INVESTMENT PRACTICES OF NEPALESE COMMERCIAL BANKS

(With Reference to Standard Chartered Bank Ltd and Nepal SBI Bank Ltd.)

A Thesis

Submitted By:

Shriste Upadhayay

Central Department of Management

Exam Roll No.: 1240/17

Campus Roll No: 225

T.U. Regd. No.: 7-2-475-82-2011

Submitted in partial fulfilment of the requirements for the degree of

Master of Business Studies (MBS Semester)

In the

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

December, 2020

INVESTMENT PRACTICES OF NEPALESE COMMERCIAL BANKS Shriste Upadhayay 2020

CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

………………….

Shriste Upadhayay

December, 2020

RECOMMENDATION LETTER

It is certified that thesis entitled **“Investment Practices of Nepalese Commercial Banks”** submitted by **Shriste upadhayay** is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgement. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

Prof. Dr. Bal Krishna Shrestha
Thesis Supervisor
Central Department of Management
Tribhuvan University
Kirtipur, Kathmandu, Nepal

Date:

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"Investment Practices of Nepalese Commercial Banks"** presented by **Shriste Upadhayay,** a candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

____

Asso. Prof. Dr. Bal Krishna Shrestha
Thesis Supervisor

____

Internal Examiner
Lec. Sunita Bhandari

____

External Examiner
Asso. Prof. Dr. Gyan Mani Adhikari

____

Prof. Dr. Sanjay K. Shrestha
Chairperson, Research Committee

____

Asso. Prof. Dr. Ramji Gautam
Head, Central Department of Management

Date:

ACKNOWLEDGEMENTS

This thesis entitled “Investment Practices of Nepalese Commercial Banks” has been prepared in partial fulfilment for the degree of Master of business studies (MBS) under the course designed by the faculty of Management, T.U. This study is based on the prescribed research format involving the use of financial ratios in banking sector. At the time of preparing this study, I have consulted with various personalities. So I would like to extend my sincere thanks to all whose works and ideas helped me and conducting the study. Sincerely, I would like to pay my sincere gratitude to my thesis advisor Prof. Dr. Bal Krishna Shrestha of CDM who guided through research work with providing valuable suggestions, supports and supervision.

Finally, I would like to offer my profound gratitude to my family members, my friend, colleagues and well-wishers for their encouragement and support during the entire period of may study.

Shriste Upadhayay

Researcher

TABLE OF CONTENTS

	Page No.
Certification of Authorship	ii
Recommendation Letter	iii
Approval Sheet	iv
Acknowledgements	v
Table of Contents	vi
List of Tables	viii
List of Figures	ix
Abbreviations	x
Abstracts	xi
CHAPTER I: INTRODUCTION	**1-6**
1.1 Background of the Study	1
1.2 Statement of Problems	3
1.3 Objectives of the study	4
1.4 Significance of the Study	5
1.5 Limitation of the Study	5
1.6 Organization of the Study	6
CHAPTER II: REVIEW OF THE LITERATURE	**7-26**
2.1 Conceptual Review	7
2.1.1 Investments	7
2.1.2 Investment Practices Scenario of Commercial Banks in Foreign Country	9
2.1.3 Investment Practices Scenario of Commercial Banks in Nepal	10
2.1.4 Features of Sound Lending and Investment policy	12
2.1.5 Some Important Terms	14
2.1.6 Review of Legislative Provisions	16
2.2 Empirical Review	17
2.2.1 Review of Journals and Articles	17
2.2.2 Review of Thesis	22

2.3 Research Gap 25

CHAPTER III: METHODOLOGY 26-29

3.1. Research Design 26

3.2 Population and Sample 26

3.3 Nature and Sources of Data 26

3.4 Analysis of Data 27

CHAPTER IV: RESULTS 30-46

4.1 Index number 30

4.2 Profitability Ratio 39

4.3 Correlation Co-efficient 45

4.4 Major finding of the Study 45

CHAPTER V: CONCLUSION 47-48

5.1 Summary 47

5.2 Conclusion 48

5.3 Implications 48

REFERENCES 49-50

APPENDIX 51-55

List of Tables

	Page No.
Table 4.1 Loan and Advances of Bank	31
Table 4.2 Gross Loan	34
Table 4.3 Investment Securities Measured Amortize Cost	35
Table 4.4 Investment in Equity Measured at FVTOCI	35
Table 4.5 Government Bonds	37
Table 4.6 Government Treasury Bills	38
Table 4.7 Return on Loan and Advances	40
Table 4.8 Return on Total Working Fund Ratio	41
Table 4.9 Interest Income to Total Income Ratio	43
Table 4.10 Return on Equity Ratio	44
Table 4.11 Correlation Coefficient between Profitability and Investment	45

LIST OF FIGURES

	Page No.
Figure 4.1 Loan and Advance to bank	32
Figure 4.2 Gross Loan	33
Figure 4.3 Investment Securities Measured Amortized cost	35
Figure 4.4 Investment in equity measured at FVTOCI	36
Figure 4.5 Government Bonds	38
Figure 4.6 Government Treasury Bills	39
Figure 4.7 Return on Loan and Advances	41
Figure 4.8 Return on Total Working Fund Ratio	42
Figure 4.9 Interest Income to Total Income Ratio	43
Figure 4.10 Return on Equity	44

ABBREVIATIONS

&	=	And
($\overline{X}$)	=	Mean
BFIs	=	Banks and Financial Institutions
C.V	=	Coefficient of Variations
CD	=	Credit to Deposit
EPS	=	Earnings per Share
FY	=	Fiscal Year
FVTOCI	=	Fair value through other comprehensive income
Ltd.	=	Limited
NABIL	=	Nepal Arab Bank Limited
NRB	=	Nepal Rastra Bank
ROA	=	Return on Assets
ROE	=	Return on Equity
S.D	=	Standard Deviation
SBI	=	State Bank of India
SCB	=	Standard Chartered Bank
T.U	=	Tribhuvan University

ABSTRACT

This study examined the study on investment practise of Nepalese commercial banks in Nepal. The main objectives of the study were to examine the investment pattern and relationship between profitability and investment of selected banks. The descriptive research designs have been adopted for the study. The data was collected from the secondary sources. Statistical population consists of all 27 commercial banks currently operating in Nepal. To collect the data two banks namely SCB and SBI are taken as sample bank by using convenience sampling method. For this research annual report of sample banks are used from the fiscal year 2015/16 to 2018/19. Various statistical and financial tools such as mean, standard deviation, coefficient of variation, correlation and ratios were used to analyse the data.

Result of the research indicates that better investment Pattern of SBI is sound and overall profitability of SBI is greater than SCB. Moreover the finding of this study shows SBI is more able to mobilize its total funds as compare to SCB. Likewise, research indicates that there is positive relationship between profitably and investment. This study concludes that the investment practices of Nepalese commercial banks are satisfied to some extent. As a result banks are generating the profit to sustain their business. Therefore the sound investment policy and timely revised investment portfolio will be the good implication for Nepalese commercial banks to minimize the risk and maximize the profitability.

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

An investment is the current commitment of funds for a period of time to drive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for the uncertainty in the future flow the funds (Reilly, 2015). Investment in the actual sense refers to the sacrifice of current dollars for future dollars. Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, and the magnitude of which is uncertain. In some cases the element of time predominates (for example, government bonds).In other case, risk is more dominant (for example call option on common stock). In yet others, both time and risk play a dominant role (for example share of common stock). Investment is the use of money to earn profit. Investment is concerned with the proper management of the investor's wealth, which are the sum of the current income and the present value of all future income.

Investment refers to the sacrifice of present financial resources with the view to get additional benefit in future. It is the employment of funds with the aim of achieving additional income of growth in the invested value. Investment is concerned with the management of an investor's wealth which are the sum of current income and the present value of all future income funds to be invested come from assets already owned, borrowed money and saving or forgone consumption by forgoing today and investing the saving, investors expects to enhance their future consumption possibilities i.e., they are invested to increase the wealth. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment. For our purpose in the study of the financial institution the investment problem will revolve around the concept of managing the surplus financial assets in such a way which will lead to the wealth maximization and providing a significant further source of income (Limbu, 2008).

An investment implies the outlay of funds for a relatively long period. Good management of investment portfolios of the banks will improve their financial position, which in turn will make it better able to serve their customers optimally, leading to increased productivity and effectiveness of banking services and more able to keep up with economic development and global competition. As commercial bank engages in investing its resources in different financial instruments that bears interest for the bank, its ability of lending also increase (Bhattari, 2016).

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the bank, the bank may invest by lending the funds to various businesses. These firms in return may invest in new factories and equipment to increase their production and efficiency. In addition to borrowing from banks, most companies issue stocks and bonds, which they sell to investors to raise capital needed for business expansion. Government also issues bonds to invest in various projects. Nepal Rastra Bank on behalf of Nepal Government issues bonds, treasury bills to finance the long term and short-term needs of the government. All such investment by individuals, business, government and government entities involve a present sacrifice of income to get an expected future benefit.

Banholzer (2017), Capital-investment performance can have an enormous impact on an organization’s value, and it can drive growth and increase overall returns on invested capital. The best companies use a clear capital-allocation strategy to build winning portfolios. They link strategic imperatives to a target capital portfolio, setting and communicating targets for growth and productivity improvements and for sustaining capital expenditure.

Based on the review of above discussion and given definitions, investment is sacrifice of current money or other resources for future benefits. Investment is the management of the surplus resources; it is the employment of fund with the aim of achieving additional income of growth in the invested value. It involves the commitment of resources that have been saved or put away from current consumption, in the hope of that same benefit will produce in future. The specific purpose of this study is to identify the liquidity and profitability position, to examine relationship among deposit, loan and advance and investment and comparative study of banks on fund mobilization and investment policy of selected commercial banks of Nepal. Out of 27 commercial banks in Nepal, 2 commercial banks are taken for the study and they are Standard chartered Bank Nepal ltd. and Nepal SBI Bank ltd.,

1.2 Statement of the Problems

An investment should ensure maximum profit and minimum risk. Commercial banks should be very much careful while investing its funds. Banks are more concentrating on advances as compare to investments out of other total deposits. Thus there is downfall in income of banks, because return on investment is lesser as compared to interest income. Bank must be motivated to invest foreign securities to earn maximum foreign exchange. Thus portfolio of investment may be upgraded to earn maximum return on investment (Someshor, 2015).

The banking sector in Nepal has been suffering a liquidity crunch for months. As a result, the commercial banks have tightened loans. Lending in real estate, share market and automobiles has been halted as these sectors are considered unproductive sectors (Bhatta, 2017).Lack of sound investment policy is another reason for commercial banks not utilizing its deposits that are making loan and advances or lending for a profitable project. This condition may even lead the commercial banks to the position of liquidation.

Chief among multiple reasons behind the starvation of liquidity and feeble economy in the country is the government's inability to spend capital expenditure, exponential growth in credit and banks' failure to win the confidence of depositors. As a result, commercial banks have been suffering from a liquidity crunch for a while are now not only squeezed by the Credit to Deposit (CD) ratio but also gradually being pushed towards a credit crunch. Nepal Rastra Bank (NRB) has set the CD ratio at 80:20, which means a bank cannot lend more than 80 percent out its deposits (Shrestha, 2017).

Feb 26, 2018-Commercial banks are once again facing shortage of cash to provide loans to borrowers. As in the last fiscal year, the problem cropped up after banks could not strike a balance between deposit collection and credit disbursement. Banks are lately witnessing deceleration in deposit growth due to decline in remittance income and slow public expenditure. On the other hand, there is huge demand for credit from investors and consumers, as business climate is improving. Currently, banks are allowed to extend 80 percent of their total deposit and core capital as loans. This is referred to as the credit to core-capital-cum-deposit (CCD) ratio (Sharma, 2018).

The number of commercial banks and financial institutions are establishing speedily. These institutions have been established to assist the process of economic development of the country. The major problem in almost all under developed countries and Nepal is formation and proper utilization of capital. Due to the high competition between the financial institutions, the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. Therefore, it raised the problems of investment and proper mobilization of collected funds (Pokheral, 2011).

The issues specially related to investment functions of the commercial banks under study have been presented briefly as under.

i. What is investment pattern of the selected banks?
ii. What is the relationship between profitability and investment of the selected Banks?

1.3 Objectives of the Study

Effective and efficient and mobilization and investment policy is two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposit collection carries no meaning. Investment decision is one of the major decision functions of financial management. Investment policy of collected fund is the most important theme from the point of both management and shareholders and good investment policy has a positive impact on economic development of the country and vice versa. The objective of the study is to assess and evaluate the investment policy and strategies followed by the Standard Chartered Bank and Nepal SBI Bank. Besides these, the following specific objectives are to support the evaluation and studies are as follows:

i. To examine the investment pattern of the selected Banks.
ii. To measure the relationship between profitability and investment of the selected banks.

1.4 Significance of the Study

The successful mobilization and utilization of domestic resources in must for any developing country to inspire a sustainable economic development. The commercial banks have played vital role in the collection of scattered small savings from mass and converting them into meaningful investment. Deposit collection has no meaning, if it is not invested properly. Thus investment activity is the lifeblood of any financial institution as well as nation. Better return and sustainability are only possible through proper utilization of fund as investment. So, the investment practice is very important for the commercial banks. The sound investment policy play vital role to earn good return from investment.

The comparative study on investment practice of commercial banks would provide useful information to the management of concerned bank that would help them to take corrective action to improve the weaknesses to investment. Similarly, the concerned persons would get required information and can take the decision to make investment on shares of bank. In the same way the academic institution, bank employees, trainees and the others concerned with commercial banks would get useful feedback from this study. The study will certainly help management of selected banks to improve their performance and formulating the investment policy regarding commercial banks.

1.5 Limitations of the Study

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

i. The research study is based on secondary data, the accuracy of results and conclusion highly depends upon the reliability of these data.
ii. This study only covers the data of five financial years which may not show the overall performance of banks.
iii. This study taken only two commercial banks as a sample which may not represent the whole banking industry.
iv. This study is based on descriptive analysis on investment practices of commercial banks, so finding may not be applicable for decision making.
v. Only selected statistical and financial tools are used.

1.6 Organization of the study

This research work has been divided into five chapters as introduction, review of literature, research methodology, results, conclusion and recommendation.

Chapter - I Introduction

This chapter includes the background information of the subject matter of research undertaking to provide a general idea of its history. Likewise, it also includes statement of problems, objectives of the study, significance of the study and limitation of the study.

Chapter - II Review of the literature

This chapter comprises the review of relevant previous writing and studies to find the existing gaps. During the review for this research, the debt study has been made on the theoretical aspect of investment practices and policies of sample banks. For this study different books, annual reports, articles and research paper related to investment practices has been reviewed.

Chapter – III Research Methodology

This chapter aim to present and reflect the methods and techniques that are carried out during the study period. It covers quantitative methodology using financial and statistical tools. The research methodologies that are adopted for the present study are mentioned in this chapter that deal with research design, population and sample, nature of data and analysis of data.

Chapter – IV Data Presentation and Analysis

This section aim to study, evaluate and analyse those major investment practices which are mainly related to investment management and fund mobilization of sample banks. The various results are obtained with the help of financial and statistical tools.

Chapter – V Summary and conclusion

This chapter present the summary of the study, conclusion derived from the analysis of data and recommendation offered for the improvement of the investment practices and policies of the bank under study.

References and appendix have also been attached at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

This chapter shows the background of the work and a review of recent and reticent lecture. During the review of this research, the depth study has been made on the theoretical aspect of investment practices and policies of selected commercial banks. Hence, in this chapter the focus has been made on the review of litterateur relevant to the investment practices and policy of commercial banks in Nepal. For these study different books, annual reports, articles from journals and research papers related to this topic have been reviewed. This chapter is divided into major two sections;

1. Conceptual Review
2. Empirical Review

2.1 Conceptual Review

Conceptual review deals the theoretical aspects of the study. In this section Investment definitions, Investment Practices in Foreign and in Nepalese commercial banks, Features of sound lending and Investment Policy, Important terms of Investment and review of Legislative Provision for fiscal year 2077/78 have been discussed.

2.1.1 Investment

Investment is defined simply to be the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifice of current consumption takes place at present with certainty and the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to investment now is a most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. Broadly investment alternatives fall into two categories: real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds and debentures. Financial assets are bought and sold in organized security markets (Paudel, 2002)

Investment always involves risk it refers to the loss of principle amount of an investment. Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period.

An investment is an assets or items that are purchased with the hope that it will generate income or will appreciate in future. Investment is concerned with the management of an investor's wealth which are the sum of current income and the present value of all future income. Funds are invest come from assets already owned borrowed money and saving or foreign consumption by foregoing today and investing the saving, investors expect to enhance their future consumption possibilities i.e. it is invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most form it, while protecting it from inflation, taxes and factors (Malla, 2016).

Investment portfolio has significantly positively effect on the banks' lending performance and behaviour (Olokoyo, 2011).The investment and lending practices and policies of the commercial banking system change relatively slowly. Standards and practices which have proved successful in making loans to finance the production of goods and services or in investing funds in governmental and corporate securities continue to be utilized. Frequent modifications of lending practices are not needed since the financing needs of business and industry change slowly. Some change is, however, discernible. Some successful lending practices have been adapted to meet the new financing needs of industry and commerce. Loans and advance is the most profitable and liquid asset for the banks. Malede (2014) finds that investment portfolio has positively statistically insignificant relationship with commercial bank lending. Thus, a positive relationship may be expected between investment portfolio and loan and advances.

After meeting its liquidity requirements by keeping primary and secondary reserves and after satisfying the genuine credit needs of society, whatever is left is invested by a bank to acquire long term obligations of public and private enterprises in order to improve its own earnings. It include gilt edged securities and stock exchange securities, as well as the shares and bonds of highly reputed companies. The principle objective of investment by a commercial bank is to maximize earnings and to keep the funds liquid and safe. As the matter of fact, security investment is supposed to act as third line of defence, and should replenish the secondary reserve to meet the unexpected withdrawals of deposits and unusual loan demand (Someshor, 2015).

Investment always involves risk it refers to the loss of principle amount of an investment. While investment Goods are those goods, which are used for further production. An investment implies the outlay of funds for a relatively long period. Good management of investment portfolios of the banks will improve their financial position, which in turn will make it better able to serve their customers optimally, leading to increased productivity and effectiveness of banking services and more able to keep up with economic development and global competition. As commercial bank engages in investing its resources in different financial instruments that bears interest for the bank, its ability of lending also increase.

The investment policy of a bank consists of earning high returns on its unloaded resources. But it has to keep in view the safety and liquidity of its resources so as to meet the potential demand of its customers. Since the objective of profitability conflicts with those of safety and liquidity, the wise investment policy is to strike a judicious balance among them. Therefore, a bank should lay down its investment policy in such a manner so as to ensure the safety and liquidity of its funds and at the same time maximise its profits (Thirumala, 2014).

2.1.2 Investment Practices Scenario of Commercial Banks in Foreign Country

A bank makes investments for the purpose of earning profits. First it keeps primary and secondary reserves to meet its liquidity requirements. This is essential to satisfy the credit needs of the society by granting short-term loans to its customers. By advancing a loan, the bank creates credit which is a temporary source of fund for the bank. An investment by the bank, on the other hand, is the outlay of its funds for a long period without creating any credit.

The investment practices of Indian commercial banks, as indicated by their published accounts consists of government securities and domestic investments, including other trustee securities, the share and debentures of corporate bodies, real estate, bullion, units of UTI, and others (Thirumalai, 2014).Commercial banks are uplifting the economic growth of the country. The uplifting of the development of a nation largely depends upon the development of its economic growth. Bank provides internal resources own branches. The development of the economy is greatly influenced due to the internal management of the bank. So commercial bank is the heart of trade, industry and business in modern age commercial banks earn optimal profit by mobilizing their internal resources properly.

The Bank of Japan (BOJ) launched quantitative qualitative monetary easing in April 2013 by the large-scale purchase of Japanese Government Bonds (JGBs) with the maturity extended to the maximum 40 years. In September 2016, the BOJ shifted the official guideline for market operations from the monetary base to the 10-year yield (with a negative interest rate of -0.1%). At the same time, the BOJ emphasised a continuation of an annual pace of JGB purchases of about ¥80 trillion – suggesting its high evaluation of this channel. This column will assess whether the portfolio rebalancing channel has been effective in Japan by focusing on the three entities – financial institutions, firms, and households, separately (Shirai, 2017a).

Commercial banks make investments in government securities and in the stocks of large reputed industrial concerns, while in the case of a loan the bank advances money against recognised securities and bills. However, the goal of both is to increase its earnings. Mainly the investment practices of commercial banks are as Mandatory Investment, Loan and Advances, Investment with other Citizen Corporative Banks, Investment in Other Banks, Investment in Non- SLR Debt Securities, Investment in share money of Cooperative institutions, Investment in private companies, Investment in Government Securities Bank invest in gilt edged securities and stock exchange securities, as well as the shares and bonds of highly reputed companies.

2.1.3 Investment Practices of Commercial Banks in Nepal

Investment is the concept of managing the surplus financial assets in such a way that will lead to the wealth maximization and provide benefits to the supplier of the funds in the bank. Commercial banks are the most important savings, mobilization and financial resource allocation institutions. commercial banks would be interested in giving out loans and advances to their numerous customers bearing in mind, the three principles guiding their operations which are, profitability, liquidity and solvency.

The government and concern authorities are majorly focused on development of the country and all the developing countries achievement shows that overall development of country and it is only possible when a country has sound and strong economic growth. After various exploration and studies, the Nepalese authorities have mainly pointed out hierarchy of the sectors which are needed to develop such as Agriculture, Hydropower, Tourism and Various Industrial Productions. With relation to these mentioned sectors NRB too directs its affiliated Banks and Financial Institutions through its Directives to be issued every fiscal year and amends it through circulars as well (Malla, 2017).

Commercial banks are one of the important components of organized financial system in Nepal. The organized financial system in Nepal comprises a network of banks, other financial and investment institutions offering a range of financial products. Commercial banks mainly mobilize funds for short term and medium term purposes. Of course, in recent times the commercial banks are also facilitating long term investment.

Banks loan portfolio is the main means of income for the commercial banks in Nepal (Bhattari, 2016). Banks do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as a means of aiding their growth in particular or contributing toward the economic development of a country in general. Bank loans are utilized in all major areas of the national economy including agriculture, hydroelectricity, tourism, and trading. Likewise, consumer loans from banks have enabled people to own homes, vehicles and start business. A huge collection and investment policy plays vital role for the economic development of whole economy.

Commercial banks in Nepal are mostly investing their surplus funds in different types of government securities, debentures and shares of other companies (Pokherel, 2012). Commercial banks mainly invest their surplus funds in securities like treasury bills, treasury bonds, debentures and shares on large reputed companies.

Government securities also promise periodic coupon or interest payments. These securities are considered low-risk and can get the constant return of the investment.

2.1.4 Features of sound lending and investment policy

A sound lending and investment policy is not only prerequisite for a bank's portability but also crucially significant for the promotion of commercial savings of a developing country like India. Therefore, the following principles or features of investment policy must be abided by the commercial banks in order to achieve the goals**.**

1. Liquidity

Liquidity refers to the position of the bank that shows its capacity to meet all of its obligations. In other words, liquidity refers to the cash or any assets that can be converted in to cash immediately. People deposit their money in the banks in different accounts with confidence that the bank will repay their money when they required. Once the confidence lost in depositor's eye, they may withdraw all their deposits from their account in short period of time. To maintain confidence of the depositors, the banks manager must keep in mind while investing in different securities or at the time of lending. So the liquidity position of a bank is such an important factor that it must be able to meet its cash requirement either by its cash in vault or by the help of converting its assets in to cash in case of demand from their costumer. According to Goldfield and Chandler (1980) commercial banks must pay more attention to its liquidity because high turnover obtained from their debt liabilities.

2. Size of Investment portfolio

Commercial banks investment portfolio should be designed in light of liquidity requirement the credit needs of the economy the fluctuations in deposit and size of the capital account. After meeting these liquidity requirements the left-over funds are used to meet credit needs and to acquire obligation of public as well as private sector enterprise. If the credit needs are heavy and the bank experiences wide fluctuations in the level of its deposits, size of the investment portfolio will have to kept loan.

3. Safety and security

Commercial banks must pay a special attention to the principle of safety and security. In a developing country like Nepal in case there is any kind of loss than it will lead to decrease in public faith towards banks and impacts the overall deposits of the banks. So, the banks must ensure investing the amount in safe and secure sectors. Investment in unsafe and insecure sectors with the hope of getting more returns is to compromise with the security of capital.

4. Profitability

The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. Ambition of profit to commercial bank seems reasonable as the bank has to cover all the expenses and make payment in the forms dividend to the shareholders who contribute to building up of bank's capital and interest to the depositors.

5. Diversification

"A bird should not lay all its eggs in the same basket". This saying is very important to the bank and it should be always careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average; if the security of a company is divided off there may be an appreciation in the securities of other companies. In this way loss can be minimized by the commercial banks.

6. Purpose of loan

Commercial banks Profitability is partly determined on how well they analyse corporate loan applications the review process is quite relevant to risk management. To help the bank determine company viability and capacity to repay a loan, many financial, operational, market and economic factors are weighed into the loan application and company analysis. Bankers should always know that why a customer need a loan. If a borrower misuses the loan granted by a bank then they can't repay the loan to the bank. In order to avoid this situation every bank should demand all the essential detailed information about the scheme of project or activities.

7. Return

Commercial bank investment portfolio should comprise such securities as may assure the bank affair and stable return on the capital outlay. In calculating the income, it is necessary to take in to account the rate of interest, or the dividend rate, which the securities carry, the tax exemption benefit, and the loss or gain, if any, at the time of redemption. Though there is great temptation to place this consideration first, it rightfully, comes forth, after the considerations of safety, stability and liquidity. An effective evaluation of risk may permit one to pay attention to the higher yield elements in the portfolio through a diversification and judicious weighing of other risk factors.

2.1.5 Some Important Terms

The study in this section comprises of some important banking terms, which are frequently used in this study, have been made of to clarify their meaning.

1. Loan and advances

Loan and advances are the main source of income for the commercial banks. Banks accept deposits and also lend the money to the people who require it for various purposes. Lending of funds to traders, businessmen and industrial enterprises in one of the important activities of commercial banks. The major part of the deposit received by banks is lent out, and the large part of their income is earned from interest on such lending. There is a considerable difference between the rate they charge on loan and advances. It is this difference which constitutes the main source of bank of earnings.

Loans and advances granted by commercial banks are highly beneficial to individuals, firms, companies and industrial concerns. The growth and diversification of business activities are effected to a large extent through bank financing. Loans and advances granted by banks help in meeting short-term and long term financial needs of business enterprises.

2. Investment on Government Securities, shares and debentures

Government securities are earning assets of banks and as such should be influenced by the bank's portfolio allocation strategy. Commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of banking business. Subsequently, allocation of funds for purchases of securities should be motivated by among others loan demand, capital considerations and loan performance. The policy shift to inflation targeting provided Government with an alternative source of funding for the budget from domestic sources in form of treasury bills and bonds. Subsequently, the stock of treasury bills and bonds that had been previously issued for monetary policy during the reserve money targeting regime was converted into a source of funding for the budget. However, during the reserve money targeting regime, funds invested in treasury bills and bonds were simply kept at the BOU and returned to the investors when they matured while Government paid the interest.

3. Investment on Other Company's Shares and Debentures

Commercial bank may invest its surplus funds in any commercial, private & cooperative Banks but if any such bank provides considerably higher rate of interest then its financial position has to be analysed. Due to surplus funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of NRB directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. Investment of the liquid surplus funds from time to time has to be made in such a way that there should not be any difficulty in meeting out the funds requirement for daily clearing adjustment as well as payment of the deposits on due dates of maturity These days most of the commercial banks have purchased development bank's shares.

4. Deposits

Deposits are the basic raw materials for the commercial banks. Deposits help the commercial banks to channel credit for productive investment in the economy. Higher the deposit mobilization is the larger the scope for deployment of funds in the economy. It plays a key role in commercial banking activities because the lending power of a bank and the size of its operations are determined by only the quantum of deposits. It is the excess of income over consumption requirement that is saved for future purpose. People deposit their earnings in commercial banks because banks vaults are safer than home coffers and they pay interest according to the kind of deposits. There are two types of deposit i.e. interest bearing deposit and non-interest bearing deposit.

5. Off-Balance sheet Activities

Off balance sheet activities involve contingent commitments or contracts which generate income to a bank, but are normally not captured as assets or liabilities under conventional accounting procedure. Contingent items may be recorded in a bank's accounts as notes to balance sheet, contingent commitment banking, asset less and invisible banking. However, these instruments came to be widely used only when risks escalated sufficiently. Initially, banks were not involved in the action.

2.1.6 Review of Legislative Provision

Legislative provision has significant impact on the investment practices of commercial banks establishment, their fund mobilization and utilization of the resources. In this section, it reviews the Policies, Procedures and Guidelines under which the commercial banks are operating has been discussed. All commercial banks have to conform to the legislative provision specified in the commercial bank act 2031 and the policies and regulations formulated to facilitate the smooth running of commercial banks. The preamble of Nepal Bank Act 1994 clearly states the need of the commercial banks in Nepal. In this absence of any bank in Nepal the economy of the country was being hampered and causing inconvenience to the people. The objective of the bank is to fulfilling the need by providing the service to the people. For the betterment of the country this law is hereby promulgated for the establishment of the bank and operation. Nepal Rastra Bank issues monetary policy every year some of the important provisions made in monetary policy for fiscal year 2077/78 are as follows:

i. Considering improved liquidity situation and rapid growth of money supply, Cash Reserve Ratio (CRR) for commercial bank, development bank and finance company will be maintained at 3% in FY 2077/78. This will create Rs.48 Billion worth extra liquidity in banking system.

ii. As per the budget speech, Monetary Policy has targeted to limit inflation rate within 7%.Statutory Liquidity Ratio (SLR) for commercial bank, development bank and finance company should be maintained at 10%, 8% and 7% respectively which was 10%, 8% and 7% respectively earlier.

iii. Rate for Final Lender Facility has been decreased from 7% to 6.5%. To support equipment operation and equipment cost management, banks are allowed to bring foreign loan worth 25% of its core capital.

iv. The limit for overdraft including personal loans of revolving nature will be reduced from 75 lakhs to 50 lakhs. For commercial banks, lending to priority sectors which was 25% earlier has been changed to minimum 10% for agricultural sector and minimum 15% for tourism sector. And lending to priority sectors will be maintained at 15% and 10% for development banks and finance companies respectively.

v. Lending of margin nature provided by BFIs on mortgage of shares has been made limited to 25% from previously 40% on primary capital. If Commercial bank request NRB to do securities business, permission will be given to do so by establishing and operating through its separate subsidiary company.

2.2 Empirical Review

This section focuses on the review of literature of relevant to the investment practices of commercial banks the conceptual framework given by different authors, research scholars which received from the books, journals and articles, research papers and un published thesis.

2.2.1 Review of the Journals and Articles

The review of the books and articles and review of dissertation is carried out under this topic.

Banking and industry has acquired a key position in mobilizing resources of finance and social economic development of the country. No function is more important to the economy and it constitutes than financing. "Bank assists both the flow of goods and services from the products to the consumer and financial activities of the government. Banking provides the country with a monetary system of payment and its important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy" (American institute of banking, 1972).

Shrestha (1993) in her research, "commercial bank in Nepal" has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she conclude that the bank portfolio (loans and investment planning of commercial banks has been influence by the variables securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory procedure of the central bank (Nepal Rastra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility.

Ojha (2002) conducted a study on "lending practices: A study on NABIL bank ltd., SCB Nepal ltd., and Himalayan bank ltd." With the objective to determine the liquidity position, the impact of deposit in liquidity and its effects on leading practices, measure the bank's leading strength, analyse the portfolio behaviour of leading and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector and measure the lending performances in quality, efficiency and its contribution in total income. The research finding of the study was that the measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable on discharging their current liability by current assets.

Mahat (2004) conducted a study on "Investment Policy of Nepal Bangladesh Bank Limited" with the objective to find out the Non-Performing Assets position of the bank, evaluate the portfolio management of the bank and find out the bank's investment on priority sector. The research finding of the study is that the proportion of non-performing assets on total loan and advances of the study is that the proportion of non-performing assets on total loan & advances of the bank is more than the satisfactory level. It should be less than 5% to be graded as internationally A-grade commercial bank. For the Nepalese contest, NPA level of bank is higher than the standards. So, the management of the bank should give its attention in time to manage NPA level within the satisfactory level.

Someshwar (2015) finds out on “An Investment Pattern of Scheduled Commercial Banks in India” that schedule commercial banks should be very much careful while investing its funds. An investment should ensure maximum profit and minimum risk. Banks are more concentrating on advances as compared to investments out of their total deposits. Thus there is downfall in income of banks, because return on investment is lesser as compared to interest income. Bank must be motivated to invest foreign securities to earn maximum foreign exchange. Thus portfolio of investment may be upgraded to earn maximum return on investment.

Thirumalai (2014) has found that on “An Investment Policy by Commercial Banks” commercial banks form the most important part of financial intermediaries. Banks form a significant part of the infrastructure essential for breaking vicious circle of poverty and promoting economic growth. It is known that the banks are not investing in the private company. His innovate idea is that it can be allowed up to 10%of its deposits to be invested in those sector too. It will induce the production level of many industries. And it also boosts up the operating profit. It helps in Industrial development and it increases standard of living. And this investment is must for the developing country like us for our development. It will also bring down the inflation rate prevailing in our country. So the money value will increase. This will enhance the development of our country in the nearby future.

Olokoya (2011) Commercial banks remain dominant in the banking system in terms of their shares of total assets and deposit liabilities. Their total loans and advances, a major component of total credits to the private sector are still on the increase in spite of the major constraints posted by the government regulations, institutional constraints and other macroeconomic factors. However, both government and commercial banks should be mindful of the facts that the environments in which they operate are important factors in the bank performance and behaviour. Where the environment is conducive and supportive, performance is enhanced and good lending behaviour guaranteed. But where the environment is unstable and harsh, the bank’s performances suffer. Commercial banks should note that they need to do a lot in order to ensure good lending behaviour even where a good measure of macroeconomic stability is achieved. It therefore follows that effort should be made by commercial banks to enforce the most easily realizable policies and good credit management in every situation.

Aigheyisi (2015) has investigated the “Determinants of Loans and Advances Extended by Microfinance Banks in Nigeria” using data spanning the period from 1992 to 2013. The empirical evidence indicates that the major determinants of the amount of loans and advances extended by MFBs are deposits, shareholders’ fund, liquidity ratio and inflation. Customers’ deposits positively affect MFBs’ loans and advances in the short-run and long-run, though the long run effect is not significant. Shareholders’ fund also positively affects MFBs’ loans and advances in the short-run and long-run. Inflation and liquidity ratio negatively affect the amount of loans and advances extended by the MFBs.

Olumuyiwa, Oluwatosin and Chukwuemeka (2012) have examined the “Determinants of Lending Behaviour of Commercial Banks in Nigeria” during the period of 1975 to 2010 using the secondary data and series of econometrics techniques. The author found that that there is positive relationship between loan and advances and volume of deposits, annual average exchange rate of the naira to dollar, gross domestic product at current market price and cash reserve requirement ratio except Investment portfolio and Interest rate (lending rate) that have a negative relationship. The authors asserted that there is a long run relationship between loan and advances and all the explanatory variables in the model and this shows that commercial bank has a lot of impact of their lending behaviour. Finally the authors have recommend and concluded that commercial bank should endeavour to create more deposit in other to improve their lending behaviour and should enforce the most easily realizable policies and good credit management in every situation.

Malede (2014) has examined “determinants of commercial bank lending in Ethiopia” by using panel data of eight commercial banks in the period from 2005 to 2011. The author tested the relationship between commercial bank lending and its some determinants (bank size, credit risk, gross domestic product, investment, deposit, interest rate, liquidity ratio and cash required reserve). Ordinary least square (OLS) result suggests that, there is significant relationship between commercial bank lending and its size, credit risk, gross domestic product and liquidity ratio. However, deposit, investment, cash required reserve and interest rate does not affect Ethiopian commercial bank lending for the study period.

Bhattari (2016) has examined the “determinants of lending behaviour (loan and advances) of commercial banks” listed in the Nepal Stock Exchange. The descriptive and causal comparative research designs have been adopted for the study. The pooled data of 4 commercial banks for the period 2007 to 2014 have been collected from the annual reports of the selected banks. The dependent variable used in the study is loan advance (LOA) and the independent variables used are: the bank size, liquidity, investment portfolio, cash reserve ratio and deposit to capital ratio. The estimated regression model reveals that bank size has positive and statistically significant relationship between commercial bank lending (loan and advances). Liquidity has negative and statistically significant impact on commercial bank lending (loan and advances). Likely, investment portfolio has negative and statistically significant impact on commercial bank lending (loan and advances). Moreover, cash reserve ratio has also negative and statistically significant impact on commercial bank lending (loan and advances). However, deposit to capital ratio (deposit) has negative but statistically insignificant relationship with commercial bank lending (loan and advances).

The regression results reveal that bank size has significant positive effect on loan and advances whereas liquidity ratio, investment portfolio and cash reserve ratio have significant negative effect on banks’ loan advances (LOA). This study concludes that the major determinants of commercial banks’ lending behaviour in Nepal are: bank size, liquidity, investment portfolio, and cash reserve ratio. This study recommends that commercial banks in Nepal should enhance their capacity in loan analysis and loan administration while the regulatory authority should pay more attention to the banks’ supervision focusing on the compliance of relevant provisions and directives towards the banking activities.

2.2.2 Review of Thesis

Joshi (2010) has conducted in his study on "Investment policy of commercial banks in Nepal" the objectives of his study is to discuss fund mobilization and investment policy of EBL and NABIL. To evaluate the growth ratios of loan and advances, total investment with other financial variables. To analyse the trend of deposit utilization towards total investment and loan and advances. The research findings of the study are, the EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan and advances. From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to NABIL and BOK. The total investment of EBL is in between in compared to other two banks. In analysis profitability, total interest earned to total outside assets of EBL is lowest to all. But all over analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e., NABIL and BOK. From the view point of risk ratio, EBL has higher capital ratio but average of credit risk ratio to compared to NABIL and BOK.

Raya (2012) has conducted the general objectives of the study is to discuss Investment Policy and Fund Mobilization of SCB, NABIL and NBBL in respect off-balance sheet an fund based balance sheet transaction. To evaluate the liquidity position, trend of deposit, investment and loan and advances. The major findings from the study are as follows. Mean ratio of cash and bank balance to total deposit of SCBNL is lower than NIBL and NBBL. SCBL has lowest cash and bank balance to current ratio. It has good deposit collection and has made enough investment on government securities but it has maintained low investment policy and on loan and advances. Comparatively SCBNL is in higher position than NABIL and NBBL, as well as it used to provide interest to the customers for different activities. He recommended the SCBNL for effective portfolio management and for project oriented approach. He also suggested enhancing the off balance sheet operation.

Khatiwada (2013) conducted a study on "Investment Analysis of Commercial Banks in Nepal" (A case study of HBL, NABIL, NSBI, EBL and BOK). Some of the specific objectives of this study are:

i. To examine the liquidity position of selected banks.
ii. To measure the relationship among deposit, loan and advances and investment of selected banks.
iii. To analysis the fund mobilization pattern of the related banks.

This study was carried out the basis of the secondary data. This research finding of study was:

i. The liquidity position of EBL is comparatively better than other funds banks. EBL has the highest cash and bank balances to deposit ratio and EBL has the highest cash and bank balance to current assets ratio. Thus, EBL has higher ability to meet the cash requirements. Comparatively BOK is more consistent bank then other banks.

ii. The assets management ratio shows that BOK is comparatively successful to provide loan and advances of its collected deposits and SBI to invest in the productive sector. The average ratio of investment on government securities of HBL seems stronger than other sample banks and investment on share and debentures of NABIL and SBI seems stronger than other banks.

iii. The credit risk ratio shows the comparatively EBL has lower risk than other sample banks. It means EBL was successful to attract the deposit and interbank fund, and utilize its loan and advances from total assets in safest way by taking high risk, which help to increase the level of profit and of the value of the firm.

iv. The profitability ratio (i.e. return on total assets ratio and return on loan and advances) shows that NABIL was successful in utilizing its overall working fund on profit generating activity than other selected banks. Total interest earned to total working fund ratio resulted that BOK was somewhat successful to collect the interest from outside assets than other banks. This analysis indicates that NABIL was comparatively better in profitability ratio with respect to other selected banks.

Dhungana (2013), in his thesis, “A comparative study on investment policy of Nepal Bangladesh Bank and other Joint Venture Banks” tries to compare the investment policy of NBBL with HBL and Nepal SBI Bank. The main objectives are to study the fund mobilization and investment policy with respect to fee based off balance sheet transaction and fund based on-balance sheet transaction. To evaluate the liquidity, efficiency of assets management and profitability position, the trend of deposit utilization towards total investment and loan and advances, growth ratios loan and advances and total investment with respective growth ratio of deposit and net profit. The major findings of the study are as NBBL has not good deposit collection, it doesn’t have made enough cash and bank balance and it has made negligible amount of investments in government securities. The assets management ratio were highly variable with reveals NBBL has not followed stable policy, the credit risk ratio and interest risk ratio of NBBL is higher than that of HBL and NSBI bank. Profitability solely depends on interest charged by a bank but the high interest rate risk of NBBL shows that bank is failure to maintain.

Malla (2017) in his thesis “Investment Practices of Commercial Banks in Nepal” tries to compare with NABIL, NSBI and SCBNL. The major objectives of the study are to find out the liquidity position of the selected banks. To find out the relationship between investment and loan, loan and advances net profit and assets. To compare investment policies anted fund mobilization of the selected banks. The major findings of the study are as the mean ratio of cash and bank balance to current assets ratio of SCB is lower than selected banks and liquidity position of the SCB is poorer than other banks. The ratio of EBL is more valuable than other banks. The mean ratio of investment on government securities to current assets of NABIL lower than other sample banks. The total investment to total deposit ratio of selected banks SBI has the highest mean ratio. SBI capacity to mobilize the deposit on total investment is highest among sample banks. The C.V of SCBL is lower than other banks so it has more able to utilize the overall resources consistent than other banks. There is high degree of significant relationship between deposit and loan and advance, deposit and total investment, total outside assets and net profit of banks.

2.3 Research Gap

There are various researches conducted on investment practice, policy, financial performance and fund mobilization of various commercial banks. Some of the researchers have done the financial performance between two or three different commercial banks. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring investment practices of commercial bank have been focused on the limited ratios, which are incapable of solving the problems, arise on the commercial banks. In this research very few research in investment pattern are used (loan and advance, gross loan, investment measured amortized cost; government bonds and government treasury bills and various ratio are systematically analysed and generalized. Past Researchers had not properly analysed about investment practices on bank and its impact on the profitability. The ratios are not categorized according to nature. So, my research is dedicated to fill up the cracks and gaps left by the earlier researchers.

CHAPTER - III

METHODOLOGY

This chapter aims to present and reflect the methods and techniques that are carried out during the study period. It covers quantitative methodology using financial and statistical tools. The research methodologies that are adopted for the present study are mentioned in this chapter that deal with research design, population and sample, nature of data and analysis of data.

3.1 Research Design

This study is based on descriptive research design. Some financial and statistical tools were adopted to evaluate the investment practices of commercial banks (Standard Chartered Bank Limited and Nepal SBI Bank Limited) in consideration not only to research about them but also to facilitate among them. The study is mainly based on secondary data gathering from respective annual reports of selected commercial banks especially from profit and loss account, balance sheet and other publication.

3.2 Population and Sample

There are 27 commercial banks listed in NEPSE up to the end of the fiscal year 2077/78. But, it is not possible to study all data related with these 27 commercial banks. Hence two banks have been taken as sample from the whole population of twenty seven banks. This study is based on convenience sampling method. The sample banks are Standard Chartered Bank Nepal Ltd. and Nepal SBI Bank Ltd. These sample banks are chosen on the basis of financial analysis of top blue chip commercial banks in Nepal (Thakali, 2018).

3.3 Nature and Sources of Data

The data are used in the study are fully secondary in nature. Published annual reports of the concerned banks are taken as a source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazines, journals articles, reports, bulletins, data from Nepal Stock

Exchange and Nepal Rastra Bank, related web site from internet etc. as well as other supplementary data and various economic surveys are also used.

3.4 Analysis of Data

Financial as well as statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios percentage mean standard deviations and coefficients of variations are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated and presented in the tables. To study the relationship between the two or more variables, correlation coefficients are also calculated. Likewise trend analysis is also used to known the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

1. Index Number

An index is indicator that indicates or represents the change in the amount between two distinct time periods, a base time period and another particular time period. Index number show the investment pattern of bank it is computed by current amount divided by base year amount multiply by 100.

2. Profitability Ratio:

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

i. Return on Equity:

Return on equity ratio measures the profit earning capacity of the banks by utilizing investment equity share i.e. equity .If bank will managed and efficiently on their equity, it will higher return. It is computed as:

Return on Equity = Net Profit/Total Equity Share

ii. Return on Total Assets Ratio:

Return on total assets ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If bank will managed and efficiently utilized its total assets, it will get higher return. It is computed as:

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

iii. Interest Income to Total Income Ratio:

This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the leading and investing and vice-versa. This ratio can be computed by dividing interest income by total income;

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

3. Arithmetic Mean (Average)

The arithmetic mean is a mathematical representation of the typical value of a series of numbers, computed as the sum of all the numbers in the series divided by the count of all numbers in the series. A simple arithmetic average is used to sum up the data as a representation of mean data. It is a value obtained by dividing the sum of the values by their numbers for periodic average of different components. Thus, the average is expressed as:

$$\text{Mean } (\overline{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of all data of a series

N = Number of all items in a series

During the analysis of data, mean is calculated by using the statistical formulas average on excel data sheet on computer.

4. Standard Deviation

The standard deviation is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. It shows the deviation or dispersion in absolute term. Higher the value of standard deviation the higher the variability and vice versa. Here, the standard deviation is used to find out the deviation in absolute term. The formula is used to calculate standard deviation;

$$\text{S.D.}(\sigma) = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

Here,

n = no. of observation and x = individual value

5. Coefficient of Variation (C.V.)

C.V. is the relative measure of dispersion based on the standard deviation. It is most usually used to measure the variation of data and more useful for the comparative study of variability in two or more series or graph or distribution. Following formula is used to calculate C.V.

$$CV = \frac{\sigma}{\overline{X}} \times 100$$

Here,

σ=standard deviation

$\overline{X}$= mean

CV= Coefficient of variation

6. Coefficient of Correlation

Correlation is a statistical tool, which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1, and -1. When r, the coefficient of correlation is +1, there is perfect relationship between two variable and vice-versa. When r is o, there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below:

$$\text{Correlation Coefficient (r)} = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

CHAPTER - IV

RESULTS

The section aims to study, evaluate and analyse those major Investment Practices which are mainly related to investment management and fund mobilization of Standard Chartered Bank and Nepal SBI Bank. The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. The major variables for the study are loan and advance, gross loan, total investment, investment on government securities, share and debenture and profitability position of selected commercial banks.

4.1 Investment Pattern

Investment pattern of the bank show entire sector which they funds invest. It can be analysed by the level of investment funds banks are maintaining. It measure in order to examine the loan and advance to bank, gross loan, investment securities measured amortize cost, investment in equity measured at FVTOCI, government bonds and government treasury bills to current assets are used.

i. Loan and Advance to bank

Loan and advance is the survival and earning unit of bank which is the most important factor for success of bank .It is that amount which deposit by customers. Bank invest loan and advance amount of many investment sectors which help to earn for interest to customers. Thus, bank must utilize loan and advance to have better profit and they increase investment level. Following table shows loan and advance (million) of five years during the study period.

Table 4.1

Loan and advance to bank (Amount in millions)

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	837.134	1296.832	1610.50	2134.85	2541.465	1684	662	39.31
SBI	1398.7	1827.460	2298.514	2872.202	4258.39	2530	787	39.10
Index(SCB)	100	154	124	132	190			
Index(SBI)	100	130	125	124	148			

Source: Annual report of SC Band SB from fiscal year 2014/15 to 2018/19.

The Table 4.1 shows that the total amount, means, standard deviation, co-efficient variation and index numbers of loan and advance to bank of SCB and SBI bank for five consecutive years. It is clear from the above table that loan and advance amount of the both bank are regularly increasing. Mean, S.D and C.V are 1684,662 and 39.31%of SCB and 2530, 787and 39.10%of SBI banks. By mean analysis SBI have higher profit then SCB so SBI bank higher capacity to mobilize its deposit on loan and advance comparison of SCB.S.D of SCB is less than SBI bank so SCB is less risk taker bank and SBI is high risker. By analysing C.V SBI have 39.10%less thenSCB39.31%.It means SBI battery mobilization resources. Similarly, the index numbers of SCB are 100,154,124,132and 190 from Fiscal Year 2014/15 to 2018/19 respectively. And SBI are 100,130,125,124 and 148 in Fiscal Year 2014/15 to 2018/19 respectively.

Figure 4.1 Loan and Advance to banks (amount in millions)

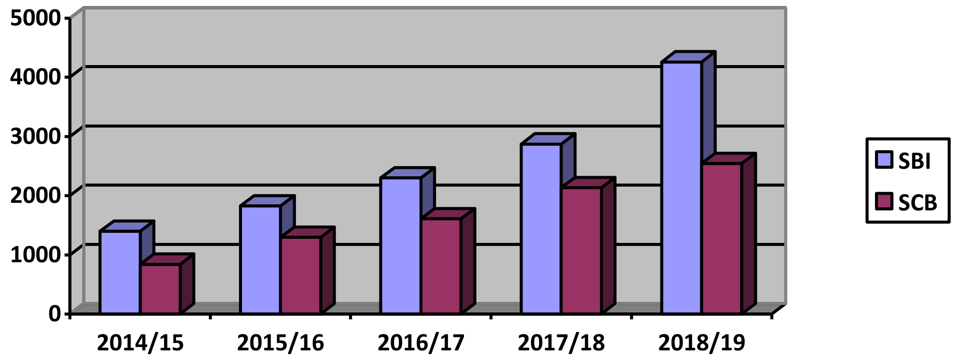


Figure 4.1 shows the loan and advance amount of SCB and SBI from the fiscal year 2014/15 to 2018/19. Figure shows the SBI bank have high amount of loan and advance than SCB. Both bank increasing amount year by year but 2018/19 highest increase position of SBI and SCB is continues increasing same pattern.

ii. Gross loan

Gross loan is the total amount of issued creditors given banks during the accounting period. Liquidity of bank can judged upon the amount gross loan .Bank liquidity position analysis through quick ratio, financial ratio, current assets. Better liquidity position of bank also better gross loan position .Gross loan directly effect of creditors so it is very important for bank reputation and customer satisfaction. Correct investment pattern output correct and better gross loan thus, customer satisfaction and courage more deposit.

Table 4.2

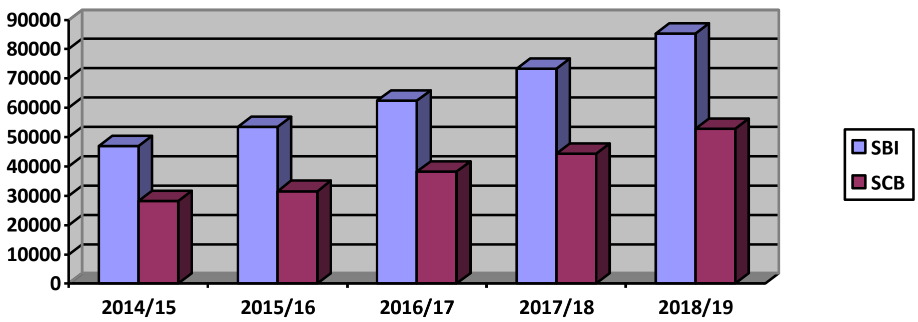
Gross loan (amount in millions)

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	28146.8	31593.21	38216.89	44351.282	52818.928	1684	662	39.31
SBI	46879.5	53563.87	62470.75	73284.85	85379.448	2530	787	31.10
Index(SCB)	100	112	123	115	119			
Index(SBI)	100	109	116	117	116			

Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The table 4.2 shows that the total amount, mean, S.D and C.V of gross loan cash of SCB and SBI bank. The amount of SCB is 28146.89, 31593.219, 38216.89, 44351.283 and 52818.928 from the fiscal year 2014/15 to 2018/19. Similarly, the amounts of SBI are 46879.56, 53563.87, 62470.75, 73284.85 and 85379.56 in fiscal Year 2014/15 to 2018/19 respectively. Both bank increasing their gross loan. The average ratio of SCB is 2530, respectively and SBI is 1684.15 respectively. Gross loan of SCB is less than SBI whereas SBI has the higher mean. The S.D of SCB is 662, SBI is 787 respectively. C.V of SCB is 39.31% respectively and SBI is 31.10% respectively. By C.V analysis, SBI is more uniformity than SCB and i.e. C.V of SBI 31.10% is less than SCB. From the above analysis we can conclude that the liquidity position of SCB is lesser than SBI bank which reveals that SCB has utilized its fund more efficiently. Similarly, the index numbers of SCB are 100,112,123,115and 119 from Fiscal Year 2014/15 to 2018/19 respectively. And SBI are 100,109,116,117 and 116 in Fiscal Year 2014/15 to 2018/19 respectively.

Figure 4.2 Gross loan



The figure 4.2 shows the total amount of gross loan of SCB and SBI bank. SBI has high gross loan to current assets. It means SBI bank is more appropriately manage their liquidity position rather than SCB.

iii. Investment Securities Measured Amortized Cost

The amortized cost falls under investment category and method to accounting which required financial assets under amortized cost method to be reported on balance sheet date at amortized cost which should equal to initial acquisition amount fewer deductions for principal repayment and adjustment amortization or implement it any.

Amortized cost measurement requires the application of the effective interest method. Investment securities measured at amortized cost = Debt security+ Government bonds+ Government treasury bills + Nepal Rasta Bank deposits- Specific allowance for impairment.

Table 4.3

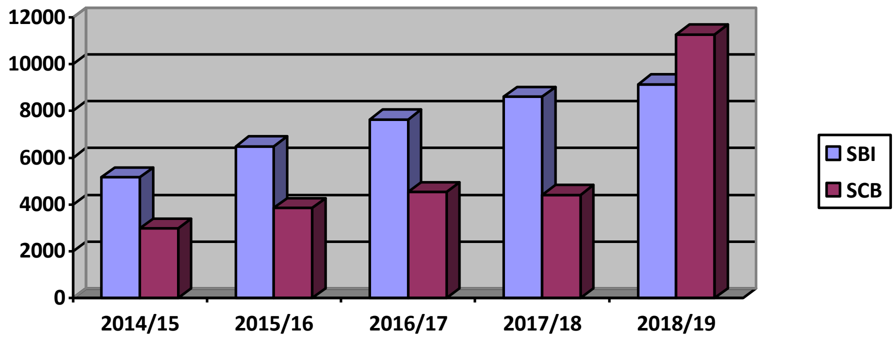
Investment Securities Measured Amortized Cost

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	2982.75	3857.99	4537.539	4418.931	11266.15	5412	3329	61.51
SBI	5162.59	6495.87	7641.90	8607.711	9136.32	7408	1608	21.71
Index(SCB)	100	129	117	97	254			
Index(SBI)	100	125	117	112	106			

Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The table 4.3 shows the amount of investment securities measured amortized cost of SCB and SBI. The investment securities measured amortized cost of SCB are 2982.753, 3857.99, 4537.539, 4418.931 and 11266.154respectively from the fiscal year 2014/15 to 2018/19 and the amount of SBI are , 5162.591, 6495.873, 7641.90 and 9136.32. The mean of SCB is 5412 and SBI is 7408 respectively. It can be clearly seen that the average of SBI is SCB i.e. 7408 is greater than during the five years of study period. This shows that SBI has highly investment securities measured amortized. The S.D of SCB is3329 and SBI is 1608. And the C.V of SCB is 61.51%, and SBI 21.71%.BY C.V analysis SBI has effective interest method apply and better use investment securities measured amortized. Similarly, the index numbers of SCB are 100,129,117,97and 254 from Fiscal Year 2014/15 to 2018/19 respectively. And SBI are 100,125,117,112 and 106 in Fiscal Year 2014/15 to 2018/19 respectively.

Figure 4.3 Investment Securities Measured Amortize Cost



The figure 4.3, it can be clearly seen that SBI bank investment securities measured amortize cost increasing 2014/15 to 2017/18 but lowest increasing in 2018/19.Similarly,SCB bank investment securities measured amortize cost highly increasing in year 2018/19.It mean SCB is adopt about time value of money, increasing profit margin and minimize credit risk.

4.4 Investment in Equity measured at FVTOCI

Investment inequity measured at fair value through other comprehensive income by calcite equity instrument (quoted equity securities+ unquoted equity securities).My make an irrevocable election to present in order comprehensive income subsequent changes in fair value of an investment in equity instrument that is not held for treading. If the investment in equity instrument is held for trading subsequence changes in fair value are always included in profit or loss.

Table 4.4

Investment in Equity Measured at FVTOCI

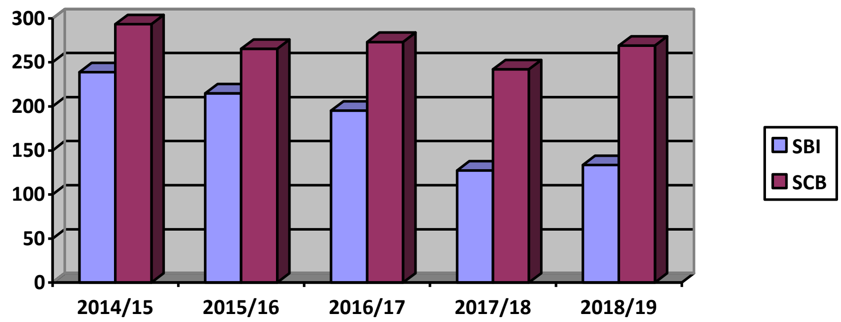
Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	293.167	265.25	273.13	242.06	269.01	268	18.14	6.7
SBI	238.9	214.67	195.18	127.27	133.495	181	48.79	26.9
Index(SCB)	100	90	102	88	111			
Index(SBI)	100	89	90	65	104			

Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The table 4.4 shows the investment in equity measured at FVTOCI of SCB and SBI of fiscal year 2014/15 to 2018/19. The amount of SCB is 293.167, 265.25, 273.13, 242 and 269. Similarly, the amounts of SBI are 238.9, 214.67, 195.18, 127.27 and 133.495 respectively. It is clear that the investment in equity measured at FVTOCI amount of SCB and SBI had been in greatly fluctuating during the study period. The average of SCB is 268and SBI 181 respectively. Here, SCB bank gets more profit than SBI. The S.D of SCB is 18.14 and SBI 48.74 and the C.V of SCB is6.7 % and SBI 26.93%.

In conclusion, SCB is more appropriately using this method then SBI. Similarly, the index numbers of SCB are 100, 90, 102,88and 111 from Fiscal Year 2014/15 to 2018/19 respectively. And SBI are 100,89,90,65 and 104 in Fiscal Year 2014/15 to 2018/19 respectively.

Figure 4.4 Investment in Equity Measured at FVTOCI



The figure 4.4 it is clear that the total investment to total deposit ratio of SCB and SBI had been in greatly fluctuating during the study period. The total investment to total deposit ratio of SCB and SBI both have been in decreasing trends although ratio of SCB increased in 2017/18. The average of SCB is 28.28% and SBI 29.98% . The S.D of SCB is 8.61% and SBI 9.52%. And the C.V of SCB is 30.46% and SBI 31.75%. Here, two banks have fairly the same average return, this means that banks were able utilize their deposits for higher return.

4.5 Government Bonds

Government bond is one of the most important issuance of the government to maintain the deficit budgetary system of Nepal. Government bond is a part of public (mahat, 1981). Government bond is a bond issued by national government, generally with a promise to pay periodic interest payment and to reply the face value on maturity date. Share and bond has risk to investment but government bond is risk free because of it have fixed maturity period and interest payment so all the banks and investors want invest in government bonds. Which bank higher invests in government bonds it's a good for those banks.

Table 4.5

Government Bonds

Banks	Fiscal Year					Mean	S.D	CV
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	262.58	260.58	256.64	253.67	150.67	237	48	20.38
SBI	1925.87	3924.219	5800	7526.239	9037.38	5642	2822	50
Index(SCB)	100	99	98	98	59			
Index(SBI)	100	203	147	129	120			

Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

Table 4.5shows that the total amount of government bonds of SCB are 262.58, 260.58, 256.64, 253.67 and 150.67 respectively from fiscal year 2014/15 to 2018/19. Similarly, the ratio of SBI is 1925.87, 3924.219, 5800, 7526.239 and 9037.38. Likewise, the mean of SCB and SBI are 237, 5642 respectively. By mean analysis, SBI has higher ratio than SBI. It means SBI has higher amount invest in government bonds and higher get return than SCB bank. The C.V of SCB is 20.38%and, SBI is 50% respectively. By C.V analysis, SBI has more uniformity than SCB since SBI has less CV 20.38% then SBI 50%. Similarly, the index numbers of SCB are 100, 99, 98,98and 59 from Fiscal Year 2014/15 to 2018/19 respectively. And SBI are 100,203,147,129 and 120 in Fiscal Year 2014/15 to 2018/19 respectively.

Figure 4.5 Government Bond (in millions)

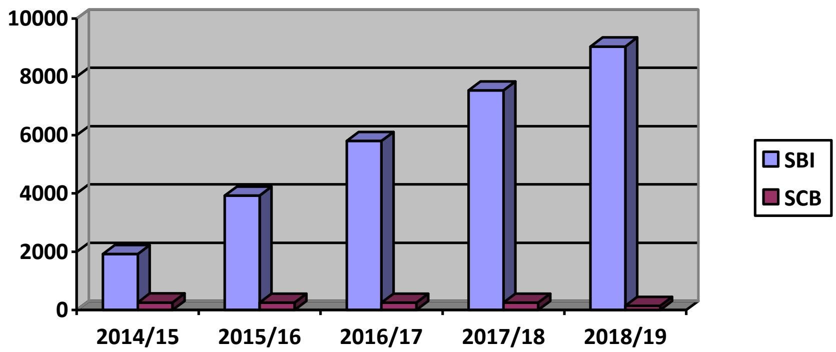


Figure 4.5 shows that government bonds total amount of SCB and SBI bank. SBI has the higher amount on fiscal year 2018/19. SBI has continuous increase amount of invest in government bonds rather than SCB. The average ratio of SBI is higher than that of SCB. It shows that SBI has highly used its investment comparing to SCB.

4.6 Government Treasury Bills

Treasury bills are instruments for short term borrowing issued by the central Government. They have the maturities of less than 1 year and part of money market in Nepal. It's only central government can issue T-bills, use by government to manage their short term liquidity, they have assured yield and negligible risk of default and it's issued at discount and are redeemed at par. Treasury bills is totally risk free so, all the banks can invest in T-bills. Higher invest in Government Treasury Bills is good for bank.

Table 4.6

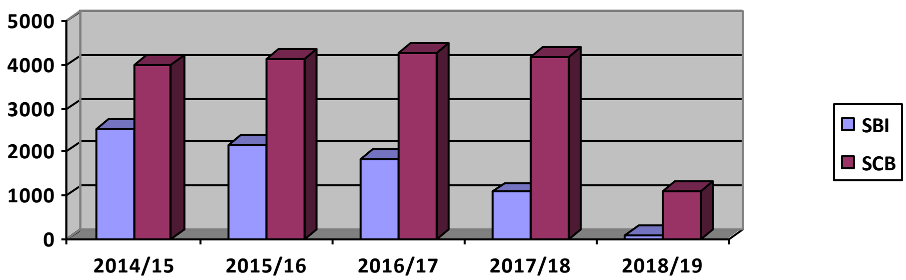
Government Treasury Bills

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	3982.52	4110.880	4280.89	4165.25	1115.456	5530	3123	56.47
SBI	2516.43	2145.86	1841.90	1081.47	98.943	1536	916	59.63
Index(SCB)	100	103	104	97	266			
Index(SBI)	100	85	85	58	9			

Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The table 4.6 shows that the amount Government Treasury Bills of SCB and SBI. The amounts of SCB are 3982.52, 4110.880, 4280.89, 4165.25 and 1115.456 from the fiscal year 2014/15 to 2018/19. Similarly, the amounts of SBI are 2516.43, 2145.86, 1841.908, 1081.47, 98.943 respectively. Likewise, It is clear that the amounts of SCB and SBI have been regular fall down the study. Here, average mean of SCB 5530 is higher than SCB1536.In terms of mean the SCB is better gets profit than SCB .By analysis of S.D SBI bank is low risk taker rather than SCB. The C.V of SCB is 56.47%, SBI 59.63% respectively. By C.V analysis, SCB is more uniformity than other sample banks i.e. C.V of SCB 56.67% is less than SBI 59.63%. In conclusion, SCB has highly and constant mobilization of fund than SBI. Similarly, the index numbers of SCB are 100,103,104,97and 266 from Fiscal Year 2014/15 to 2018/19 respectively. And SBI are 100,85,85,58 and 9.4 in Fiscal Year 2014/15 to 2018/19 respectively.

Figure 4.6 Government Treasury Bills



The figure 4.6, it is clear that the amounts of investment in T-bills continues fall down every periodic year. In a fiscal year 2016/17 highest amounts invest of SCB and 2014/15 of SBI bank.

4.2 Profitability Ratio

Profitability ratio measures the overall banking operation of the company in regards to the profit. Profitability ratio is determined by the financial institution to find out their profit earning capacity on various kinds of funds they employed. A bank can make the profit through the sound lending policy and the quality of service it provides. Higher is the profit ratio Higher will be the efficiency of the bank. Following are the some profitability ratio studied.

i. Return on Loan and Advances

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances.

Table 4.7

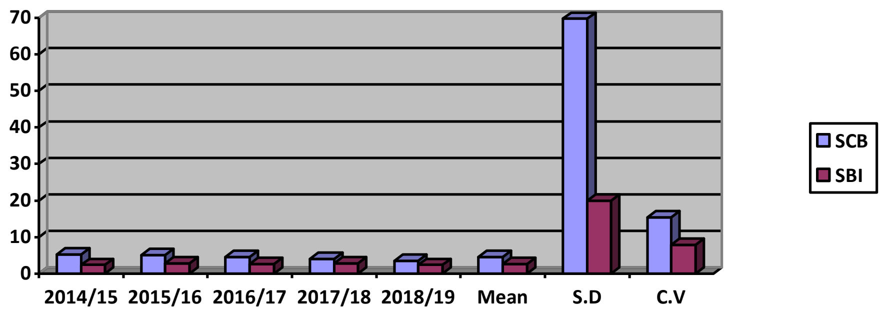
Return on Loan and Advances (%)

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	5.26	5.08	4.6	4.08	3.58	4.52	69.73	15.43
SBI	2.39	2.8	2.63	2.8	2.39	2.60	20.56	7.90

Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The table 4.10 shows that the ratio of return on loan and advances for the fiscal year 2014/15 to 2018/19. The ratios of SCB are 5.26%, 5.08%, 4.60%, 4.08% and 3.58%. Similarly, the ratios of SBI are 2.39%, 2.80%, 2.63%, 2.80% and 2.39%. SCB has highest rate of return on loan and advance on the year 2014/15 maintaining return of 5.26%, and SBI has lowest average level of rate of return 2.9%. SCB has average return of 4.52%, and SBI has 2.60%, respectively. SCB has the highest average rate of return on loan and advances with compare to SBI.SD of SCB are 69.73%, and SBI is 20.56%. By S.D analysis, SBI is less risky than compare to SCB (i.e. S.D of SBI 20.56% is less than SCB 69.73%) whereas SCB is more risky than SBI bank. CV of SCB is 15.43% and SBI is 7.90%. According to this table, SCB has lowest CV, which replicates SCB has higher consistency in return in loan and advances.

Figure 4.10 Returns on Loan and Advances



Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The figure 4.7 shows that SCB has the highest average Return on loan and advances from year 2014/15 to year 2015/16. SCB has average return of 4.52%,and SBI has 2.7 .SCB has the highest rate of return on loan and advances on the year 2012/13 maintaining return of 5.26%, and SBI has lowest average level of rate of return of 2.9%. SD of SCB is 69.73%, and SBI is 20.56%. CV of SCB is 15.43%and SBI is 7.90%. According to this table, SCB has lowest CV, which replicates SCB has higher consistency in return in loan and advances.

ii. Return on Total Assets (ROA)

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing resources i.e. total assets. If bank's will managed and efficiently utilized its working fund, it will get higher return.

Table 4.8

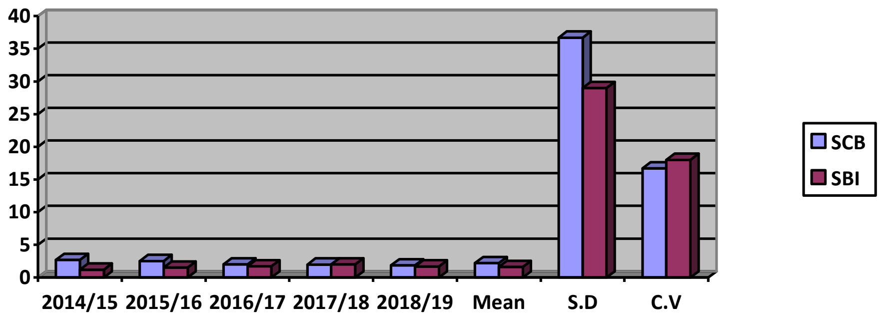
Return on Total Assets (%)

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	2.246	1.356	1.562	1.97	1.98	1.82	33.71	18.52
SBI	2.01	1.98	1.97	2.60	2.61	2.232	40.73	18.24

Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The table 4.8 shows that the return on total assets ratio of SCB and SBI banks for the last five years. The ratios of SCB are 2.247%, 1.35%, 1.1.562%, 1.97% and 1.98% from the fiscal year 2014/15 to 2018/19.Similarly, the ratios of SBI are 1.19%, 1.50%, 1.70%, 2.00% and 1.68% respectively. The return on assets ratio of selected banks is in fluctuating trend during the study period. SBI has the higher return in every year of the sample period where as SCB has low return. The average return of SCB is 1.82%, and SBI 2.232%. The S.D and C.V of SCB 33.74%, 18.52% and SBI 40.73%, 18.24%. SBI has high ratio which means it able to utilize its overall resources in efficient way in comparison with SCB bank. SBI has low C.V than SCB which mean SBI is more consistent in utilizing the overall resources efficiently.

Figure 4.8 Return on Total Assets (%)



Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The figure 4.11 shows that the return on total assets ratio of SCB and SBI banks for the last five years. SBI has the higher return in every year of the sample period where as SCB has low return. By mean analysis, SBI has higher ratio which means it able to utilize its overall resources in efficient way in comparison with SCB. S.D shows SCB is less risky than compare to SBI (i.e. S.D of SCB 33.72% is less than SBI 40.72%). SBI has low C.V than SCB which mean SBI is more consistent in utilizing the overall resources efficiently than compare to SCB bank.

iii. Interest Income to Total Income Ratio

Total interest earned to total outside assets ratio is calculated to know the extent to which the bank is successful to earn interest income on total outside assets. Higher ratio is favourable as higher ratio indicates Higher earning power of total outside assets of the banks.

Table 4.9

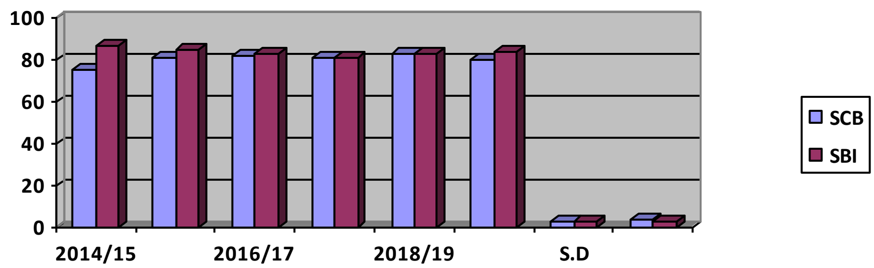
Interest Income to Total Income Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	74.83	81.12	81.81	81.43	83.37	80.51	3.29	4.09
SBI	87.76	85.30	83.27	81.23	83.40	84.19	2.46	2.92

Source: Annual report of SCB, and SBI from fiscal year 2014/15 to 2018/19.

The table 4.12 shows the interest income to total income ratio of SCB and SBI for the fiscal year 2012/13 to 2016/17. The ratios of SCB are 74.83%, 81.12%, 81.81%, 81.43% and 83.37%. Similarly, the ratios of SBI are 87.76%, 85.30%, 83.27%, 81.23% and 83.40% respectively. By The data almost banks has constant interest income. The average return of SCB is 80.51%, and SBI is 84.19% respectively. By the average ratio we can say that SBI has higher return than compare to SCB (i.e. SBI 84.19% is greater than SCB 80.51%) whereas The S.D of SCB is 3.29%, and SBI is 2.46% respectively. The C.V of SCB is 4.09%, and SBI is 2.92% respectively. Here C.V of SBI is lower than SCB bank which mean SBI is low risky and constant return than SCB.

Figure 4.9Interest Incomes to Total Income Ratio (%)



Source: Annual report of SCB and SBI from fiscal year 2014/15 to 2018/19.

The figure 4.12 shows the interest income to total income ratio of SCB and SBI banks. By the data almost all banks has constant return. SBI has higher interest income compare to SCB in all fiscal year of observation period. The S.D and C.V of SCB is 3.29%, 4.09% and SBI 2.46%, 2.92%. Here C.V of SBI is lower than SCB bank which mean SBI is low risky and constant interest income than SCB.

iv. Return on Equity

The return on equity is measure of the profitability of a business in relation to equity .Because shareholder's equity can be calculated by taking all assets and subtracting all liabilities.ROE is metric of how well the bank utilized its equity to generate profit. Effective investment policies in share get higher return. Return on equity show the total return form total equity.

Table 4.10

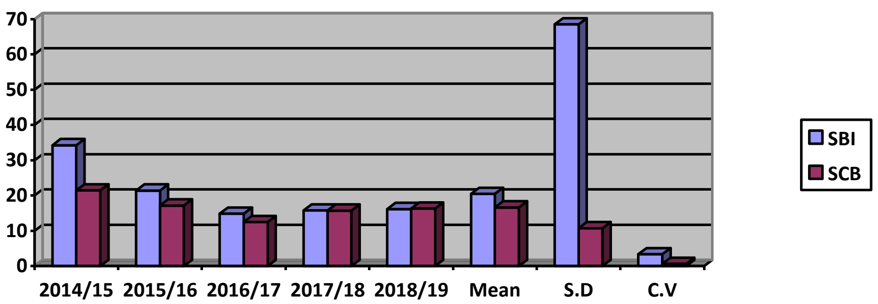
Return on Equity (%)

Banks	Fiscal Year					Mean	S.D	C.V
	2014/15	2015/16	2016/17	2017/18	2018/19			
SCB	21.50	17.17	12.52	15.72	16.31	16.64	10.75	0.64
SBI	34.29	21.42	14.84	15.80	16.19	20.50	68.5	3.34

Source: Annual reports of SCB, and SBI fiscal year 2014/15 to 2018/19.

The table 4.13 shows that the ROE of SCB and SBI of last five consecutive years. The ROE of SCB is 21.50%, 17.17%, 12.52%, 15.72% and 16.31% from the fiscal year 2014/15 to 2018/19. Similarly, EPS of SBI is 34.29%, 21.42%, and 14.28%, 15.80 % and 16.19% respectively. The average the ROE of SCB is 16.64%, SBI is 20.50%respectively. SBI has the highest return on equity compare to SBI. The C.V. of SCB is 0.64%and SBI 3.34% respectively. By comparing on C.V. SBI has the constant return then compare to SCB.

Figure 10 Return on Equity (%)



Source: Annual report of SCB and, SBI from fiscal year 2014/15 to 2018/19.

Figure 4.13 shows that the return on equity of SCB and SBI bank. Sample banks ROE has in decreasing increasing trend up to the fiscal year 2014/15 to 2018/19. SBI has the highest ROE as compare to SCB. In average the ROE of SBI is 20.50% and SCB is 16.64% respectively. SCBI has the constant return as compare to SBI.

4.3 Correlation Co-efficient (r)

Correlation analysis deals to determine the degree of relationship between two or more variables are treated as dependent and one or more variables are treated as independent. The correlation coefficient between two variables is treated as independent. The correlation coefficients between two variables X and Y denotes by r, is a numerical measure of linear relationship between them.

4.3.1 Correlation Co-efficient between profitability and Investment

Co-efficient of correlation (r) between profitability and total investment measures the degree of relationship between these two variables. Here, profitability is independent variable (X) and investment is dependent variable (Y). The purpose of computing coefficient of correlation between profitability and investment is to find whether deposit is significantly used as investment

Table 4.11

Correlation Co-efficient between profitability and Investment

Bank	Correlation Coefficient (r)
SCB	0.35
SBI	0.45

The table 4.11 shows the correlation coefficient (r) between profitability and investment of SCB and SBI bank. The correlation coefficient between profitability and investment of SCB is 0.35, and SBI 0.45. Here both sample banks have low positive correlation between profitability and investment. By the above correlation data we can say that both banks need to proper mobilize their investment most effectively also cooperatively SCB bank highly follows it.

4.4 Major Finding of the Study

Basically in this research work, all the data has been obtained from secondary sources. The data has been analysed by using financial as well as statistical tools.

This part of the study presents major finding of the study, which are derived from the analysis of investment practices of SCB and SBI which comparatively applying five years of data from 2014/15 to 2018/19. The major finding of the study derived from the analysis of financial tools of SCB and SBI bank are given below.

i. The Investment Pattern of SBI is comparatively better than SCB (i.e. SBI has the highest average of loan and advances with 2530).SBI is more Consistency and uniformity in investment pattern liquidity than that of SCB (i.e. C.V of SBI 31.10% is less than SCB 39.31%).Likewise, SBI has high investment on government securities to current assets than SCB whereas, SCB has low investment. This means that SBI is maintaining good investment pattern whereas SCB has the week investment pattern position among the SBI. Overall, both sample banks have maintained good liquidity position and capable to meet quick cash requirement of customers this result is contrary to finding of Khatiwada (2013).

ii. The profitability ratios (i.e. return on loan and advances, total assets, interest income to total income and ROE) shows that SBI was successful in utilizing it's over all assets on profit generating activities than compare to SCB. The interest income to total income ratio result that SBI was successful to earn high income than SCB. ROE of SBI is far better than sample bank and able to provide high return from equity (i.e. average ROE of SBI 20.50% is greater than SCB 16.64%). Whereas, SCB is less risky and able to generate constant return than compare to SBI.

iii. The correlation co-efficient show that there is positive relationship between profitability and investment (SBI0.45and SCB0.35) of both banks.

CHAPTER - V

CONCLUSION

This chapter presents the summary of the study, conclusions derived from the analysis of data and their interdependent and recommendation offered for the improvement of the investment practices and policies of the banks under study. Thus, the chapter is divided on to three sections. The first section of this chapter focuses on summarizing the whole study, second section draws conclusions from the analysis of data and interpretation of the results there of and the third section offers recommendations for the improvement of the investment policy of the concerned banks.

5.1 Summary

The study was conducted with the specifics objectives to examine the investment pattern of banks, to examine the relationship between profitability and investment of banks. To achieve these specific objectives, the descriptive research design is used. Data are collected through secondary sources. Annual reports of corresponding banks are used. Total 27 commercial banks currently operating in Nepal are the population for the study. Among the 27 commercial banks, two banks are taken as a sample banks by using convenience sampling method. The data has been used in this study are included from fiscal year 2014/15 to 2018/19.

The various financial tools statistical tools are used. Index number and profitability ratio, similarly, statistical tools includes are such as mean, S.D, C.V. correlation. The finding of this study indicates that the SBI has the good investment pattern on loan and advances, gross and government securities. And SBI has higher average amount and more utilizing their investment amount. While observed the relationship between profitability and total investment, finding shows that there is a positive relationship profitability and total investment.

5.2 Conclusion

The sample banks have good investment pattern by utilized most of the funds in the form of investments. The investment pattern from index number analysed: loan and advance, gross loan, investment securities measured amortized cost and government bonds was high investment pattern of SBI bank so, SCB bank need properly utilized their investments.

Overall profitability analysed SBI bank has got more profit compare than SCB. Coefficient of variation indicates SCB has more risky because it has higher CV than SBI. The high return is good sign of company growth and it is always positive for investment in such company for investor. It concluded that both bank has need proper mobilized their collect funds and use effectively sound of investment policy. SCB bank highly needs to adopt it as a comparison SBI bank for high return.

5.3 Implications

In order to minimize the risk and maximize the profitability of Nepalese commercial banks, banks should invest its funds in most profitable investment sectors. The finding of this study has following implications:

1. Overall index numbers indicate SCB bank investment pattern is higher as compared to SBI. So, it is recommended that SBI have high amount should invest in investment instruments to increase bank funds.
2. The overall profitability ratio of SCB is lower both sampled banks, so SCB needs to revise its investment portfolio to improve its earning capacity.
3. It is recommended that further research can be conducted by considering the more regression analysis, trend analysis, theoretical framework also financial report of more than five years, as well as more sample banks.

REFERENCES

Aigheyisi, O.S. (2015). Determinants of loans and advances extended by micro-finance banks in Nigeria. *Hyperion Economic Journal*, 4(3). 23-32.

Bhatta, R. (2017, March 28). Liquidit crunch. *The Himalayan Times*, 10(14).13-17 Retrieved from http://www.thehimalayantimes.com

Bhattari, Y.R. (2016). Determinants of lending behaviour on Nepalese commercial banks. *Journal of Studies in Management and Planning*, 2(6).12-17

Dhungana, K. (2013). *A Comparative Study on Investment Policy of Nepal Bangladesh Bank and Other Joint Venture Banks.* An Unpublished Master Degree Thesis, T.U. Shanker Dev Campus, Kathmandu.

Joshi, H. (2010). *Investment Policy of Commercial Bank in Nepal.* An Unpublished Master Degree Thesis, T.U. Shanker Dev Campus, Kathmandu.

Khatiwada, K. (2013). Investment *Analysis of Commercial Banks in Nepal*. An Unpublished Master Degree Thesis, T.U. Central Department of Management, Kathmandu.

Limbu, S. (2008). *Credit Management of NABIL Bank Limited.* An Unpublished Master Degree Thesis, T.U. Central Department of Management, Kathmandu

Mahat, S.C. (2004). *Investment Policy of Nepal Bangladesh Bank Limited*. An Unpublished Master Degree Thesis, T.U. Shanker Dev Campus, Kathmandu.

Mahmoud, S. (1987). *Frozen money, banks & economy.* Riyadh: mars publishing house.

Malede, M. (2014). Determinants of commercial banks lending: Evidence from Ethiopian commercial banks. *European Journal of Business and Management*, 6(20). 109-117.

Malla, B. K. (2017). Credit portfolio management of Nepalese commercial banks. *The journal of Nepalese Business Studies,* 10(1). 102-109.

Ojha, L.P. (2002). *Lending Practices: A Case Study on NABIL Bank Ltd., SCB Nepal Ltd., and Himalayan Bank Ltd*. An Unpublished Master Degree Thesis, T.U. Shanker Dev Campus, Kathmandu.

Olokoyo, F.O. (2011). Determinants of commercial banks lending behaviour in Nigeria. *International Journal of Financial Research*, 2(2). 61-72.

Olumuyiwa, O.S., Oluwatosin, O.A. & Chukwuemeka, O. E. (2012). Determinants of lending behaviour of commercial banks: evidence from Nigeria: A co-integration analysis (1975-2010). *IOSR Journal of Humanities and Social Science*, 5(5). 71-8.

Pokherel, P. (2011). A.B management consulting. *A Research Report on Source of Fund and its Mobilization in Commercial Banks*, 7(11).3-9.

Poudel, N. P. (2002). An Assessment of return and risk elements. *Investment of Shares in Commercial Banks in Nepal*, 14(2).7-11.

Raya, R. (2012). *Investment Policy and Analysis of Commercial Banks in Nepal.* An unpublished Master Degree thesis, T.U Central Department of Management, Kathmandu.

Sharma, P. (2018, February 26). Central bank intends to reduce number of banks to,

3(2). 15-18. *The Kathmandu Post*. Retrieved from http//www.kathmandupost.com

Shirai, S. (2017a). *Tokyo as a leading global financial centre: The vision under the spotlight again*, Asian Development Bank.

Shrestha, R. (2017, February 3). Liquidity crunch to, 2(5). 3-7. *The Himalayan Times*, Retrieved from http://www.thehimalayantimes.com

Shrestha, S.R. (1993). *Portfolio Management in Commercial Banks: Theory and practice*, Banking Khabar Patra, Baishakh Mashanta Edition, Kathmandu: NB Ltd.

Someshwar, P. (2015). An Investment pattern of scheduled commercial bank in *India*. *Abhinav National Monthly Referred Journal of Research in Commerce and Management*, 4(12).7-11.

Thakali, A. (2018, March 22). *The financial analysis of top blue chip commercial banks to, 7(4).4-6.* Retrieved from https://www.sharesansar.com

Appendix-I

Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 70.21% in the company with 29.79% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

With 15 points of representation, 23 ATMs across the country and with more than 450 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its clients and customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services to a wide range of clients and customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBL) is a subsidiary of State Bank of India (SBI) having 55 percent of ownership. The local partner viz. Employee Provident Fund holds 15% equity and General Public 30%. In terms of the Technical Services Agreement between SBI and the NSBL, the former provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC), consisting of the Managing Director & CEO, Chief Operating Officer & Dy. CEO, Chief Financial Officer, Chief Risk Officer and Chief Credit Officer, exercises overall control functions with the help of 3 Regional Offices, and oversee the overall operations of the Bank.

NSBL was established in July 1993 and has emerged as one of the leading banks of Nepal, with 869 skilled and dedicated Nepalese employees working in a total of 83 outlets, which includes 72 branches, 7 extension counters, 3 Regional Offices and

Corporate Office. With presence in 39 districts in Nepal, the Bank is providing value added services to its customers through its wide network of 110 ATMs (including 2 Mobile ATMs and 4 CRMs), internet banking, mobile wallet, SMS banking, IRCTC Ticket Online Booking facility, etc. NSBL is one of the fastest growing Commercial Banks of Nepal with more than 8.33 lakhs satisfied deposit customers and over 6.50 lakhs ATM/Debit cardholders. The Bank enjoys leading position in the country in terms of penetration of technology products, viz. Mobile Banking, Internet Banking and Card Services. The Bank is moving ahead in the Nepalese Banking Industry with significant growth in Net Profit with very nominal NPA. As of 31st Chaitra, 2076, the Bank has deposits of Rs.83.66 billion and advances (net) of Rs.74.05 billion, besides investment portfolio of Rs.17.93 billion.

1. Loan and Advance to bank and financial institutions (Amount in millions)

Years	Amount (SBI)	Index	Amount (SCB)	Index
2014/15	1398.70	100	837.134	100
2015/16	1827.460	130	1296.832	154
2016/17	2298.514	125.77	1610.50	124.18
2017/18	2872.202	124.95	2134.85	132.55
2018/19	4258.390	148.202	2541.465	190.46

2. Gross loans (Amount in millions)

Years	Amount(SBI)	Index	Amount(SCB)	Index
2014/15	46879.567	100	28146.893	100
2015/16	53563.872	109.5	31593.219	112.24
2016/17	62470.753	116	38261.897	121.107
2017/18	73284.854	117.32	44351.282	115.91
2018/19	85379.448	116.48	52818.928	119.092

3. Investment securities Measured Amortize cost (Amount in millions)

Years	Amount(SBI)	Index	Amount(SCB)	Index
2014/15	5162.591	100	2982.753	100
2015/16	6495.873	125.82	3857.993	129
2016/17	7641.90	117.64	4537.539	117.61
2017/18	8607.711	112.63	4418.931	97.38
2018/19	9136.328	106.14	11266.154	254.952

4. Investment in equity measured at FVTOCI (Amount in millions)

Years	Amount(SBI)	Index	Amount(SCB)	Index
2014/15	238.946	100	293.167	100
2015/16	214.674	89.842	265.259	90.48
2016/17	195.183	90.92	273.136	102.969
2017/18	127.277	65.20	242.063	88.62
2018/19	133.495	104	269.01	111.13

5. Investment Securities Measured At Amortized Cost

a. Government Bonds (Amount in millions)

Years	Amount(SBI)	Index	Amount(SCB)	Index
2014/15	1925.872	100	262.584	100
2015/16	3924.219	203	260.653	99.26
2016/17	5800	147.8	256.646	98.463
2017/18	7526.239	129.76	253.672	98.84
2018/19	9037.385	120	150.697	59.40

b. Government Treasury Bills (Amount in millions)

Years	Amount(SBI)	Index	Amount(SCB)	Index
2014/15	2516.43	100	3982.52	100
2015/16	2145.86	85.27	4110.880	103
2016/17	1841.908	85.83	4280.893	104.135
2017/18	1081.472	58.71	4165.258	97.29
2018/19	98.943	9.14	1115.456	266.816

Years	SBI		SCB	
	ROA	ROE	ROA	ROE
2014/15	2.246	34.29	2.01	21.50
2015/16	1.356	21.42	1.98	17.17
2016/17	1.56	14.84	1.97	12.520
2017/18	1.97	15.80	2.60	15.72
2018/19	1.93	16.19	2.61	16.31

INVESTMENT PRACTICES OF NEPALESE COMMERCIAL BANKS

(With Reference to Standard Chartered Bank Ltd. and Nepal SBI Bank Ltd.)

A Thesis Proposal

Submitted By:

Shriste Upadhayay

Central Department of Management

Exam Roll No.: 1240/17

Campus Roll No: 225

T.U. Regd. No.: 7-2-475-82-2011

Submitted in partial fulfilment of the requirements for the degree of

(Master of Business Studies (MBS Semester)

In the

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

November, 2020

TABLE OF CONTENTS

		Page No.
CHAPTER -1: INTRODUCTION		**1-6**
1.1	Background of the Study	1
1.2	Statement of the Problem	3
1.3	Objectives of the Study	4
1.4	Significance of the Study	5
1.5	Limitation of the Study	5
CHAPTER - 2: REVIEW OF THE LITERATURE		**7-8**
2.1	Review of the related studies	7
CHAPTER - 3: METHODOLOGY		**9-12**
3.1	Research Design	9
3.2	Population and Sample	9
3.3	Nature and Sources of Data	9
3.4	Analysis of Data	10
REFERENCES		

CHAPTER - I
INTRODUCTION

1.1 Background of the Study

An investment is the current commitment of funds for a period of time to drive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for the uncertainty in the future flow the funds (Reilly, 2015). Investment in the actual sense refers to the sacrifice of current dollars for future dollars. Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, and the magnitude of which is uncertain. In some cases the element of time predominates (for example, government bonds).In other case, risk is more dominant (for example call option on common stock). In yet others, both time and risk play a dominant role (for example share of common stock). Investment is the use of money to earn profit. Investment is concerned with the proper management of the investor's wealth, which are the sum of the current income and the present value of all future income.

Investment refers to the sacrifice of present financial resources with the view to get additional benefit in future. It is the employment of funds with the aim of achieving additional income of growth in the invested value. Investment is concerned with the management of an investor's wealth which are the sum of current income and the present value of all future income funds to be invested come from assets already owned, borrowed money and saving or forgone consumption by forgoing today and investing the saving, investors expects to enhance their future consumption possibilities i.e., they are invested to increase the wealth. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment. For our purpose in the study of the financial institution the investment problem will revolve around the concept of managing the surplus financial assets in such a way which will lead to the wealth maximization and providing a significant further source of income (Limbu, 2008).

An investment implies the outlay of funds for a relatively long period. Good management of investment portfolios of the banks will improve their financial position, which in turn will make it better able to serve their customers optimally, leading to increased productivity and effectiveness of banking services and more able to keep up with economic development and global competition. As commercial bank engages in investing its resources in different financial instruments that bears interest for the bank, its ability of lending also increase (Bhattari, 2016).

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the bank, the bank may invest by lending the funds to various businesses. These firms in return may invest in new factories and equipment to increase their production and efficiency. In addition to borrowing from banks, most companies issue stocks and bonds, which they sell to investors to raise capital needed for business expansion. Government also issues bonds to invest in various projects. Nepal Rastra Bank on behalf of Nepal Government issues bonds, treasury bills to finance the long term and short-term needs of the government. All such investment by individuals, business, government and government entities involve a present sacrifice of income to get an expected future benefit.

Banholzer (2017), Capital-investment performance can have an enormous impact on an organization’s value, and it can drive growth and increase overall returns on invested capital. The best companies use a clear capital-allocation strategy to build winning portfolios. They link strategic imperatives to a target capital portfolio, setting and communicating targets for growth and productivity improvements and for sustaining capital expenditure.

Based on the review of above discussion and given definitions, investment is sacrifice of current money or other resources for future benefits. Investment is the management of the surplus resources; it is the employment of fund with the aim of achieving additional income of growth in the invested value. It involves the commitment of resources that have been saved or put away from current consumption, in the hope of that same benefit will produce in future. The specific purpose of this study is to identify the liquidity and profitability position, to examine relationship among deposit, loan and advance and investment and comparative study of banks on fund mobilization and investment policy of selected commercial banks of Nepal. Out of 27 commercial banks in Nepal, 3 commercial banks are taken for the study and they are Standard chartered Bank Nepal ltd. and Nepal SBI Bank ltd.

1.2 Statement of the Problems

An investment should ensure maximum profit and minimum risk. Commercial banks should be very much careful while investing its funds. Banks are more concentrating on advances as compare to investments out of other total deposits. Thus there is downfall in income of banks, because return on investment is lesser as compared to interest income. Bank must be motivated to invest foreign securities to earn maximum foreign exchange. Thus portfolio of investment may be upgraded to earn maximum return on investment (Someshor, 2015).

The banking sector in Nepal has been suffering a liquidity crunch for months. As a result, the commercial banks have tightened loans. Lending in real estate, share market and automobiles has been halted as these sectors are considered unproductive sectors (Bhatta, 2017).Lack of sound investment policy is another reason for commercial banks not utilizing its deposits that are making loan and advances or lending for a profitable project. This condition may even lead the commercial banks to the position of liquidation.

Chief among multiple reasons behind the starvation of liquidity and feeble economy in the country is the government's inability to spend capital expenditure, exponential growth in credit and banks' failure to win the confidence of depositors. As a result, commercial banks have been suffering from a liquidity crunch for a while are now not only squeezed by the Credit to Deposit (CD) ratio but also gradually being pushed towards a credit crunch. Nepal Rastra Bank (NRB) has set the CD ratio at 80:20, which means a bank cannot lend more than 80 percent out its deposits (Shrestha, 2017).

Feb 26, 2018-Commercial banks are once again facing shortage of cash to provide loans to borrowers. As in the last fiscal year, the problem cropped up after banks could not strike a balance between deposit collection and credit disbursement. Banks are lately witnessing deceleration in deposit growth due to decline in remittance income and slow public expenditure. On the other hand, there is huge demand for credit from investors and consumers, as business climate is improving. Currently, banks are allowed to extend 80 percent of their total deposit and core capital as loans. This is referred to as the credit to core-capital-cum-deposit (CCD) ratio (Sharma, 2018)

The number of commercial banks and financial institutions are establishing speedily. These institutions have been established to assist the process of economic development of the country. The major problem in almost all under developed countries and Nepal is formation and proper utilization of capital. Due to the high competition between the financial institutions, the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. Therefore, it raised the problems of investment and proper mobilization of collected funds (Pokheral, 2011).

The issues specially related to investment functions of the commercial banks under study have been presented briefly as under.

1. What is the investment pattern of the selected banks?
2. What is the relationship between profitability and investment of the selected Banks?

1.3 Objectives of the Study

Effective and efficient and mobilization and investment policy is two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposit collection carries no meaning. Investment decision is one of the major decision functions of financial management. Investment policy of collected fund is the most important theme from the point of both management and shareholders and good investment policy has a positive impact on economic development of the country and vice versa. The objective of the study is to assess and evaluate the investment policy and strategies followed by the Standard Chartered Bank and Nepal SBI Bank. Besides these, the following specific objectives are to support the evaluation and studies are as follows:

1. To examine the investment pattern of the selected Bank.
2. To measure the relationship between profitability and investment of the

Selected banks?

1.4 Significance of the Study

The successful mobilization and utilization of domestic resources in must for any developing country to inspire a sustainable economic development. The commercial banks have played vital role in the collection of scattered small savings from mass and converting them into meaningful investment. Deposit collection has no meaning, if it is not invested properly. Thus investment activity is the lifeblood of any financial institution as well as nation. Better return and sustainability are only possible through proper utilization of fund as investment. So, the investment practice is very important for the commercial banks. The sound investment policy play vital role to earn good return from investment.

The comparative study on investment practice of commercial banks would provide useful information to the management of concerned bank that would help them to take corrective action to improve the weaknesses to investment. Similarly, the concerned persons would get required information and can take the decision to make investment on shares of bank. In the same way the academic institution, bank employees, trainees and the others concerned with commercial banks would get useful feedback from this study. The study will certainly help management of selected banks to improve their performance and formulating the investment policy regarding commercial banks.

1.5 Limitations of the Study

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

i. The research study will be based on secondary data, the accuracy of results and conclusion highly depends upon the reliability of these data.

ii. This study only covers the data of five financial years which may not show the overall performance of banks.

iii. This study has taken based on only two commercial banks as sample. Thus finding may not represent the overall investment practices of commercial banks in Nepal.

iv. This study is based on descriptive study on investment practices of commercial banks in Nepal, so finding may not be applicable for decision making.

v. 6. Out of numerous affecting factors this study concentrates only on those factors, which are related with investment practices and policy of commercial banks.

CHAPTER - II
REVIEW OF LITERATURE

This chapter shows the background of the work and a review of recent and reticent lecture. During the review of this research, the depth study has been made on the theoretical aspect of investment practices and policies of selected commercial banks. Hence, in this chapter the focus has been made on the review of litterateur relevant to the investment practices and policy of commercial banks in Nepal. For these study different books, annual reports, articles from journals and research papers related to this topic have been reviewed.

2.1 Review of the Related Studies

Banking and industry has acquired a key position in mobilizing resources of finance and social economic development of the country. No function is more important to the economy and it constitutes than financing. "Bank assists both the flow of goods and services from the products to the consumer and financial activities of the government. Banking provides the country with a monetary system of payment and its important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy" (American institute of banking, 1972).

Shrestha (1993) in her research, "commercial bank in Nepal" has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she conclude that the bank portfolio (loans and investment planning of commercial banks has been influence by the variables securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory procedure of the central bank (Nepal Rastra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility.

Ojha (2002) conducted a study on "lending practices: A study on NABIL bank ltd., SCB Nepal ltd., and Himalayan bank ltd." With the objective to determine the liquidity position, the impact of deposit in liquidity and its effects on leading practices, measure the bank’s leading strength, analyse the portfolio behaviour of leading and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector and measure the lending performances in quality, efficiency and its contribution in total income. The research finding of the study was that the measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable on discharging their current liability by current assets.

Someshwar (2015) finds out on “An Investment Pattern of Scheduled Commercial Banks in India” that schedule commercial banks should be very much careful while investing its funds. An investment should ensure maximum profit and minimum risk. Banks are more concentrating on advances as compared to investments out of their total deposits. Thus there is downfall in income of banks, because return on investment is lesser as compared to interest income. Bank must be motivated to invest foreign securities to earn maximum foreign exchange. Thus portfolio of investment may be upgraded to earn maximum return on investment.

Thirumalai (2014) has found that on “An Investment Policy by Commercial Banks” commercial banks form the most important part of financial intermediaries. Banks form a significant part of the infrastructure essential for breaking vicious circle of poverty and promoting economic growth. It is known that the banks are not investing in the private company. His innovate idea is that it can be allowed up to 10%of its deposits to be invested in those sector too. It will induce the production level of many industries. And it also boosts up the operating profit. It helps in Industrial development and it increases standard of living. And this investment is must for the developing country like us for our development. It will also bring down the inflation rate prevailing in our country. So the money value will increase. This will enhance the development of our country in the nearby future.

CHAPTER - III
METHODOLOGY

This chapter aims to present and reflect the methods and techniques that are carried out during the study period. It covers quantitative methodology using financial and statistical tools. The research methodologies that are adopted for the present study are mentioned in this chapter that deal with research design, population and sample, nature of data and analysis of data.

3.1 Research Design

This study is based on descriptive research design. Some financial and statistical tools were adopted to evaluate the investment practices of commercial banks (Standard Chartered Bank Limited and Nepal SBI Bank Limited) in consideration not only to research about them but also to facilitate among them. The study is mainly based on secondary data gathering from respective annual reports of selected commercial banks especially from profit and loss account, balance sheet and other publication.

3.2 Population and Sample

There are 27 commercial banks listed in NEPSE up to the end of the fiscal year 2077/78. But, it is not possible to study all data related with these 27 commercial banks. Hence two banks have been taken as sample from the whole population of twenty seven banks. This study is based on convenient sampling method. The sample banks are Standard Chartered Bank Nepal Ltd.and Nepal SBI Bank Ltd.

3.3 Nature and Sources of Data

The data are used in the study are fully secondary in nature. Published annual reports of the concerned banks are taken as a source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazines, journals articles, reports, bulletins, data from Nepal Stock Exchange and Nepal Rastra Bank, related web site from internet etc. as well as other supplementary data and various economic surveys are also used.

3.4 Analysis of Data

Financial as well as statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios percentage mean standard deviations and coefficients of variations are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated and presented in the tables. To study the relationship between the two or more variables, correlation coefficients are also calculated. Likewise trend analysis is also used to known the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

The following mentioned financial and statistical tools will be used to interpret the data:-

1. Index number
2. Profitability Ratio
3. Arithmetic Mean
4. Standard Deviation (S.D)
5. Coefficient of Variance (C.V)
6. Coefficient of Correlation (R)

REFERENCES

Bhatta, R. (2017, March 28). Liquidity crunch to, 10(14).13-17.*The Himalayan Times*. Retrieved from http://www.thehimalayantimes.com.

Bhattari, Y.R. (2016). Determinants of lending behaviour on Nepalese Commercial banks. *Journal of Studies in Management and Planning*, 2(6).12-17.

Joshi, H. (2010). *Investment Policy of Commercial Bank in Nepal.* Unpublished master level thesis, T.U. Shankar Dev Campus, Kathmandu.

Limbu, S. (2008). *Credit Management of NABIL Bank Limited.* An unpublished Master Degree Thesis, T.U. Central department of Management, Kathmandu.

Pokherel, M. (2011).A.B management consulting. *A Research Report on Source of Fund and its Mobilization in Commercial Banks.*. 7(11).3-9.

Raya, R. (2012). *Investment Policy and Analysis of Commercial Banks in Nepal.* Unpublished Master Degree Thesis, T.U. Central department of Management, Kathmandu.

Reilly, S. (2015). *Investment Analysis and Portfolio Management.* Dryden Press, New Work.

Sharma, P. (2018, February 26). Central bank intends to reduce number of banks to, 2(3).15-18.*TheKathmanduPost*.Retrievedfrom http://www.kathmandupost. com.

Shrestha, R. (2017, February 3). Liquidity crunch to, 2(5).3-5. *The Himalayan Times*. Retrieved from http://www.thehimalayantimes.com.

Shrestha, S.R. (1993). *Portfolio Management in Commercial Banks: Theory and Practice*. Banking Khabar Patra, Baishakh Mashanta Edition, Kathmandu: NB Ltd.

Someshwar, P. (2015). An investment pattern of scheduled commercial bank In India. *Abhinav National Monthly Referred Journal of Research in Commerce and Management*. 4(12).7-11.

Thirumalai, R.S (2014). *Department of Management Studies .Periyar Maniammai University, Thanjavur.* Tamil Nadu. 3(11).