyze the trend of repayment in private sectors for 10 years from 2047 B.S. to 2056 B.S.
- To measure the effectiveness of the program in terms if the investment and repayment in rural and urban sector.

- To evaluate the banking procedures and services in disbursing loan in this sector.
- To provide package of suggestion based on this study.

The research was conducted through primary and secondary data. For the primary data, pre-structured questionnaire was distributed to entrepreneur. Secondary data from different sources like reports, book, bulletins, journals, magazine and other publications of Rastrya Banijya Bank, Nepal Rastra Bank etc. are also collected.The study was conducted through secondary data.

The research findings of the study are as follows:-

- The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by rastriya banijaya bank.
- Trend analysis for 10 years shows the increasing trend of investment in priority sectors which shows that the commercial banks are giving due consideration to increase investment in priority sector.
- Trend analysis for repayment for 10 years shows that the repayment has also increased in the following years.
- Interest charged on the loan disbursed in this sector is fairly less than interest charge on loans for other purposes. In addition to this, there is high overhead cost incurred for supervision, administration and others in this program.
- Regression analysis shows positive relation between investment and repayment,
- The Chi square test of effectiveness of program shows that the program is more effective in rural and semi rural areas as compared to the urban areas.
- Investment on agriculture is higher than investment on industry and service sector.
- The study revealed that the procedure of loan disbursing itself is complicated for the borrowers to understand it.

- In fact, if the supervisors make the scheduled supervision and inspection and the frequent contact with the borrowers, the chance of misuse of the loan can be minimized.

Mr. Shiba Raj Laudari (2001) conducted a study on "A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd" with the Objectives of:-

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

The study was conducted through secondary data. And The research findings of the study are as follows:-

- Current ratio for both Banks is satisfactory.
- Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in high degree.
- Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser

amount on government securities and shares and debenture than that of Nepal SBI Bank Ltd.

- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratio shows that growth ratio of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank Ltd. is less than that of Nepal SBI Bank Ltd.
- The trend value o loan and advances to total deposit ratio is decreasing in case of both the bank. The trend value of total deposits ratio is also decreasing in case of both the banks.

2.4 Review of Report

2.4.1 Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited was incorporated in collaboration with ANZ Grindlays Bank Limited in 1987 as third joint venture bank. The bank was initially incorporated in the name of Nepal Grindlays Bank LTD. In 2000, the ANZ Graindlays Bank was amalgamated in Standard Chartered Banking Group and the 50% stake of former was transferred to the latter by the virtue of amalgamation. Consequently, the name of the bank was changed as Standard Chartered Bank Nepal Limited. The bank has installed in an advance Automatic teller machine, which is designed to be useful for the international credit card holder also. The bank recently ha three branches in valley including corporate office in New Baneshwor and rest of two is in Kantipath and Lalitapur. Besides, the bank has branches in Biratnagar, Duhabi, Pokhara, Arghau Bazar, Hetauda, Bhirrahawa and in Dharan. The Bank's authorized capital amount to Rs. 339,548,800 and issued capital amount to Rs. 339,548,800 as well as paid up capital amounts to Rs. 339,548,800.

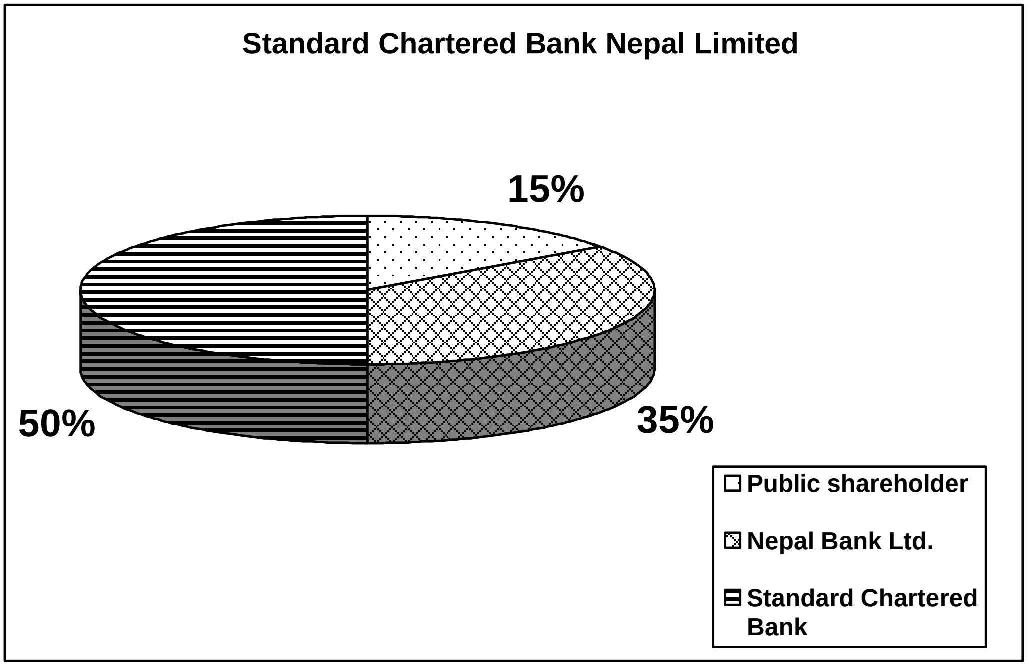

Fig 1: Share Subscription Proportion in Standard Chartered Bank Nepal Limited

2.4.2 Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Bank operation was commenced from 1993. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. The bank at present has five branches in New Road, Mahargunjj, Lalitapur, Nagarkot and its corporate office in Thamel. Outside the Kathmandu it has the brancdes in Bharatpur, Birgunj, Hetuda, Bhairawa and Biratnagar. The Bank's authorized capital amount to Rs. 600,000,000 and issued capital amounts to Rs. 300,000,000 as well as paid up capital amounts to Rs. 300,000,000.

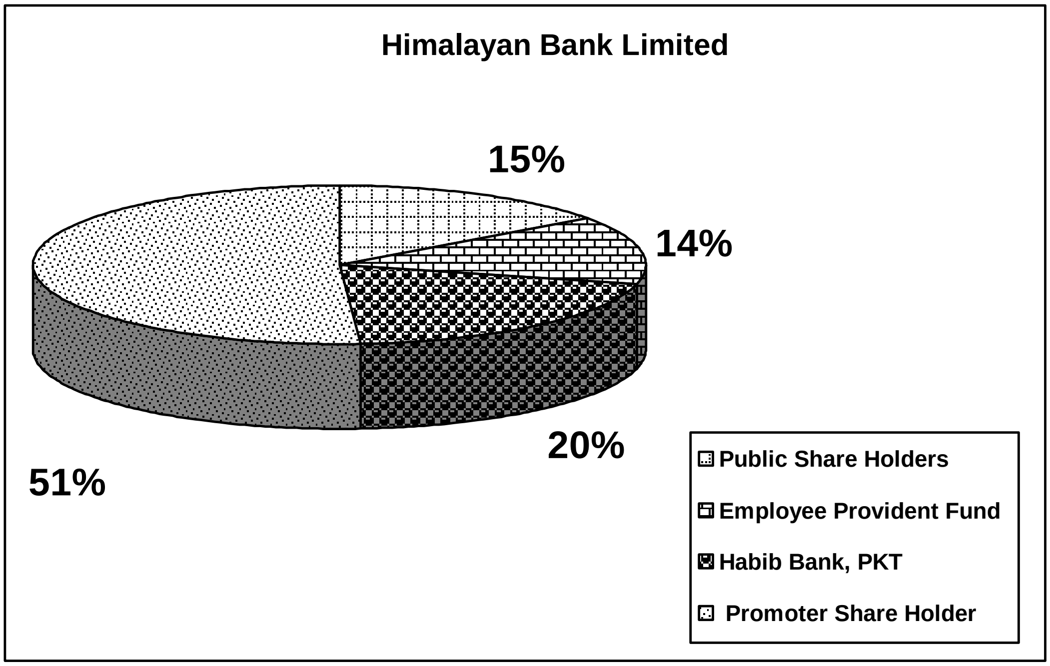

Fig 2: Share Subscription Proportion in Himalayan Bank Limited

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

The term “Research” refers to their systematic method consisting of enunciating the problem, formulating a hypothesis, collecting the facts or data, analyzing the facts and reaching certain conclusions either in the form of solutions towards the concerned problem or in certain generalizations for some theoretical and planning problems of business and Industry. It is necessary for the researcher to design his methodology for his problem as the same may differ from problem to problem. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object (Kothari, 1994:9). It is preferable to call this study an in-dept analysis of the “Investment policy of the Joint venture commercial banks”

3.2 Research Design

A research design is purely and simply the framework or plan for study that guides the collection and analysis of data. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. To achieve the objective of this study, descriptive and analytical research designs have been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate investment policy of Himalayan Bank Ltd. and Standard Chartered Bank Nepal Ltd. in conjunction with NRB directives.

3.3 Population and Sample

All the items under consideration in any field of research constitute a population. Hence, I select only a few items from the population for this study purpose. The items so selected constitute what is technically called a sample. Out of 16 joint venture commercial banks in Nepal, Rastray Banijya Bank is fully government owned and Nepal Bank Ltd. is partially owned by the government, rest of them are foreign Joint venture banks. In this research work Standard Chartered Bank Nepal Ltd. and Himalayan Bank Ltd. is selected for the purpose of this study, which is selected as sample units among the commercial banks. This study covers for period of past 5 years.

3.4 Sources of Data

Data are collected from two sources. They are primary sources and Secondary sources. The data presented in this study are of secondary type. The secondary sources of data are those that have been used from published sources or used by someone previously. The annual reports of the concerned bank are the major sources of data for the study. However, besides the annual reports of the subjected bank, the following sources of data have also been used in the course of the study:-

- NRB reports and bulletins.
- Various publications dealing in the subject matter of the study.
- Various articles published in the News Papers.
- The NEPSE reports, etc

Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

3.5 Data Analysis Tools

The analysis of data requires a number of closely related operations such as, establishment of categories, the application of these categories to raw data through coding, tabulation and then drawing statistical interlays. Tabulation is part of the technical procedures where in the classified data are put in the from of tables. The methods of analysis of this study are stated below:

- On the basis of research problem and objectives of the study data and information needed is identified and collected.
- The collected data are properly processed and arranged in the form of the table for simplicity.
- Financial and statistical tools have been used for analysis and interpretation of arranged data. For this purpose, statistical tools such as Karl Person's coefficient to see the relationship between various variables. Likewise some financial tools such as Ratio analysis, growth ratios analysis and trend analysis have been used.

3.5.1 Financial Analysis 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 if 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 statements of any business or industrial is a part of the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Ratio analysis is used to compare a firm’s financial performance and status to that of the other firms or to it overtime. Even though there are many ration to analyze and interpret the financial statement, only those ratios that are related to the investment operation of the bank are have been covered in this study. The following four types of ratios have been used in this study:-

1. Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short-term liabilities that are likely to mature in the short period. From them, such insights can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratio.

a. Current Ratio

This ratio shows banks short-term solvency. It shows the relationship between current assets and current liabilities. Current assets includes cash and bank balance, money at call or shot notice, loan and advances, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and short-term loan, bills payable, tax provision, staff bonus, divided payables and other miscellaneous current liabilities.

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

The widely accepted standard of current ratio is 2:11 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business. 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 contingences.

b. 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 immediate payment to the depositor. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as,

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash in bank balance}}{\text{Total deposits}}$$

Hence, cash and bank balance includes cash in hand, foreign cash on hand, foreign banks. The total deposit encompasses current deposits, saving deposits fixed deposits, money at call or short notice and other deposits.

c. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of bank. Higher ratio shows the banks ability to meet demand for cash. This ratio is computed by dividing cash and bank balance by current assets. This can be stated as,

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

d. Investment on Government Securities to Current Asset Ratio

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

This ratio is computed by dividing investment on government securities by current assets. We can state it as,

Investment on Government Securities to

$$\text{Current Asset Ratio} = \frac{\text{Investment on government securities}}{\text{Total current assets}}$$

2. Assets Management Ratio

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

a. Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out, how to successful the banks are utilizing their total deposits on loans and advances for profit generating purpose. Greater ratio implies the better utilization of total deposits. This can be obtained by dividing loan and advances by total deposits, which can be stated as,

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

b. Total Investment to Total Deposit Ratio

Investment is one of the credited to earn income. This implies the utilization of firm's deposit on investment government securities and shares debenture of other companies and bank. This ratio can be obtained by dividing total investment by total deposit. The numerator consists of investment on government securities, investment on debenture and bonds, shares in other companies and other investment. This can be mentioned as,

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

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c. Loan and Advances to Working Fund Ratio

Loan and advances is the major component in the total working fund (Total assets), which indicates the ability of bank to canalized 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 fund. This stated as,

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

Here, the denominator includes all assets as of on balances sheet items. In other words this includes current assets, net fixed assets, loans for development banks and other miscellaneous assets but excludes off balance sheet items like letter of credit, letter of guarantee etc.

d. Investment on Government Securities to Working Fund Ratio

This ratio banks investment on government securities in comparison to the working fund. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

Investment on government securities to working

$$\text{Fund ratio} = \frac{\text{Investment on Government Securities}}{\text{Total Working fund}}$$

e. Investment on Shares and Debenture to Total Working Fund Ratio

This ratio shows the banks investment in shares and debenture of and other companies. This ratio can be derived by dividing investment on shares and debenture by total working fund, which can be mentioned as,

Investment on shares and debenture to total working

$$\text{Fund ratio} = \frac{\text{Investment on shares and debentures}}{\text{Total working fund}}$$

3. Profitability Ratio

Profitability ratios are calculated to measure the efficiency of operation of a firm earn of profit. It is the indicator of the financial performance of nay institution. This implies that higher the profitability ratio, better the financial performance of link and vice versa. Profitability position can be evaluated through following different ways:

a. Return on Loan and Advances Ratio

This ratio indicates how efficiency the bank has employed its resources in the firm of loan and advances. This ratio is computed by dividing net profit (loss) by loan and advances. This can be expressed as,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

b. 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 an asset (ROA). A firm has to earn satisfactory return on assets or working fund for its survival. This ratio is calculated by dividing net profit (loss) by total working fund. This can be mentioned as,

$$\text{Return on total working fun ratio (ROA)} \quad \frac{\text{Net profit (loss)}}{\text{Total working fund}}$$

The numerator indicates the portion of income left to the internal equities after all costs, charges expenses have been deducted.

c. Return on Equity Ratio (ROE)

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

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

d. Total Interest Earned to Total Working Fund Ratio

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

$$\text{Total interest earned to total working fund ratio} = \frac{\text{Total Interest Earned}}{\text{Total Assets}}$$

e. Total Interest to Earned to Total Operating Income Ratio

This ratio is calculated to find out the interest income in total operating income of the bank. It indicates how efficient the mobilization of its sources (funds) in interest bearing assets i.e. loan and advances investment etc. This ratio is calculated by dividing total interest earned by total operating income.

$$\text{Total Interest to earned to total operating Income ratio} = \frac{\text{Total Interest Earned}}{\text{Total Operating Income}}$$

f. Total Interest paid to Total Working Fund Ratio

This ratio is calculated to find out the potion of interest income in total operating some of the bank. It indicates how efficient the bank mobilization of its sources (funds) in interest bearing assets i.e. loan and advances investment etc. This ratio is calculated by dividing total earned by total operating income.

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

4. Risk Ratio

Risk taking is the prime business of bank's investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operations, which ultimately influences the banks investment policy. The following ratios is evaluated under this topic:

Credit Risk Ratio

Credit risk ratios are measures the possibility that will not be repaid of that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan advances. Here dividing total loan and advances by total assets derives this ratio. This can be stared as,

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

5. Growth Ratio

To examine and analyze the expansion and growth of the banks business, following growth ratios are calculated in study.

i. Growth ratio of total deposits
ii. Growth ratio for Loan and advances
iii. Growth ratio of total investment
iv. Growth ratio of net profit

3.5.2 Statistical Analysis Tools

It achieve the objectives of the study, some important statistical tools such as mean, coefficient and trend analysis are use in this study.

1. Arithmetic Mean

Average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observations is their sum divided by the number of observations. It is denoted and given by the formula:-

Mathematically,

$$\overline{X} = \frac{X_1 + X_2 + \ldots\ldots\ldots + X_n}{n} = \frac{\Sigma \times}{n}$$

Where,

$\overline{X}$ = Mean of the values

n = No of the pairs of observations

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

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 small Greek letter σ (read as sigma).

The formulas to calculate the standard deviation are given below:-

Mathematically,

$$\text{S.D. } (\sigma) = \sqrt{\frac{\Sigma(\overline{X} - X)^2}{n}}$$

Where,

σ = Standard deviation

n = No of the pairs of observations

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

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 variables based on standard deviation only. The coefficient of variation measure the relative measures of dispersion, hence capital 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.

Coefficient of variation (C.V) = $\frac{\sigma}{\overline{X}} \times 100$

Where,

σ = Standard Deviation

$\overline{X}$ = Mean

4. Coefficients of Correlation

The coefficient of correlation is an important measure to describe how one variable will be explained by another. It measures the degree of relationship between the two casually related variables (Kothari, 1996:228). It interprets whether two or more variables are correlated positively or negatively. This tool analyzes the relationship between those variables of the bank which are helpful to make appropriate investment policy regarding deposit collection, fund mobilization and profit maximization. Kael Pearson's coefficient of correlation between two variables X and Y is usually devoted by r, which is the numerical measure of liner association between the variables. (Gupta, 1995:541)

The formulas to calculate the coefficient of correlation are given below:-

Mathematically,

$$r = \frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{[\{N\Sigma X^2 - (\Sigma X)^2\}\{N\Sigma Y^2 - (\Sigma Y)^2\}]}}$$

Where,

n = No of observations of X and Y

X = Sum of the observations in series X

Y = Sum of the observations in series Y

X2 = Sum of the observations in series X

Y2 = Sum of the observations in series of Y

XY = Sum of the product of the observations in series X and Y.

The Kael Pearson coefficient of correlation (r) always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and 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 relationship between the variables.

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

5. Probable Error (P.E.)

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far it so far as it depends upon the conditions of random sampling. It is working out as:

Mathematically,

$$P.E. = \frac{0.6745(1 - r2)}{\sqrt{n}}$$

Where,

r = correlation coefficient

n = no. of pairs of observations

With the help of the PE it is possible to determine the reliability of the value of the coefficient.

6. Trend Analysis

Trend Analysis is one of the most important methods, which enables to find out the actual position of business cycle over a period of years. The study of the data over a long period of time enables us to have a general idea about the pattern of the behavior of the phenomenon under consideration this help in business forecasting and planning future operation. The trend analysis also enables us to compare two or more time series over different periods of time and draw important conclusion about them.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

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

PART - I

4.1 Financial Analysis

This chapter entitled Evaluation and Interpretation of data objectives is to study, evaluate and analysis those major ratios, which are related to the investment management & fund mobilization of commercial banks. It is notable that all types of financial ratios are not studied under this chapter, only those are calculated which are very significant to the above subject matter.

In this chapter, evaluation, analysis and interpretation are made, according to the research methodology as mentioned in the previous chapter. The following financial ratios are applied for the study purpose.

4.1.1 Liquidity Ratio

1 Current Ratio

Current ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.1 (detail in appendix-1)

Table no.1

Current Ratio (Times)

Banks	Fiscal Year					Means	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
SCBNL	1.07	1.08	1.08	1.08	1.09	1.08	0.006	0.59
HBL	1.06	1.06	1.08	1.07	1.07	1.07	0.01	0.72

Table N0. 1 reveals that total current assets of SCBNL bank exceed the total current liabilities.

During the study period current ratio of SCBNL is higher than HBL. It means the SCBNL maintained higher liquidity but lower risk in compare to HBL. The ratio of both SCBNL and HBL is followed stable position in every year. The ratio of SCBNL is highly variable than HBL which indicates the unstable liquidity policy.

The co-efficient of variance between the current ratio of HBL is 0.72%, which is comparatively greater than 0.59% of SCBNL. It shows the current ratio of HBL is less homogenous than that of SCBNL. So the Liquidity position of HBL is not satisfactory in the study period.

2. Cash Reserve Ratio

Cash reserve Ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.2 (detail in appendix-2)

Table no.2

Cash Reserve Ratio (%)

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	5.53	8.20	6.89	8.75	5.48	6.97	1.34	19.23
HBL	6.48	5.85	4.55	8.79	10.28	7.19	2.07	28.79

The above table shows that cash reserve ratio of SCBNL is fluctuating in every year. The higher ratio is 8.75% in F.Y. 2009/09 and lowest ratio is 5.48% in F.Y 2009/10. The HBL ratio is fluctuating over the year with overall decreasing trend. The higher ratio is 10.28% in F.Y 2009/10 and lowest ratio is 4.55% in F.Y. 2007/08.

In average ratio; HBL has maintained the cash reserve ratio higher than SCBNL (i.e. 7.19%>6.97%). And the coefficient of variance between the two banks, HBL ratio is also higher than that of Standard Chartered Bank Nepal Ltd.

It shows that the current ratio of HBL is more variable and SCBNL has maintained lower cash reserve ratios during the study period. It means HBL has better position regarding the meeting of the demand of its customer on their deposit at any time. That means it operate in higher risks. Though high ratio shows the inefficiency as it as to pay more interest on deposit.

3. Cash and Bank Balance to Current Assets Ratio

Cash and Bank balance to current assets ratio of SCBNL & HBL from the fiscal year 2002/03 to 2006/07 is given in table no.3 (detail in appendix-3)

Table no.3

Cash and Bank Balance to Current Assets Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	4.97	7.10	6.17	7.76	4.81	6.16	1.35	21.96
HBL	5.94	5.33	4.09	7.95	9.28	6.52	1.86	28.55

The above table shows the cash and bank balance to current asset ratio of both banks are better as they show the ability to manage the deposit withdrawal from the customers. SCBNL have followed the fluctuating in overall period but HBL has followed fluctuating in decreasing trend.

In average ratio; HBL has maintain highest ratio than that of SCBNL (i.e. 6.52%>6.16%), which indicates that liquidity position of HBL is better in this regard. The co-efficient of variance between the above ratios of SCBNL is 21.96% which is comparatively lower than 28.55% of HBL it shows the current ratios of SCBNL is more stable and consistent than of HBL.

Comparatively, HBL seems to have better position maintaining the cash and bank balance to current ratio but less consistent than SCBNL. Maintaining higher ratio means capable to make the quick payment of its deposit. But it does not mean it has mobilized its fund in profitable sector.

4. Investment on Government Securities to Current Assets Ratio

Investment on government Securities to Current Assets ratio of SCBNL & HBL from the fiscal year 2002/03 to 2006/07 is given in table no.4 (detail in appendix-4)

Table no. 4

Investment on Government Securities to Current Assets Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	33.67	24.97	24.50	24.72	21.28	25.83	4.15	16.05
HBL	17.79	19.59	21.08	10.98	10.72	16.03	4.36	26.74

Table No.4 shows that both banks have investment on government securities through the study period. Both banks has followed fluctuating in decreasing trend.

In average ratio; SCBNL has maintained higher ratio of investing in government securities than that of HBL (i.e. 25.83%>16.03%). SCBNL investing higher position of current assets as government securities indicates that it wants to invest more in other productive sectors in compare to HBL, reflects it have invested to profitable sectors and may not have idle deposit.

4.1.2 Assets Management Ratio

1. Loan & Advances to Total Deposit Ratio

Loan & Advances to Total deposit ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.5 (detail in appendix-5)

Table no.5

Loan & Advances to Total Deposit Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	38.75	42.61	46.12	38.14	45.35	42.19	3.28	7.78
HBL	55.27	56.57	61.23	71.49	56.57	60.23	5.99	9.94

The above table shows the ratio of SCBNL & HBL, both is fluctuating in increasing trend. The ratio of SCBNL is increase from 38.14% to 45.35% like wise the ratio of HBL also dincrease from 55.27% to 71.49%.

In average ratio; HBL has maintain highest ratio that of SCBNL (60.23%>42.19%). From the above study the co-efficient of variance of HBL is 9.94% which is comparatively higher than 7.78% of SCBNL; it shows that the loan & advance of HBL is more veriable & riskier than SCBNL. Himalayan Bank Ltd. mobilized 60% of total deposit on loan and advance and acquiring high profit with compare to standard chartered bank ltd.

2. Total Investment to Total deposit Ratio

Total investment to total deposit ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below table no.6 (detail in appendix-6)

Table no. 6

Total investment to Total Deposit Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	55.71	54.99	46.71	56.41	55.56	53.88	3.6	6.68

HBL	41.10	39.35	41.89	25.12	22.45	33.98	8.41	24.75

The above table shows that the ratio of SCBNL and HBL, both is decreasing trend with fluctuating over the years. The highest ratio of SCBNL is 55.71% in F.Y.2005/06 and lowest ratio is 46.71% in F.Y. 2007/08. The highest ratio of HBL is 41.89% in F.Y. 2007/08 and lowest ratio is 22.45% in F.Y. 2009/10.

In average ratio; SCBNL has invested higher percentage of total deposit in investment in securities and shares that compare to HBL (53.88%>33.98%). Himalayan Bank Ltd. investing lower percentage of total deposit amount in securities& shares indicates that the bank is able to invest in more profitable sectors besides investing in lower return sector.

3. Loan and advance to Total Working Fund Ratio

Loan and advances to total working fund ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 id given below table no.7 (detail in appendix-7)

Table no.7

Loan and Advances to Total Working fund Ratio

Banks	Fiscal Year					Means	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
SCBNL	34.67	36.73	41.15	33.70	39.68	37.19	2.85	7.66
HBL	49.70	82.23	53.90	63.05	65.50	62.88	11.28	17.93

The above table shows that the loan and advances to total working fund ratio of SCBNL & HBL, both is fluctuating in increasing trend. The highest ratio SCBNL is 41.15% in F.Y. 2007/08 and lowest ratio is 33.70% in F.Y. 2008/09. The highest ratio of HBL is 82.23% in F.Y. 2006/07 and lowest ratio is 49.70% in F.Y. 2005/06.

In average ratio; HBL has maintained higher loan and advances to total working fund ratios than that of SCBNL (62.88%>37.19%). It states that the position of HBL is better in this regard. Regarding the coefficient of variance from the above ratio SCBNL is 7.66% which is comparatively lower than 17.93% of HBL. It shows that loan and advances of SCBNL are high stable and consistent than that of HBL.

From the above analysis it can be concluded that the mobilization of working fund as loan and advances of HBL is very good comparing to the SCBNL.

4. Investment on government Securities to Total Working Fund Ratio

Investment on government securities to total working fund ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.8 (detail in appendix-8)

Table no. 8

Investment on Government Securities to Total Working Fund Ratio

Banks	Fiscal Year					Means	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
SCBNL	33.54	24.86	24.41	24.64	21.22	25.73	4.12	16.03
HBL	17.46	31.22	20.65	10.71	10.45	18.10	7.64	42.23

In the above table shows that it is clearly seen that SCBNL and HBL both has invest in government securities. The ratio of SCBNL & HBL, both is fluctuation in decreasing trend. The highest ratio of SCBNL is 33.54% in F.Y 2005/06 and lowest ratio is 21.22% in F.Y. 2009/10. The highest ratio of HBL is 31.22% in F.Y. 2006/07 and lowest ratio is 10.45% in F.Y. 2009/10.

In average ratio; SCBNL has maintained higher ratio of investment on government securities to total working fund ratio than HBL (i.e.25.73%>18.10%). It can be concluded both bank is successful in utilizing its fund in government securities but have no consistence policy on its investment government securities.

5. Investment on Share and Debenture to Total Working Fund Ratio

Investment on Shares and Debenture to Total Working Fund Ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.9 (detail in appendix-9)

Table no.9

Investment on Shares and Debenture to Total Working Fund Ratio

Banks	Fiscal Year					Means	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
SCBNL	0.05	0.15	0.27	0.22	0.23	0.18	0.08	43.03
HBL	0.10	0.36	0.25	0.24	0.18	0.22	0.09	39.05

The above table reveals that both banks are almost reluctant to make investment in shares and debenture. The ratio of SBNL is fluctuating trend. The ratio of SCBNL is increase from 0.05 % to 0.27%. The HBL is also in fluctuating trend. The ratio of HBL is increasing from 0.10% to 0.36%.

In average ratio; HBL has maintained higher investment on share and debenture to total working fund ratio than SCBNL (i.e. 0.22%>0.18%). It states that HBL has comparatively invested higher percentage of its total assets into other company's shares and debentures. The co-efficient of variance between the ratios of SCBNL is 43.03% which is comparatively very high than 39.05 % of HBL. It means the investment ratio of SCBNL is very less stable and consistent than HBL.

4.1.3 Profitability Ratio

1. Return on Loan & Advances Ratio

Return on Loan and Advances ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.10 (detail in appendix-10)

Table no.10

Return on Loan & Advances Ratio

Banks	Fiscal Year					Means	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
SCBNL	7.37	6.59	5.97	7.49	6.8	6.85	0.55	8.06
HBL	3.12	2.89	3.26	3.04	1.82	2.83	0.73	25.84

The above table shows that the ratio of SCBNL is fluctuating decreasing trend. The higher ratio is 7.49% in F.Y. 2008/09 and lower ratio is 5.97% in F.Y. 2007/08. And the ratio of HBL is fluctuating in decreasing trend. The higher ratio is 3.26% in F.Y. 2007/08 and lower ratio is 1.82% in F.Y. 2009/10.

In average ratio; SCBNL is higher than HBL. The co-efficient of variance of HBL is 25.84% which is greater than 8.06% of SCBNL. Himalayan Bank is failed to maintain sufficient ratio as compared to SCBNL and co-efficient of variance of HBL shows that ratio is unstable and highly variable.

It can be concluded that return on loan and advances ratio of SCBNL is satisfactory that that of ratio of Himalayan Bank Ltd.

2. Return on Total Assets Ratio (ROA)

Return on Total ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.11 (detail in appendix-11)

Table no.11

Return on Total Assets Ratio (ROA)

Banks	Fiscal Year	Means	S.D	C.V

	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	2.56	2.42	2.46	2.53	2.70	2.53	0.097	3.82
HBL	1.55	2.38	1.76	1.91	2.38	2.00	0.33	16.69

As per above shows the ratio of SCBNL is fluctuating in increasing trend during the study period. Where as the ratio of HBL is slightly increasing trend. SCBNL has higher ratio is 2.70% in F.Y. 2009/10 and lower ratio is 2.42% in F.Y. 2006/07. And the ratio of HBL has the higher ratio is 2.38% in F.Y 2009/10 and lower ratio is 1.55% in 2005/06.

In average ratio; SCBNL has maintained higher ratio in compare to the HBL (i.e. 2.53%>2.00%), which reveals the position of the bank is good in this regard. The coefficient of variance f SCBNL is 3.82% which is comparatively lower than 16.69% of HBL. It indicates that the return on total assets of SCBNL is stable and consistent compare to HBL from the above it can be concluded that the profitability with respect to financial resources investment on the bank asset is high as well as stable.

3. Return on Equity Ratio (ROE)

Return on equity of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.12 (detail in appendix-12)

Table no.12

Return on Equity Ratio (ROE)

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	37.55	32.68	32.58	33.58	32.33	35.46	2.57	7.24
HBL	25.90	22.91	25.30	24.13	14.79	22.61	4.04	17.87

The above table shows that return on equity ratio of SCBNL is decreasing trend except for the year 2008/09. The higher ratio is 37.55% in F.Y. 2005/06 and lower ratio is 32.33% in F.Y. 2009/10. HBL ratio is also fluctuating in decreasing trend. It has higher ratio is 25.90% in F.Y. 2005/06 and lower ratio 14.79% in F.Y. 2009/10.

In average ratio; HBL has the lower mean return on equity ratio is 22.61% against the ratio is 35.46% of SCBNL. The co-efficient of variance of SCBNL is 7.24% which is comparatively lower than 17.87% of HBL. It indicates the return on equity ratios of SCBNL in more consistent in compare to HBL.

It can be concluded that comparatively SCBNL has not efficiently utilized its equity capital than HBL but it has maintained stable and consistent return.

4. Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.13 (detail in appendix-13)

Table no.13

Total Interest Earned to Total Working Fund Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	4.62	4.94	4.77	4.65	5.08	4.81	0.18	3.64
HBL	5.52	8.59	5.43	5.96	7.37	6.57	1.22	18.63

The above table shows that the ratio of SCBNL exhibits increasing trend during the study period. The ratio of SCBNL has highest ratio is 5.08% in F.Y. 2009/10 and lowest ratio is 4.62% in F.Y. 2005/06. Likewise, HBL ratio is also increasing trend. The highest ratio is 8.59% in F.Y. 2006/07 and lowest ratio is 5.43% in F.Y. 2007/08.

In average ratio; HBL (6.57%) is highest against the ratio SBNL (4.81%). The coefficient of variance of ratio of SCBNL is 3.64% which is comparability lower than that of HBL is 18.63%. It indicates that the total interest earned to total working fund ratios of the SCBNL is consistent and stable in compare to HBL. From the above it can be concluded that the total interest earned to total working fund of HBL is satisfactory in compare to SCBNL.

5. Total Interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio of SCBNL & HBL from the rascal year 2005/06 to 2009/10 is given below in table no.14 (detail in appendix-14)

Table no.14

Total Interest Earned to Total Operating Income Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	83.88	90.63	89.69	93.01	88.88	89.22	3.01	3.37
HBL	116.7	127.4	122.9	117.8	145.9	126.16	10.59	8.4

The above table shows that the ratio of SCBNL exhibits increasing trend. The ratio has increasing from 83.88% to 93.01% in during the study period. HBL also exhibits the fluctuating in increasing trend. It has the higher ratio 145.9% during the F.Y. 2009/10 of study period where as the lower ratio is 116.72% during the F.Y. 2005/06.

If the average ratio is observed, it founds, the ratio of SCBNL is lower than that of the HBL (i.e.126.16%>89.22%). Regarding the coefficient of covariance ratio, SCBNL has 3.37% that is comparatively lower than the ratio of HBL is 8.4%. It indicates that the total interest earned to total operating income ratio of the HBL is highly variable in compare to SCBNL. Among above banks the ratio of SCBNL is stable and consistent.

From the above it can be concluded that the ratio of total interest earned to total operating income of HBL is not satisfactory in compare to SCBNL. The mobilization of interest bearing assets such as loan and advances and investment is lower than others. However the magnitude of interest income in total income of all banks is high i.e. more than 7%, though it has more risk than fee based activities.

6. Total Interest Paid Total Working Fund Ratio

Total interest paid to total working ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.15 (detail in appendix-15)

Table no.15

Total Interest Paid Total Working Fund Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	1.18	1.44	1.42	1.34	1.43	1.36	0.098	7.18
HBL	2.20	3.71	2.28	2.38	3.64	2.84	0.68	24.05

The above table shows that the ratio of SCBNL is in increasing trend during the five years period. The highest ratio is 1.44% in F.Y. 2006/07 and lowest ratio is 1.18% in F.Y. 2005/06. The ratio of HBL has followed fluctuating trend. It has highest ratio is 3.71% in F.Y. 2006/07 and lowest ratio is 2.20% in F.Y. 2005/06.

It the average ratios are observed, it is found that the ratio of HBL has the highest value. It means HBL has paid higher interest in compare to SCBNL (i.e. 2.84%>1.36%). Similarly, the coefficient of variance ratio of HBL is 24.05% that is comparatively higher than 7.18% of SCBNL. It indicates that the total interest paid to total working fund ratio of SCBNL is stable and consistent.

It can be concluded that the position of the SCBNL is not better as has paid higher interest on its total working fund.

4.1.5 Risk Ratio

Credit Risk Ratio

Credit Risk ratio of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.16 (detail in appendix-16)

Table no.16

Credit Risk Ratio

Banks	Fiscal Year					Means	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			(%)
SCBNL	34.67	36.73	41.15	33.70	39.68	37.19	5.47	14.72
HBL	49.70	82.23	53.90	63.05	65.50	62.88	11.28	17.93

The above table shows that the SCBNL ratio is fluctuating in increasing trend. The highest ratio is 41.15% in F.Y. 2007/08 and lowest ratio is 33.70% in 2008/09. The HBL ratio is fluctuating over the year with increasing trend except for the year 2006/07. The highest ratio is 82.23% in F.Y. 2006/07 and lowest ratio is 49.70% in F.Y. 2005/06.

In average ratio; HBL has highest ratio is 62.88% in comparison 37.19% of SCBNL. It means HBL has higher credit risk in comparison SCBNL. The coefficient of variance ratio of SCBNL is 14.72% which is lower than HBL. This indicates the unstable credit policy followed by the banks.

4.1.5 Growth Ratio

1. Growth Ratio of Total Deposit

Growth ratio of total deposit of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.18 (sample calculation in appendix -17)

Table no.17

Growth Ratio of Total Deposit

Banks	Total Deposit					Growth rates (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	
SCBNL	23061.03	24647.02	29744	35871.72	35182.72	11.15
HBL	26490.85	30048.42	31842.79	34681.35	37611.2	9.16

The above comparative table shows that the growth ratio of SCBNL is higher than that of HBL. SCBNL has the ratio of 11.15% where as HBL have 9.16%. It means the performance of SCBNL is good in regarding to collect the deposit amount as compare to HBL, year by the year.

2. Growth Ratio of Loan & Advance

Growth ratio of loan and advances of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.19 (details in appendix-18)

Table no.18

Growth Ratio of Loan & Advances

Banks	Loan & Advances					Growth rates (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	
SCBNL	8935.42	10502.64	33335.79	40587.47	40213.32	15.60
HBL	14642.56	16998.00	19497.52	24793.16	27980.63	17.57

The above comparative table shows that the growth ratio of loan and advances of HBL is higher than that of SCBNL (i.e. 15.60 %< 17.57%).

HBL has the growth rate of 17.57% where as SCBNL have growth rate of 15.60%. It means the performance of HBL has granted the loan and advance in compare to SCBNL is better in year by year.

3. Growth Ratio of Total Investment

Growth ratio of total investment of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.20 (detail in appendix-19)

Table no.19

Growth Ratio of Total Investment

Banks	Total Investment					Growth rates (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	
SCBNL	12847.54	13553.23	29744	35871.72	35182.72	11.06
HBL	10889.03	11822.98	31842.79	34681.35	37611.2	−6.16

The above table shows that the growth ratio of total investment of HBL is -6.16% which is comparatively lower than 11.06% of SCBNL. From the above table analysis if can be seen that the SCBNL is investment more of its deposits amount than HBL.

4. Growth Ratio of Net Profit

Growth ratio of Net Profit of SCBNL & HBL from the fiscal year 2005/06 to 2009/10 is given below in table no.21 (detail in appendix-20)

Table no.20

Growth Ratio of Net Profit

Banks	Net Profit	Growth

	2005/06	2006/07	2007/08	2008/09	2009/10	rates (%)
SCBNL	658.76	691.67	818.92	1025.11	1085.87	13.31
HBL	457.48	491.82	635.87	752.83	508.8	2.69

The above comparative table shows that the growth ratio of SCBNL net profit is higher than HBL. SCBNL has the rates of 13.31% Where as HBL has 6.69%.

From the above analysis the performance of SCBNL regarding the collection of deposit, granting loan and advances, making investment and making profit is comparatively better.

4.2 Statistical Analysis

Under this chapter, some statistical tools as coefficient of correlation analysis between different variables, trend analysis of deposit utilization and its projection and test of hypothesis are applied to achieve the objectives of study.

4.2.1 Coefficient of Correlation Analysis

Karl's person's coefficient of correlation has been used to fine out the relationship between deposit & total investment, outside assets & net profit, deposit & loan and advance, deposit & interest earned and loan & advance to interest paid.(detail in appendix-21, SPSS program of Computer)

1. Correlation Analysis between Loan & Advance to Deposit

Karl Person's coefficient of correlation is widely used to measure the degree of relationship between two variables. In this analysis loan & advance is independent variable and total deposit is dependent variable. The main purpose of computing correlation of coefficient is justified whether there is any relationship between these two variables or not.

To find out the result, various calculations are drawn for (detailed in Appendix-21) the following table shows the coefficient of correlation (r) between loan & advance to total deposit, Probable error (PEr) and Coefficient of determination (r^2) of the commercial banks during the study period.

Table no.21

Correlation Analysis between Loan & Advance to Deposit

Bank	Evaluation Criterion			
	r	r^2	PEr	6PEr
SCBNL	0.899	0.808	0.058	0.358
HBL	0.965	0.931	0.021	0.125

The above table shows that, correlation between both the banks follows the positive relationship towards the loan & advance to total deposit amount.

The calculation value of coefficient of determination (r^2) is 0.808 of SCBNL. It means 80.8% of SCBNL has variation of the dependent variable (deposit) has been explained by the independent variable (loan & advance). Similarly considering the value of correlation coefficient 'r' it is higher than the 6PEr (i.e. 0.358<0.899). It can be said that the value of r is greater than six times probable error, which shows that the value of correlation coefficient 'r' is significant, it means there is a significant relationship between two variables in case of SCBNL.

Likewise, the calculated value of coefficient of determination (r^2) is 0.931 of HBL. It means 95% of HBL has variation of the dependent variable has been explained by the independent variable. Similarly the value of correlation coefficient (r) is greater than the value of 6PEr (i.e. 0.965>0.125). It means there is a significant relationship between two variables in case of HBL also.

2. Correlation Analysis between Investment and Deposit

Coefficient of correlation between investment & total deposit measures the degree of relationship between is dependent variables. In this analysis deposit is independent variable and total investment is dependent variable. The main purpose of computing correlation of coefficient is to justify whether there is any relationship between these two variables or not.

Table no.22

Correlation Analysis between Total Investment & Deposit

Bank	Evaluation Criterion			
	r	r^2	PEr	6PEr
SCBNL	0.181	0.033	0.292	1.751
HBL	-0.226	0.051	0.286	1.717

The above table shows that the coefficient of correlation between deposit and total investment value of 'r' is 0.181 in case of SCBNL, Which shows positive relationship between these two variables. However by considering coefficient of determination the value of 'r^2' is 0.033, which indicates that 3.3% of the variation in the dependent variables (total investment) has been explained by the independent variable (deposit). Moreover, by considering the probable error, the value of correlation coefficient 'r' is lower than 6PEr (i.e. -0.181<1.751). So there is no significant relationship between deposit and total investment in case of SCBNL.

Similarly, the coefficient of correlation between Total investment and deposit value 'r' of HBL is -0.226, which shows negative relationship between these two variables. While considering the value of coefficient of determination the value of 'r^2'is 0.051 which indicates that 5.1% of the variation in the dependent variable (total investment) has been explained by the independent variables (deposit). Likewise, considering the value of probable error (PEr), the value of correlation coefficient 'r' less than 6PEr (i.e. 1.717>-0.226) so there is no significant relationship between Investment and Total Deposit.

3. Correlation Analysis between Deposit & Interest Earned

Coefficient of correlation between Deposit and Interest earned measures the degree of relationship between two variables. Here deposit is independent variable and interest earned is dependent variable. The objective of computing 'r' between two variables is to justify whether the deposit is significantly used as to earned interest in a proper way or not. The following table shows the required values between two variables of SCBNL & HBL.

Table no.23

Correlation Analysis between Deposit & Interest Earned

Bank	Evaluation Criterion			
	r	r^2	PEr	6PEr
SCBNL	0.181	0.0328	0.292	0.584
HBL	0.228	0.052	0.286	0.572

The above table shows that, in case of SCBNL the value of 'r' is 0.181 which indicates that there is positive relationship between these two variables. The value of coefficient of determination 'r^2 is 0.0328, which means 3.28% of the variation in dependent variable has been explained by independent variable. Moreover, by considering probable error, we can say that there is not significant relation between deposit and interest earned while considering the value of 'r' which is less then the value is 6PEr (0.181<0.284).

Similarly, in case of HBL, the correlation coefficient between deposit & interest earned (r) is 0.228, which means there is positive relation between these two variables. The value of coefficient of determination 'r^2' is 0.052 which indicates 5.2% of the variation in dependent variables has been explained by independent variable. While considering the probable error there is the not significant relationship between deposit and interest earned as the value of correlation coefficient 'r' is less than 6PEr (i.e. 0.572>0.228)

4. Correlation Analysis between Loan & Advance to Interest paid

Correlation between Loan and Advance to interest paid makes the degree of relationship between two variables. Here loan and advance is independent variable and interest paid is dependent variable. The main purpose of computing correlation co-efficient 'r' between two variables is to justify whether increase in loan and advance decreases interest paid of the banks and vice-versa. The following shows the required values between two variables of SCBNL & HBL.

Table no.24

Correlation Analysis between Loan & Advance to Interest Paid

Bank	Evaluation Criterion			
	r	r^2	PEr	6PEr
SCBNL	0.166	0.028	0.293	1.760
HBL	0.106	0.011	0.298	1.790

The above table shows that, in case of SCBNL the correlation between loan and advance to interest paid is 0.166 which indicates that there is positive relationship between these two variables. The value of coefficient of determination (r^2) is 0.028, which means 2.8% of the variation in dependent variable has been explained by independent variable. Moreover, by considering probable error (PEr), we can say that there is no significant relation between loan and advance to interest paid as the value of correlation coefficient 'r' is less than value of 6PEr (i.e. 1.760>0.166).

Similarly, in case of HBL, the value of correlation coefficient 'r' is 0.106, which means there is also positive relation between two variables while considering coefficient of determination 'r^2' is 0.011 which indicates 1.1% of the variation in dependent variable has been explained by independent variable. Likewise, the value of correlation coefficient 'r' is less than the calculated value of 6PEr (i.e. 1.790>0.106) there is no significant relationship between the two variables, loan and advance and total interest paid by the banks.

4.2.2 Trend Analysis

Under this topic, an effort has been made to calculate, analyzed and interpretation on the trend values of Himalayan Bank Ltd. and Standard Chartered Bank Ltd. The forecast is made for the five years. The forecast is based on the following assumptions:

1. The main assumption is that other things will remain unchanged.
2. The forecast will be true only when limitation of least square method is carried out and bank will run in present stage.
3. The economy will remain in the present stage.
4. Nepal Rastra Bank will change its guideline to commercial banks.

1. Trend Analysis of Total Deposit

Under this topic, the trend values of total deposit for 5 years from the fiscal year 2005/06 to fiscal year 2009/10 has been calculated and forecast for the next 5 years from the fiscal year 2010/11 to 2014/15 is tabulated below. [detail in appendix -22 (A) & (B)]

Table no.25

Trend Value of Total Deposit of HBL & SCBNL

F.Y.	Trend Value HBL	Trend Value SCBNL	F.Y.	Trend Value HBL	Trend Value SCBNL
2006	13888.11	22667.68	2011	31123.76	40251.73
2007	17335.24	26184.49	2012	34570.89	43768.54
2008	20782.37	29701.3	2013	38018.02	47285.35
2009	24229.5	33218.11	2014	41465.15	50802.16
20010	27676.63	36734.92	2015	44912.28	54318.97

From the above table the trend value is found to be in increasing trend. If other things remaining constant, total deposit of the HBL will be 44912.28 in F.Y. 2015 and value of SCBNL will be 54318.9 which are higher than the HBL. From above table the trend analysis, it is found that the deposit collection position of SCBNL is better in compare to HBL.

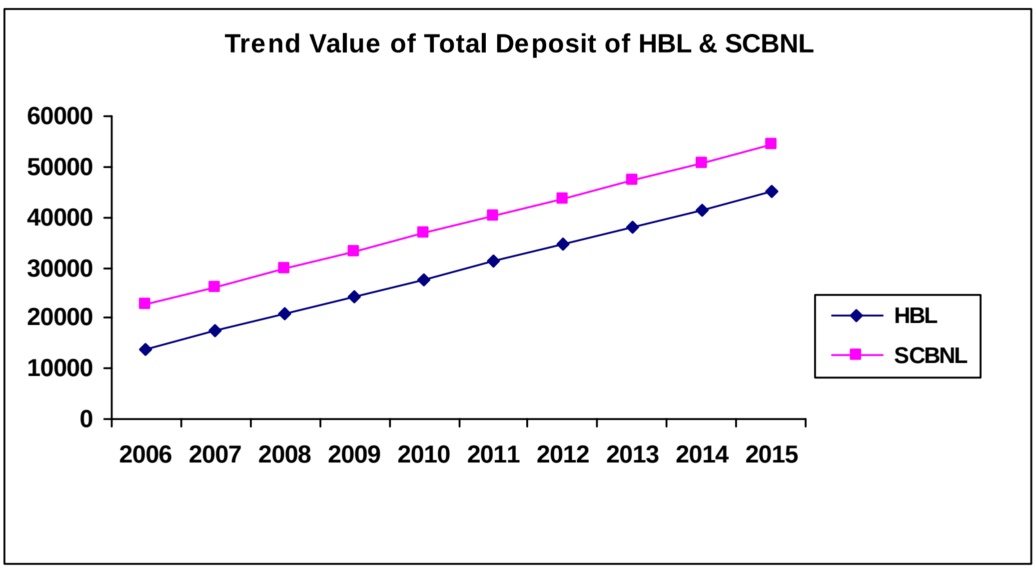

Figure no.3 Trend Analysis of Total Deposit

2. Trend Analysis of Loan & Advances

Under this topic, the trend values of loan and advances of the study period and the forecast for next 5 years from F.Y. 2010/11 to 2014/15 is tabulated. [detail in appendix -23(A) & (B)]

Table no.26

Trend Analysis of Loan & Advances

F.Y.	Trend Value HBL	Trend Value SCBNL	F.Y.	Trend Value HBL	Trend Value SCBNL
2006	13888.11	9114.64	2011	31123.76	17724.74
2007	17335.24	10836.66	2012	34570.89	19446.76
2008	20782.37	12558.68	2013	38018.02	21168.78
2009	24229.5	14280.7	2014	41465.15	22890.8
20010	27676.63	16002.72	2015	44912.28	24612.82

The above table shows that the loan and advances of HBL continues increasing the trend value for 10 years whereas SCBNL is also follows the increasing trend but in different fiscal year. If other things remaining the same, the total loan and advances of HBL will be 44912.28 in F.Y. 2015 which is the highest among the study period. Similarly the total loan and advances of SCBNL will be 24612.82 for the F.Y. 2015. From the above analysis, it is found that lending position of SCBNL is lower in compare to HBL.

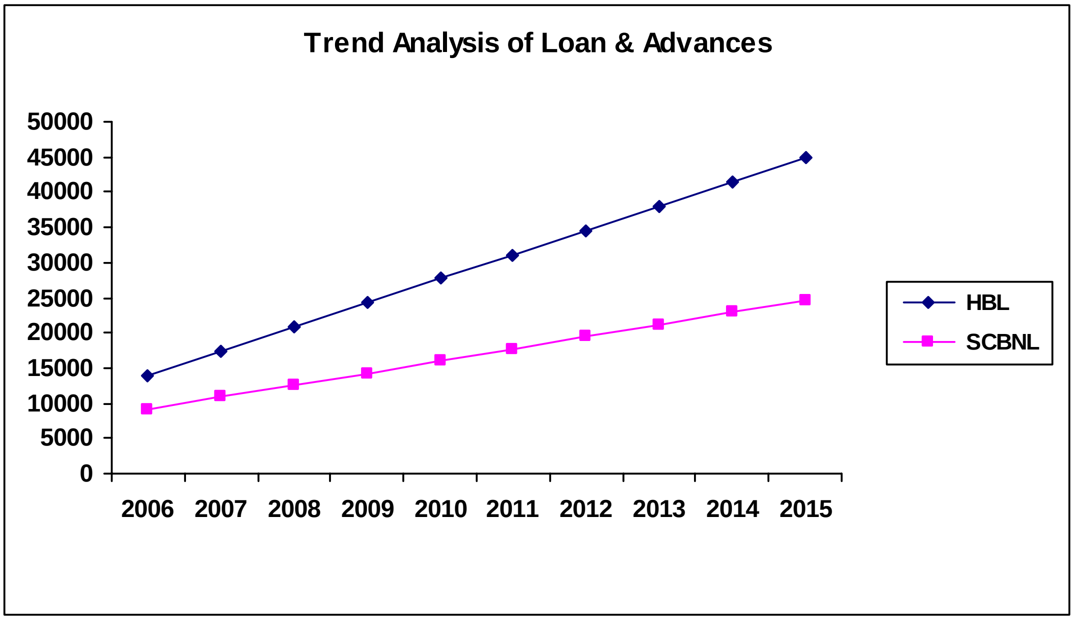

Figure no.4 Trend Analysis of Loan & Advance

3. Trend Analysis of Total Investment

Under this topic, the trend value of total investment for 5 years from the F.Y. 2005/06 to 2009/10 has been calculated. Forecast for next 5 years from the F.Y. 2009/10 to 2014/15 is done. The following table shows the trend values of HBL & SCBNL for the total investment of 10 years is tabulated. [detail in appendix -24 (A) & (B)]

Table no.27

Trend Value of Total Investment of HBL & SCBNL

F.Y.	Trend Value HBL	Trend Value SCBNL	F.Y.	Trend Value HBL	Trend Value SCBNL
2006	12241.66	12000.88	2011	8241.41	22042.28
2007	11441.61	14009.16	2012	7441.36	24050.56
2008	10641.56	16017.44	2013	6641.31	26058.84
2009	9841.51	18025.72	2014	5841.26	28067.12
20010	9041.46	20034	2015	5041.21	30075.4

The above table shows that total investment of SCBNL have decreasing and HBL have the increasing trend. If other things remaining the same, the total investment of HBL will be 5041.21 for the F.Y. 2015 that the higher among the study period. Similarly the total investment of SCBNL will be 30075.40 for the F.Y. 2015. From above analysis, it is found that the investment position of SCBNL is greater in compare to HBL.

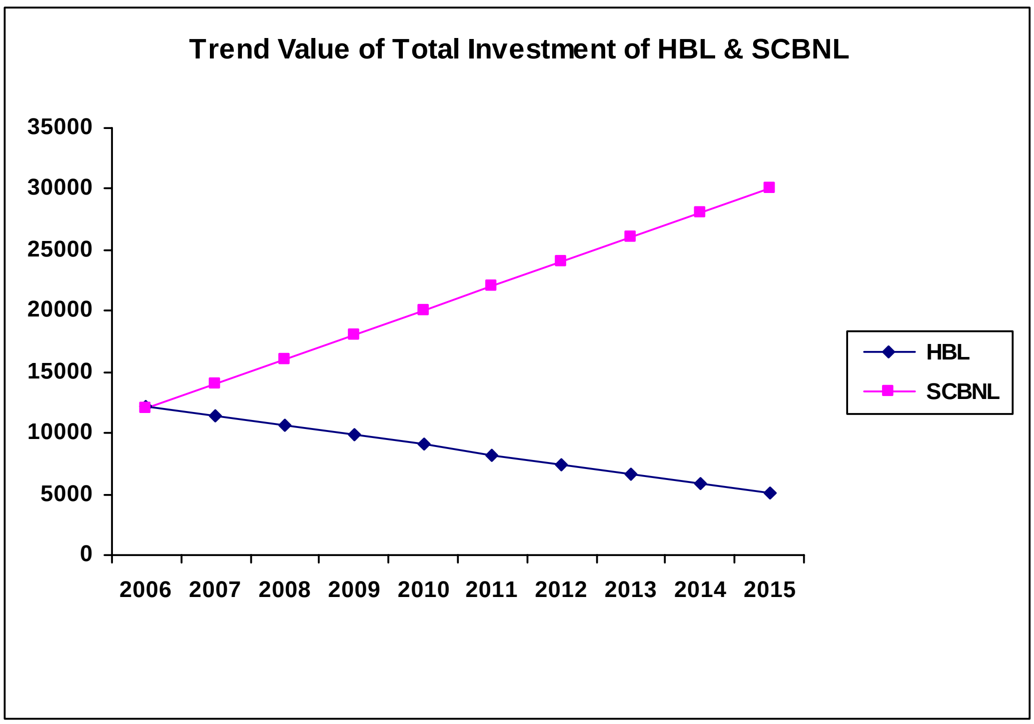

Figure no.5 Trend Analysis of Total Investment

4. Trend analysis of Net Profit

Under this topic, the trend values of Net Profit for 5 years from the F.Y. 2005/06 to 2009/10 have been calculated. Forecast for next 5 years from the F.Y. 2009/10 to 2014/15 is done. The following table shows the trend values of HBL & SCBNL for Net Profit of 10 years is tabulated. [detail in appendix -25 (A) & (B)]

Table no.28

Trend Value of Net Profit of HBL & SCBNL

F.Y.	Trend Value HBL	Trend Value SCBNL	F.Y.	Trend Value HBL	Trend Value SCBNL
2006	496.62	618.53	2011	678.47	1212.38
2007	532.99	737.3	2012	714.84	1331.15
2008	569.36	856.07	2013	751.21	1449.92
2009	605.73	974.84	2014	787.58	1568.69
2010	642.1	1093.61	2015	823.95	1687.46

The above table shows that net profit of SCBNL and HBL have followed the increasing trend. If other things remaining the same, the total bet profit of HBL will be 823.95 at the end of F.Y. 2015 that is the highest among the study period. Similarly the total net profit of SCBNL will be 1687.46 for the year end of 2015.

From above analysis, it is found that the net profit position of SCBNL is higher in compare to net profit position of HBL.

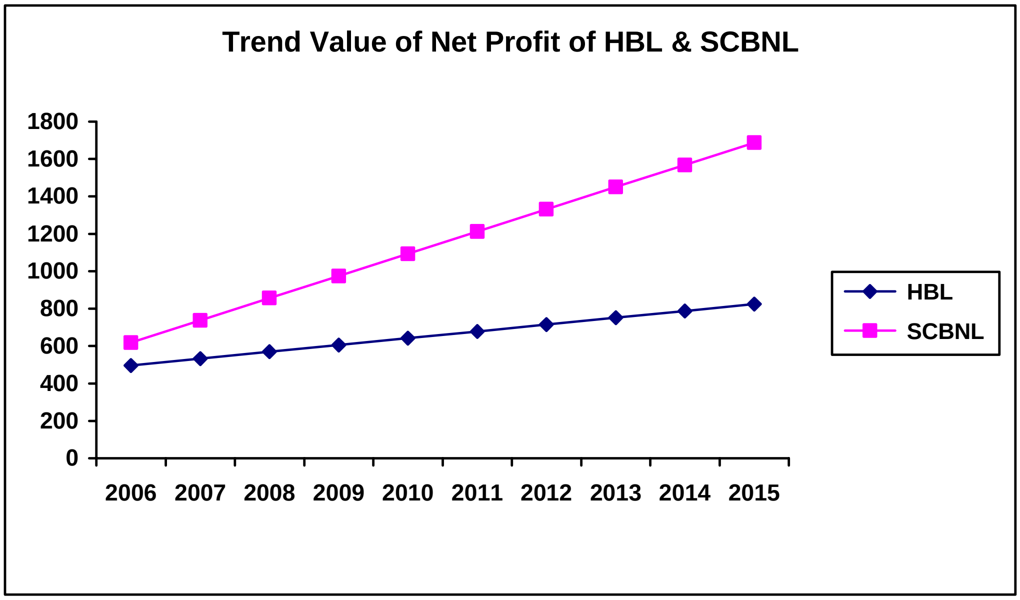

Figure no.6 Trend Analysis of Net Profit

PART – II

4.3 Major Findings of the Study

Balance sheet, profit and loss account and related publication issue are the most widely used aspect of financial statements of a bank. It is needed to understand the major characteristic of banks balance sheet and profit and loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Interest received on loan and advances and paid to depositor's liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charge.

The major findings of this study are summarized below:-

4.3.1 Liquidity Ratio

- The mean liquidity ratio of SCBNL is higher than HBL. It means the SCBNL has maintained higher liquidity and lower risk in compare to HBL. However the ratio of HBL is highly variable than SCBNL which indicates the unstable liquidity policy.
- The mean cash reserve ratio of SCBNL lower than HBL.Likewise the coefficient of variable between the two banks, HBL ratio is higher than that of SCBNL. It shows the ratio of HBL is more variable and SCBNL has maintained lower cash reserve ratios during the study period. It means HBL has better position regarding the meeting of the demand of its customer on their deposit at any time that means it operates in lower risks. Though high ratio shows the inefficiency as it has to pay more interest on deposit.
- The mean ratio of cash and bank balance to current assets of HBL is higher than SCBNL. It states that the position of HBL is moderate in comparison to that of SCBNL. Where as the variation of SCBNL is lower than HBL, which states that SCBNL is more stable and consistent than the HBL.

- The liquidity position of SCBNL from the point of view of investment on government securities is better than the HBL. The mean ratio of SCBNL is higher than HBL (i.e. 25.83%>16.03%), which indicated that it wants to invest more in productive sector in compare to HBL.

4.3.2 Assets Management Ratio

- The mean ratio of Loan and Advances to total deposit of HBL is higher than SCBNL. But the ratios are less consistent than SCBNL and more consistent than HBL.
- The mean ratio of total investment to deposit of HBL is less than SCBNL which indicates lower investment in comparison. The ratio of HBL is highly variable than SCBNL.
- HBL has maintained higher mean Loan and Advances to Total Working Fund ratio than SCBNL. The coefficient of variation of HBL is less stable & consistent than that of SCBNL.
- SCBNL has more successful in utilizing its fund in government securities than HBL. There is no consistence policy on its investment government securities between the two banks.
- HBL has maintained higher ratio than SCBNL. It states that the position of HBL is better in this regard. The ratios of SCBNL is highly variable than other one.

4.3.3 Profitability Ratio

- The mean ratio of Return on Loan and Advances of SCBNL is higher than HBL whereas the coefficient of variance ratio of HBL is higher than the SCBNL. In general HBL is failing to maintain the sufficient ratio.

- The ratio of Return on Total Assets (ROA) of SCBNL is higher than HBL. It states that the position of SCBNL is better in this regard. The ratios of SCBNL are more stable and consistent than of HBL.
- The mean ratio of Return on Equity (ROE) of HBL is lower than SCBNL whereas the coefficient of variance ratio of HBL if greater than SCBNL. This revels that the return on total assets of SCBNL is stable and consistent.
- The mean ratio of Total Interest Earned to Total Working Fund ratio of HBL is high in comparisons with SCBNL. It indicates that HBL is in better position to earned high return on working fund.
- The means ratio of Total Interest Earned to Total operating Income of HBL is greater than SCBNL. Regarding the coefficient of variance ratio, the ratio of HBL is highly variable & inconsistent. In conclusion, the HBL is not satisfactory in compare with SCBNL.
- The mean ratio of Total interest Paid to Total Working Fund ratio of HBL is higher than SCBNL. The coefficient of variance ratio of SCBNL is lower than HBL, which revels that the ratio is stable & consistent. It conclusion, SCBNL paid the higher interest on its total working fund.

4.3.4 Risk Ratio

The risk ratio of HBL and SCBNL shows that:

- The mean Credit Risk ratio of HBL is higher than the mean ratio of SCBNL, which indicated the high credit risk of HBL. Regarding the coefficient of variance ratio of above banks, HBL is higher than SCBNL, which revels that the ratio of SCBNL is stable credit policy.

4.3.5 Growth ratios

- The growth ratio of SCBNL deposit is higher than that of HBL. It has the rates of 11.15% where as HBL has the rates of 9.16% only. It means the performance of SCBNL is better year by year to collect deposits from the customers.

- The growth ratio of HBL, Loan and Advances is higher than that of SCBNL. HBL has the rate of 17.57% where as SCBNL has only 15.60%. It means the performance of HBL to grant Loan and advance in compare to SCBNL is better year by year.
- The growth ratio of Total investment of SCBNL is 11.06% which is comparatively grater than -6.16% of HBL. The performance of SCBNL is risky as it almost investment all the funds of bank.
- The growth ratio of Net Profit of SCBNL is higher than HBL. HBL has the rate of 2.69% in compare to SCBNL rate of 13.31%. From the above analysis it can be concluded that the profitability of SCBNL is better than HBL.

4.3.6 Trend Analysis

- The Deposits of both banks have the increasing trend. The total deposit of the HBL will be 50946.14 at the end of F.Y. 2015. Similarly, the Total Deposit of SCBNL will be 54318.97 at the end of F.Y. 2015. From the trend analysis the deposit collection position of SCBNL is better in compare to HBL.
- The Total Loan and Advances of HBL will be 44912.28 at the end of F.Y. 2015. Similarly, the Total Loan and Advances of SCBNL will be 24612.82 which is the half in compare with HBL. It is found that the lending position of HBL is better.
- The Total Investment of HBL will be 5041.21 and the SCBNL will be 30075.4 during the end of F.Y. 20015. The Investment trends followed by HBL is decreasing SCBNL have increasing during the study period. It is found that the investment position of SCBNL is better in compare to HBL.
- The Total Net Profit of HBL will be 823.95 at the end of F.Y. 2015. Similarly, the Total Net Profit of SCBNL will be 1687.46. This is the higher than that net

profit by HBL. It is found that the net profit position of HBL is not better in compare to SCBNL.

4.3.7 Statistical (Correlation) Analysis

From the statistical analysis it can be concluded that both the banks have the positive relationship between loan and advance to deposit and there is the significant relationship for both HBL and SCBNL. The correlation analysis between deposit & investment HBL have positive relationship but SCBNL have negative relationship and there is the not significant relationship for HBL and SCBNL. The correlation analysis between deposit & interest earned, there is not significant relationship for HBL and SCBNL. Likewise, Loan & Advance to interest paid analysis there is no significant relationship between two variable components.

4.4 NRB Directives Norms

NRB has bifurcated capital fund into core capital fund and supplementary capital fund. Banks are requested that core capital fund shall comprise of at least 4% of risk weighed assets. In this parlance, the types of capital put under supplementary capital fund deserve closure scrutiny.

4.4.1 Loan loss Provisioning

In the initial circulars, NRB has used the phrase “capital fund” and it had referred to section 2 (ta-2) of the commercial banking act, 2031 for the meaning of the phrase. However, it has stared using “core capital fund” in the circulars concerning the single borrower limit from 1992 onwards. Subsequently, the same previous phase “Total Capital Fund” is being used in the circular in 1995, as per the directives concerning capital adequacy NRB has defined total capital fund to include core capital and supplementary capital. Therefore, by virtue of this change, the credit limit of banks has increased since total capital fund also includes supplementary capital. The format off sheet of banks, as prescribed by NRB, requires showing loan loss provisioning by deducting from total advances. However, most of the banks are not adhering to this.

Some are showing the amount of provision under “shareholders fund” and some are showing under “other liabilities”. Under supplementary capital, loan loss provisioning is also included. By virtue of inclusion of such provisioning under the supplementary capital, it has virtue of inclusion of such provisioning under the supplementary capital it has clearly allowed banks to include the amount of provision under “reserves”. NRB has not forward as to exact treatment of the same. Also, where the provisioning is made mandatory for the purpose of providing cushion towards impaired value of assets, it is grossly inappropriate that such a find is treated as “supplementary capital” and allow the banks to lend against the strength of the same. Understandably, the change was made to accommodate the difficulties faced by one of the commercial bank (which has negative core capital base). The result is, where the bank has negative core capital base, yet same is allowed to increase the bank has negative core capital base, yet the same is allowed to increase with the capacity to lend by manifold (From 0 limit to over Rs. billions). Basically, loan loss provisioning is made to cover up the impired value in assets (loan). Accordingly, it becomes more appropriate to show such provision by deducting from advances. This would result in lowering the value of external assets of the banks and accordingly, capital; fund requirement would become lesser. This aspect becomes particularly important in the scenario where banking institutions in Nepal are hardly writing off their bad loans. For Example, NRB and RBB are still carrying huge amount in advances whose recovery has already become questionable.

4.4.2 Other Free Reserves

Similarly, NRB guidelines require that “other Free Reserves” which are not allocated for specific purpose would be placed under Supplementary Capital Fund. By virtue of this clause, banks are prompted not to allocate any funds under other reserves. Rather, keeping the balance under the profit and loss account would facilitate of the same at a later date, including distribution of dividend.

4.4.3 Shortfall on Capital Fund

Shortfall in capital adequacy restricts declaration of dividend. It has provided no other penalty. In this respect-Capital adequacy test is required to be carried out only at the year-end (Asadh). However, any short fall in them need to be compensated within next six months (i.e., Poush end). Therefore, opportunity may be available to declare interim dividend after first six month's operational result is available and adequate amount has been transferred on interim basis to the reserves which fulfils Capital Funds requirement based on risk weighted assets of previous Asadh month.

4.4.4 Capital to be increased

All existing commercial banks who have capital base of less than Rs. 500 million, the minimum level of capital base prescribed for establishment of new banks, are required to arrange for increasing their capital amount minimum up to Rs. 500 million by the end of F/Y 2063Asadh (2007 Mid July). Hence, although annual profit distribution planning is called for, there are no specific restrictions as to distribution of profits prior to that year. Yet, no real breakthrough has come forward as of now from some banks that lag behind in fulfilling Rs. 500 million capital base. Considering the fact that RBB would not be in a position to fulfill its core capital fund requirement, it is also unlikely that other private sector banks would follow the suit.

CHAPTER-V
SUMMERY, CONCLUSIONS & RECOMMENDATIONS

In the earlier studies, the preceding chapters have discussed, analyzed and explored the facts and matters required for the various put of the study. After completion of the basic analysis required for the study, the final and most important task of the researcher is to enlist summary, findings issues and gaps of the study and give suggestions for further improvement.

5.4 Summary

This is the study entitle "Study on Investment Policy of Joint Venture commercial Banks and NRB directives issued in regards to there-of". The basic principle of sound lending policy is liquidity, profitability, safety & security, suitability and dispersal. A sound investment policy of a bank is such that its funds are distributed on different types of asset with good profitability on the one hand and provides maximum safety and security to depositors and bank on the other hand. Moreover, risk in banking sector trends to be concentrated in the loan portfolio.

Commercial banks plays an important part for economic development of country as they provide capital for the development of industry, trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and their social life. They are the most important integrated and speedy development of a country. Therefore, a competitive and reliable banking system is essential to every country to develop.

Joint venture banks are the commercial banks firmed by joining two or more enterprises for purpose of carrying out specific operation such as investment in trade, business and industries well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services overcome this, commercial banks are strongly recommended to follow liberal lending policy. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic acclivities of the country.

Nowadays there is very much competition in banking market but less opportunity to make investment. In this situation Joint Venture banks can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank must follow sound investment policy.

The fundamentals principals of investment must be followed thoroughly for profitable investment. Investment policy ensures minimum amount of investment profit. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Few commercial banks are continuously making profit and satisfying their share holders and returning them adequate profit. This has attracted the potential customer to power their money into Banks, as there are very few sectors to make a profitable investment and the investors are always reluctant to risk.

A bank must make profit to survive in the competitive market, where a lot of money and very little investment opportunity exit. The lack of knowledge on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk and purchasing risk etc are the major factor which effect the investment decision. Therefore, appropriate and institutes.

Granting loan against insufficient deposit, overvaluation of goods pledged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan is some process and methods are applied from the balance sheet and the profit and loss account of concerned bank's annual report and publication of NEPSE.

The basic objective of this study is the evaluation of the investment policy adopted by Himalayan Bank Ltd. and the Standard Chartered Banks Nepal Ltd. This study is basically depending on secondary data and only the two other joint venture banks Nepal Himalayan Bank Ltd. and the Standard Chartered Bank Nepal Ltd. are consider. To acquire new study is very much based on past knowledge.

Various financial, accounting and statistical tools are applied in the study to achieve the objectives of the study. The analysis of data is done according the pattern of available.

5.5 Conclusion

Banks will hold capital against a wider range of risks not just credit risk and market risk as at present, but also operational risk, interest rate risk and other risks. Indeed, banking business and banking risks have become mush more complicated with globalization supervisory tools to keep up with changes in the market, to track the risks and ensure that they are prudently managed. From the above study following conclusion have been drawn out:

- Under the **Liquidity Ratio**; the Current Ratio of SCBNL is higher than HBL which means the SCBNL has maintained higher liquidity but lower risk in compare to HBL liquidity policy. The Cash Reserve Ratio during the study period of HBL has better position regarding the meeting of the demand of its customer on their deposit at any time that means it operates in lower risks. Through high ratio shows the inefficiency as it has to pay more interest on deposit. The mean ratio of Cash and bank balance to current assets of HBL is higher than SCBNL. It states that the position of HBL is moderate in comparison to that of SCBNL. Maintaining higher ratio means capable to make the quick payment of its deposit but does not mean that it has mobilized fund in profitable sector as well. From the point of view of investment on government securities, SCBNL has maintained higher ratio than HBL. This reflects that SCBNL have invested to profitable sector and may have not idle deposit.

- Under the **Assets Management Ratio**; the mean ratio of loan and advances to total deposit of HBL is higher than SCBNL and the ratio of total investment to deposit of SCBNL its fund in higher than HBL. SCBNL has more successful in utilizing its fund in government securities than HBL. There is no consistence policy on its investment on government securities between the two banks.
- The loan and advances to total working fund ratio of HBL is higher than SCBNL. HBL has invested higher amount on shares and debenture to total working fund ratio than SCBNL. It states that the position of HBL is better in this regard. The ratios of HBL is highly variable than other one.
- Under the **Profitability Ratio**; the mean ratio of return on loan and advances, ratio of return on total assets and the return of equity of SCBNL is higher than HBL. The mean ratio of total interest earned to total operating income of HBL if greater than SCBNL. Regarding the coefficient of covariance ratio, the ratio of HBL is highly variable & consistent. In conclusion, the HBL is not satisfactory in compare with SCBNL. The mean ratios of total interest paid to total working fund ratio of HBL is slightly higher than SCBNL. The coefficient of covariance ratio of HBL is higher than SCBNL, which revels that the ratio of SCBNL is stable & consistent. It conclusion, SCBNL paid the higher interest on its total working fund.
- Under the **Risk Ratio**; the mean credit risk ratio of HBL is higher than the mean ratio of SCBNL, which indicate the high credit risk of HBL. Regarding the coefficient of covariance ratio of above banks, HBL is higher than SCBNL which reveals that the ratio of SCBNL is stable credit policy.

- Under the **Growth Ratio**; the growth ratio of SBNL deposit is higher than that of HBL. The performance of SCBNL is better year by year to collect deposits from the customers. The growth ratio of HBL; loan and advances is higher than that of SCBNL. It means the performance of HBL to grant loan and advances in compare to SCBNL is better year by year.
- The growth ratio of total investment of SCBNL is higher than that HBL. The performance of SCBNL is risk as it almost investment all the funds of bank. The growth ratio of net profit of SCBNL is higher than HBL. From the above analysis it can be concluded that the profitability of SCBNL is better than HBL.
- From the **Trend Analysis** the deposit collection position, lending position of HBL is better in compare to SCBNL but the investment position of SCBNL is better in compare to HBL, whereas the profitable position of the SCBNL is better as compare to HBL.
- From the **Statistical (correlation) Analysis** it can be concluded that both the banks have the positive relationship between loan and advance to deposit and there is the significant relationship for both HBL and SCBNL. The correlation analysis between deposit & investment HBL have positive relationship but SCBNL have negative relationship and there is the not significant relationship for HBL and SCBNL. The correlation analysis between deposit & interest earned, there is not significant relationship for HBL and SCBNL. Likewise, Loan & Advance to interest paid analysis there is no significant relationship between two variable components.

5.6 Recommendation

After highlight on investment policy adopted by commercial banks on the basis of financial & Statistical analysis, some actionable recommendations can be advanced to overcome inefficiency and weakness.

5.6.1 Project oriented approach

Default of loan in commercial bank is the result of various factors acting on it. such as political and economics and economic situation of the country, lack of necessary skill in appraising project to make investment, improper evaluation of project evaluation, lack of entrepreneurship attitude and lack of regular supervision. Nepalese investment environment is very much affluence by political and government policy.

Commercial banks should take the job of lending as purely business manner. The project oriented approach has to be encouraged in lending business of bank in which security is not necessary, risk is high but the project is important from the point of view of national economy. The project should be allowed to make them capable to generate their own funds and to reply loans timely. The chance of loan loss in the project-oriented approach can then be minimized.

5.3.2 Effective Portfolio Management

Portfolio condition of a bank should be regularly revised from time to time. And it should always try to maintain the equilibrium in the portfolio condition of the bank. Basically portfolio management refers to the allocation of funds into different components of its having different degree of risk different rates can be achieved. The bank should always try to make continuous effort to explore competitive and highly yielding investment opportunities to optimize its investment portfolio.

5.3.3 Innovative Approach to Bank Marketing

Looking at the current trend of banking business, a bank must be very much careful on formulating marketing strategies to serve its customer. The marketing strategies should be innovative that would attract and retain the customers.

5.3.4 Cost Management Strategy

Bank should adopt the cost management strategy to have control over its cost of funding. Higher interest paid to working fund, higher loan loss ratio, poor quality of loan, high administrative cost are some of the reason behind less profitability of a bank.

5.3.5 Liberal Lending Policy

Loan and advances of a bank is the largest item of its asset. It is a part of deposit collected by bank and the utilization of deposit as loan and advances is the most challenging job of a bank. A small negligence in this in this part has to be paid by large amount. This is the main reason of a bank to be a failure.

Liberal lending policy helps a bank to make the efficient utilization of its deposit. Policy making is the very challenging job for the top management. It requires professional expert. The training, experience and other skill-developing programmed may help in enhancing professionalism in policy making. A good policy always considers legal, economic, social and political environment of the country.

Bank should have in place comprehensive risk management processes to identify measure, monitor and control material risks. When risks materialize in the form of bad loans that can not be recovered, the banks have to write off those loans. When loan is written off, the profit of the bank is redacted.

5.3.6 Capital Adequacy Ratio (CAR) and Risk Management

Banks should have an internal process to assess their overall capital adequacy in relation to their risk profile. They have a system in place to ensure that their minimum calculated risk assets does nit fall below the minimum risk assets ratio prescribed by the NRB. On the assets chooses to hold. All these assets involve different degrees of risk that they become impaired.

Banks risk management processes should address:

1. Liquidity Risk
   - There should be good management information system on liquidity position and the associated risks,
   - Liquidity control should be managed centrally,
   - Net funding requirements should be analyzed under alternative scenarios,
   - Consideration should be given to diversification of funding sources, stress testing and contingency planning,
   - Liquidity management should separately address all currencies used by the bank or its clients.

2. Interest Rate Risk
   - There should be good management information and stress testing of interest rates and the associated interest rate risk.

3. Foreign Exchange Risk
   - There should be good management information and stress testing of foreign exchange position and the associated foreign exchange risk.

4. Operational Risk
   - There should be a robust and independent internal audit function,
   - Adequate system security and data protection procedures should be established,
   - Procedures should be in place to counter external fraud and other financial crime,
   - Procedures should be in place to address internal fraud and negligence including the taking out of adequate and appropriate professional indemnity insurance cover,
   - Procedures should be in place covering major system modifications and the preparation for significant change in the business environment.

5. Reputation Risk

- Procedures should provide continual vigilance through sound and comprehensive customer acceptance procedures to assess the reputation risk of taking on particular clients and to limit an control risk exposures in assets and liabilities including assets under management,
- A clear external communication policy should be established which addresses media contact and advertisements (including web site content).

5.3.7 Trading Procedures

For banks that operate an active trading book, banks should:

1. Ensure that they have suitable policies and procedures related to the identification, measuring and control of market risk.
2. They have set appropriate limits for various market risks, including their foreign exchange business; and ensure that the policies, procedures and limits are monitored under information, risk management and control systems which are adequate to provide compliance.

5.3.8 Credit Procedures

Banks should:

1. Ensure that prudent credit granting and investment criteria, policies, practices and procedures are approved, implemented and periodically reviewed by bank management and directors. The policies, practices and procedures include:
   - Sound and well documented credit granting and investment process,
   - Requirement for the maintenance of appropriate credit administration, measurement and on-going monitoring and reporting processes (including asset grading/ classification and periodic credit review),
   - Systems to ensure adequate controls over credit risk.
2. The assessment of any credit decision includes not only an assessment of the identity and geographical location of the borrower and other parties involved in

the credit transaction, but also of the quality and geographical location of any assets forming the location of any assets forming the collateral for such credit transactions (for example the quality, type and location of any property and real estate.)

3. Management information systems provide senior management with sufficient information to carry out their duties in a prudent manner and that the systems provide essential details on the condition of loan and / or investment portfolios**.**

4. Implement policies and Procedures to monitor and evaluate developments in country risk, sector risk and transfer risk and apply appropriate counter measures including (where appropriate) stress testing the loan portfolio or particular concentrations of the portfolio, and set percentage or guidelines (or decide for each individual loan) on the appropriate provisioning either for classes of loan or for each individual loan.

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