CHAPTER – I

INRODUCTION

1. INRODUCTION

1.1 General Background:

Investment policy is one fact of the overall range of policies that guide banks investment operation. A healthy development of any banks depends upon its investment policy. A good policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The commercial banks have several guided principles to provide loan such as profitability, liquidity, safety, purpose, length of time etc. These fundamental principles of commercial banks investment are considered while making investment policy.

The profit of a bank largely depends upon the lending practices and policies and investments opportunities in different sectors. Investment activity of the one of the majors activity of any financial institution because only deposit collection carries no meaning. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors. Therefore, the funds received by the bank should be invested in such a way that they will be readily available to repay and distribute the returns. Hence, the bank should have enough liquidity and profitability with all the safety measures. In gist, a right balance should be kept between safety liquidation and profitability. Investment policy provides banks with several inputs through which they can handle their investment operations efficiently assuring maximum return with minimum exposure to risks.

Effective and efficient fund mobilization and investment policy are 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. The success of the bank relies heavily upon the successful investment of collected resources to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for any financial institution. It becomes everybody concern when their performance does cot seem so satisfactory in terms of utilization of its resources effectively on productive sectors. The study of commercial banks

investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement. Therefore, the study has undertaken to analyze the existing investment policy of commercial banks and point out the defects inherent in it and provide package of suggestions for its improvement.

1.2 Profile of Concerned Bank:

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its branches network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential. Bank has also set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Joint Venture Partner

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

1.3 Statement of the Problem:

Nepalese commercial banks have not formulates their investment policy in an organized manner. They relay much on the guidelines and instruction of the Nepal Rastra Bank. They do not have clear view towards investment policy and gave not formulates their own organized investment policy. Lack of foresightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks. Furthermore, the implementation of policy is not practiced in an effective way.

Commercial banks are not properly utilizing their deposits because of lack of sound lending policy and investment opportunities. Due to the lack of sound investment opportunities banks are reducing the interest rates on the deposits and increasing the minimum balance for the deposit account. Their investment has been found to have lower productivity due to the lack of supervision regarding whether the amount they have lent have been properly utilized or not. Many commercial banks are not found investing even a minimum percentage in the priority sectors due to the uncertainty of desirable return, higher chances of default and high operation cost. They make investment on less risky and highly liquid sectors, and they keep high liquid position and flow lower funds in productive sectors. These types of unfavorable investments reduce the rate of return for the bank, which in turn affect the interest rate being offered to the depositor. Such condition may cause the high liquid market and can impact the condition of the whole country negatively.

In the end of 2008, there are 27 commercial banks. All these banks created cutthroat competition in financial sectors. The main focus of the study will be towards the investment matter of the bank. Investment policy is the main factor for the every banks and financial institutions. Thus the study will try to explain the following points specially related to the investment function of the Everest Bank Limited.

1. How is the utilization of the collected funds of Everest Bank Limited?
2. Does the investment decision affect earning of bank?
3. What is the status of Non- Performing asset in relation to total loans and advances of the bank?

4. What is the proportion on the risk free and risky investment on total investment made by the bank?
5. What is the relationship of total deposits on total investment and total investment on total net profit of the bank?

1.4 Objective of the Study:

The basic objective of the study is to analyze the investment policies adopted by Everest Bank Limited. To support this main objective the following sub objective has been developed.

1. To study the fund mobilization and investment policy of Everest Bank Limited.
2. To examine the liquidity, asset management, profitability and risk position of Everest Bank Limited
3. To examine the investment portfolio management of the Everest Bank Limited and its effect in capital adequacy.
4. To examine the Non Performing assets of the Everest Bank Limited.
5. To provide suggestions and recommendations to Everest Bank Limited.

1.5 Significance/ Importance of the Study

The effort is made to highlight the investment policy of commercial banks expecting that the study can be bridge gap between deposits and investment policies. In the context of Nepal, there are less availability of research work, articles, and journals in investment policy of commercial banks and financial institutions. Thus the study will certainly help management of the Everest Bank Limited to improve their performance and would help them to take collective action. Similarly the study will be significant for various groups, which can be as follows:

- It will be helpful for commercial banks.
- The research will provide required information to various persons and parties such as general reader, investors, shareholder, decision maker, brokers, financial agencies, businessman and general public.
- The study helps the shareholders to make decisions while making investment on share.

1.6 Limitation of the Study:

This study is subject to following limitations:

1. This study is based on secondary data only. It is apparent that the secondary data are crucial for the study. The data problem is acute in Nepal.
2. There are many factors that affect investment decision and valuation of the firm. However this study concentrates only on those factors, which are related with investment.
3. The study period covers only five year i.e. 2004 to 2008 data where the earlier years are not considered.

CHAPTER – II

Review of Literature

2.1 Introduction

Several research works has been done in various aspects of commercial banks especially financial performance, investment policy, resource mobilization, lending policy, compliance of NRB directives by banks etc. There are some books, journals, articles, others studies related with investment policy. Some of the relevant studies, literature on lending and investment are reviewed below. This chapter is categorized into following headings:

1. Conceptual Review
2. Review of Related Studies

- Review of Articles
- Review of Thesis
- Review of Legislative Provisions
- Review of effect of investment portfolio in Capital Adequacy.

2.2 Conceptual Review

This chapter focuses to discuss briefly about the theoretical concept of the investment and its relation with other subject matter in relation to banks. This chapter is further divided into different parts as below:

2.2.1 Concept of Commercial Bank

A commercial bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for cooperative, agriculture, industries or for such specific purpose. (Commercial Banks Act of Nepal; 1974)

Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks they must mobilize their collections and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks should gather the sufficient information about the firm to which supposed to be invested. This information include as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank as well as lending policy and investment in different securities also affect the income and profit. In the investment procedure and policies it is always taken in mind that the greater the credit created by the bank, higher will be the profitability. The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare.

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

2.2.2 Concept of Investment and Investment Policy of Bank

Investment is the broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are involve time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. In some cases time predominates and in some cases risk is the dominant attribute.

"Commercial bank should consider the national interest followed by borrower's interest and the interest of the bank itself before investing to the borrowers." (J.H. Clemens; 1963)

To further pursue his view, bank lending must be for such purpose of the borrowers that are in keeping with the national policy and banks overall investment policy. A bank overall investment:

- Should be basically of short term characters
- Should be well spread
- Should be repayable on demand
- Must be profitable
- Must be well in adequate security

Thus, commercial banks have to consider government and NRB instruction and own interest as well. Good investment policy ensures maximum amount of investment to all sectors with proper utilization.

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

A sound investment policy of a bank is such that its funds are distributed on different type of assets with good profitability on the hand and provide maximum safety and security to the depositor and banks on the other hand. Moreover, risk in banking sectors ends to be concentrated in the loan portfolio. Therefore, the bank investment policy must ensure that it is sound and prudent in order to protect public funds. Bank makes a variety of loans to a wide range of customers for different purposes. Therefore, no uniform rules can be laid down to determine a portfolio of a bank. The environment in which it operates influences the investment policy of the bank. The nature and availability of funds also differ widely from one region to another within the country. For example, scope of bank operating in Jumla will be different from the scope of a bank operating in Kathmandu. Therefore, the investment policy to be applied in Kathmandu may not be applicable to the bank operating in Jumal." (Baidya1999; 46-47)

Investment can be categorized into Real Investment and Financial Investment. In primitive economy most investment is of the real variety whereas in modern economy, most investment is of the financial variety.

2.2.3 Principle of a Good Investment Policy

In choosing specific investment, investors will need define ideas regarding a number of features that their portfolios should possess. These features should be consistent with the investor's general objectives and in addition, should afford them all the incidental conveniences and advantages, which are possible in their circumstances. The following are the suggested feature as the ingredient from which many investors compounded their selection policies.

i. Principle of safety

The safety sought in investment is not absolute or completes the word means rather protection against loss under reasonable likely. It calls for careful review of economic and industrial trends before choosing any type of investments or the time to invest.

ii. Capital appreciation

Capital appreciation has today become an important principle. Recognizing the connection between corporation and industry growth and very large capital appreciation, investor and their advisors constantly are seeking "growth stock". It is exceeding difficulty to make successful choice. The ideal "growth stock" is the right issue in the right industry, bought at the right time. (V.K. Bhalla; 1983)

iii. Adequate liquidity and collateral value

An investment is a liquid asset if it van be converted into cash without delay at full market value in any quantity. For an investment to be liquid it must be reversible or marketable. The difference between reversible and marketability is that reversibility is the process whereby the transaction is reversed or terminated while marketability involves the sale of the investment in the market for cash. To meet the emergencies, every investor must have a sound portfolio to be cure for the additional funds, which may be needed for the business opportunities. Whether money is rising is to be done by sale or by borrowing it will be easier if the portfolio contains a planned proportion of higher grade and readily saleable investment.

iv.Purchasing power stability

Since an investment nearly always involves the commitment of current funds with the objective of the investor should consider receiving greater amounts of future funds,

the purchasing power of future funds. For maintaining purchasing power stability, investors should carefully study the degree of price level inflation they accept, the possibility of gain and loss in the investment available to them and the limitation imposed by personal and family considerations.

v.Diversification

A bank should not put all its eggs on the same basket. This saying is very important to the bank and it should always be 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 because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way the loss can be minimized or recovered.

2.2.4 Profitability of Bank

Gross income of commercial banks is determined by the rate of return on loan and investments, by the level of various fees and charges imposed for the performance of certain service, and by the size and composition of assets. Interest from loan and investments accounts for almost 90 percent of bank operating income. (Reed/Cotter/ Gill/ Smith; 1978)

The lending function is the single most important sources of gross income for commercial banks. In recent years, income from “interest and fees” on loans plus “income in federal funds sold and securities purchased with resale agreement” have accounted for approximately 70 percent of total operating income. Income from these sources has substantially increased over the years because of the increase in the volumes of loans outstanding and the rise in interest rates. (Reed/Cotter/ Gill/ Smith; 1978:415)

2.2.5 Liquidity Management

Demand deposits, which represent the major proportion of bank liabilities, constitute nearly 80 percent of nation’s money supply. Each bank must maintain substantial part of its assets in cash or in assets that can be converted into cash quickly. How much liquidity to hold and in what form to hold it are a constant concern of bank management. Bank needs liquidity to meet seasonal and unexpected loan demands

and deposit fluctuation. Cash reserves also are needed to take advantage of unexpected profit opportunities or for what might be termed aggressive purpose.

The use of the loan to deposit ratio as a measure of liquidity is based on the premise that loans are the most non liquid of bank earning assets. Therefore, as the portion of deposits invested in loans rises, liquidity declines. The loan to deposit ratio as a measure of liquidity has some limitation in that it tells us nothing about the maturity or quality of the loan portfolio. The loan to deposit ratio gives no indication of liquidity needs, the loan to deposit ratio dies not provide information concerning the nature of bank assets outside the loan portfolio.

2.2.6 Liquidity Measurement

A standard for liquidity is difficult to determine since future demand are not known. To obtain a realistic appraisal of a banks liquidity position would require an accurate forecast of cash needs and the expected level of liquid assets and receipts of cash over a given period of time. In other words a meaningful measure of liquidity would incorporate the flow sure are gauged from the stock concept. One of these measures is the ratio of loans to deposit. When the ratio rise to relatively high level, becomes more sensitive and as standards is increased and credit is more strictly allocated interest rates tend to rise.

2.2.7 Asset Management

Asset management is the term used to describe the allocation of funds among investment alternatives. It is applied to commercial banking, the term loans and other assets. Specialized areas of asset management include liquidity, portfolio sand loan management. The management of funds in commercial banking however is complicated by several factors. First, as banks are the most regulated of all the business enterprises, funds must be managed within with in the legal and regulatory framework established by statutory and supervisory authorities. Second, the relationship between a bank and its loan and deposit customers is on of trust as well as accommodation. Finally, the stockholders commercial banks, like other investors, require a rate of return commensurate with the risk of the investment and competitive with the return available on similar investments.

The effects of legal and regulatory provisions on commercial bank asset management may be classified as those that specify how a part of a bank's assets must be invested and those that limit the use of funds in certain types of assets.

2.2.8 Assets and Liabilities of a Commercial Bank

Vaidya (1997) points on that the details of the Assets and Liabilities of commercial banks are mentioned in the balance sheet of the respective commercial banks. The assets and liabilities of a commercial bank reflect their financial position. The essence of Banking, accepting deposits and distributing credit, the outcome of both of these phenomenon affect the balance sheet because the bulk of the liability side is comprised of deposits and that of the asset side is occupied by disturbed loans. The C/D ratio, the ratio of credit to the deposits determines the level of profit for the commercial banks. Higher C/D ratio means effective mobilization of funds and this in turn means profitability.

Therefore, the balance sheet shows how well bank has been able to mobilize the funds. Besides, there are some other factors that can be observer through a balance sheet such as capital, the reserves, the amount invested on fixed assets. Hence, it is utmost important to know about the items of the balance sheet of a commercial bank before analyzing the impact of the directives on such items. The very important items of the balance sheet of a commercial bank are as follows:

A. Assets

1. Cash

Cash is the liquid form of an asset of the commercial bank. There can be three reservoirs of cash, the bank vault, the reserve maintained with the central bank and the deposits in other commercial banks. One of the major functions of commercial bank is to accept the deposits and provide loans to its customers. In between, another very important function, entertaining the cheques presented to the bank for withdrawal of the deposits. Therefore, the bank needs to maintain a certain level of cash with it so that it can make payments of the cheques presented in its counters. For the same the bank needs to keep certain amount of the deposits as cash in vault. However the banks always try to minimize the amount of cash and rather invest the amount exceeding the minimum requirement so that that can earn and make money.

2. Bills discounted and Purchased

There are normally in three forms, the promissory notes, the bills of exchange and the treasury bills. All of these are negotiable and can be easily bought and sold. These financial instruments of the banks generate income. They are safe in the sense most of them can be further presented to the central bank for rediscounting. Therefore commercial banks prefer to have these assets as they are supposed to be the ideal assets with safety, liquidity and profitability.

3. Investments

Investment generates more income than cash and bills but is less profitable compared to loans and advances. Banks mainly investment on government securities and some gilt edged securities so that they can easily converted into cash as and when required. The amount of investment of banks on such securities increases at times of slack economy when the credit disbursement is on a decline and they sell the securities when the demand for loans and advances increases.

4. Loans and Advances, Cash Credits and Overdrafts

Loans and advances are the major source of revenues for the commercial banks. Banks enjoys the interests on the loans and advances made by it, which normally is greater than the interest paid by it to the depositors and thereby make profit. However, loans and advances are not made to all those seeking for it. Banks analysis various factors before they advance loans and advances. The main characteristics that a bank expects to be in its borrowers are character, capital and capacity.

5. Fixed Assets

Furniture and office premises owned by the bank comprise fixed assets of a bank. They cannot be converted on cash easily. They are normally owned by the bank so as to avoid rental costs. Depreciation is charged against each these assets every year at different rates depending on the type of asset.

6. Other Assets

Other assets of banks include valuable metals such as gold and silver, prepaid expenses, development expenses and accrued interests on investments.

B. Liabilities

Liabilities of a bank are the main sources of fund of the bank and mainly include the following:

1. Capital

When talked of a capital the authorized capital is the maximum amount that a bank may issue during the course of its operation and is mentioned in the Memorandum of Association of the bank. The issued capital is that portion of the capital which is issued by the bank to the public for subscription. The subscribed capital is the amount of capital subscribed by the general public. It can either be whole or just a part or the issued capital. Called Up capital is the amount of capital that the shareholders need to pay. The Paid Up capital already paid up by the shareholders. This is the only cash that have been realized by the bank. The differences between the Called Up capital and the Paid up capital are the Uncalled Capital.

2. Reserve Fund

The banks always keep aside part of the profit they make as reserves. These reserves are mainly kept by the banks to meet some uncertain contingent liabilities of the future. They provide security, not only to the shareholders but also to the depositors. There are various types of reserves, for instance, the exchange equalization fund, which is the reserve made out of profit made from the revaluation of foreign exchange during the previous years, and kept in order to meet the contingent losses, if any, to be confronted in future due to subsequent revaluation.

3. Deposits

The deposits of the bank constitute major portion of the bank's liability. They are the main source of fund for the banks. The success of a bank highly depends on its ability to attract deposits at low interest rates and mobilize it to earn the maximum. There are mainly three types of deposits, the fixed deposit, the saving deposits and the current deposits. The fixed deposits are made by the costumers for a fixed period of time and have the highest interest rates compared to saving and current deposits. The saving deposits can be withdrawn at any times but sometimes carry restrictions on the amount that can be withdrawn and the interest rate to be paid by the bank is not as high as that of fixed deposits. The current deposits carry no interest and are mainly

maintained by business houses and industries so that they can withdraw the money any time they prefer.

4. Bills for Collection

The banks receive bills from customers against which payment have to made. However, the banks charge certain amount of commission on the bills collected on behalf of its customers.

5. Borrowings

Banks borrow funds from the central bank and other banks from time to time. All such funds are included in the liability side of the balance sheet under the head 'borrowings'. They constitute small portion of the total liability of the bank.

6. Other Liabilities

Other liabilities include pension funds, staff bonus, unpaid dividends and insurance fund.

2.3 Review of Related Studies

2.3.1 Review of Articles

In this section, effort has been made to examine and review of some of related articles in different economic journals, World Bank discussion papers, magazines, newspapers and other related books and publications.

Dr Bijay K.C has presented an article about the "Strategies for reducing Non Performing loan in Nepal". According to him, rising amount of non-performing loan is generally considered a sign of inefficiently in the financial system. It shows that the financial system has failed to divert funds to productive uses. While it may not be possible to complete eliminate non performing loans from a financial system they should be controlled and put within an acceptable range. Of late, many countries have faced the problem of non performing loans and some of them have taken drastic steps to control them. (K.C; 2005)

The above journals focus in the various aspects of the bank's to reduce non performing loans and such strategy may include the following

1. Debt recovery tribunals
2. Assets management company
3. Bankruptcy Act
4. Black listing and classification of defaulter
5. Enforcement of rules and regulations

Krishna D. Bhattarai has presented an article about the "Non- Performing Assets Management". According to him, a loan is very easy term for borrower when he has already taken for a lender not availed. It is equally difficult for a borrower to avail and for lender to recover. From, a bankers view, it is just like a stone to roll down from the top of the hill while sanctioning, but too difficult to roll back the same stone to the top of the hill while recovering. A loan not recovered within given time frame either in the form of interest servicing or principal repayment is called Non-Performing Loan (NPL). There are other parameters as well to quantify an NPL. Security not to the extent of loan amount with specified safety margin, value of security not realizable, possession not as per the requirement of bank, conflict of charges are the other reasons which causes difficulties while recovering the loan. (Bhattarai: 2003)

According to him, an important discipline in banking to prevent whole NPL or avoid situations for a loan to turn into NPL. The loan for a bank is most important to generate revenue for operational expenses as well as to provide return to the shareholders.

When a loan advanced from good money turns into a bad loan the chance of shareholders return as well as survival of a bank stands a stake. And finally the public start loosing their confidence on the bank and don't keep their deposit in the bank and eventually the bank will start counting its finger for collapse.

Dr. Sunity Shrestha on her article, "Lending operation of commercial banks of Nepal and its impact on GDP", has presented with the objectives to make an analysis of

contribution of commercial banks lending to the gross domestic product (GDP) of Nepal. Thus in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP. She has accepted that there has been positive impact of the lending of commercial banks in various sectors of economy except service sector investment. (Dr. Shrestha; 1998: 23-27)

2.3.2. Review of Master's Degree Thesis

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

Lila Prasad Ojha (2002) conducted a study on "Lending practices: A study on NABIL Bank Ltd., SCB Nepal ltd, and Himalayan bank Ltd." Mr. Ojha has found out 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 in discharging their current liability by current assets. The ratio of investment on loan & advances have measured the total portion of investment in total of investment and loan & advances. The mean ratio among the banks does not have deviated significantly.

The absolute measures of leading strength have revealed that the mean volume of net assets and deposit is higher in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Ltd. is the least due to the low share of capital, reserves &surplus in its capital mix. But the volume contributed by Himalayan Bank Ltd. In case of loan & advances is highly appreciable compared to its assets. The volume of loan & advances contributed by NABIL Bank Ltd. is the greatest in fine years of study period. The mean investment of NABIL Bank Ltd. is the highest but the investment on government securities of SCBNL is the highest.

The portfolio analysis has revealed that the flow of loan & advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of all banks in industrial sector is appreciable. The contribution made by Himalayan Bank Ltd. In industrial sector is greatest that of SCBNL is the least. The mean ratio of

interest income to total income has concluded that the contribution of interest in total income is higher in case of Himalayan Bank ltd. and lower in case of SCBNL. The interest expenses to the total deposits ratio indicate that the cost of fund in Himalayan Bank Ltd. is highest and that of SCBNL is the least.

Raja ram Khadka (1998) in his thesis "A study on the investment policy of Nepal Arab Bank Ltd. in comparison to other joint venture banks of Nepal" has compared investment policy of NABIL with NGBL and NIBL. Mr. Khadka has found out that the liquidity position of NABIL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd. (NIBL). It is also comparatively less successful in on-balance sheet utilization as well as off balance sheet operation than that of NGBL and NIBL. In case of profitably ratio ha has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks (JVBs). NABIL is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NGBL and NIBL. He further suggests, "The bank must utilize depositor's money as loans and advances to get success in competitive banking environment. The largest item of the bank in the asset side is loans and advances. Negligence in administrating this asset could be the main cause of a liquidity crisis in the bank and one of the main reasons of bank failure".

He has focused his study on the investment policy of Nabil Bank has taken NGBL and NIBL average ratio as banking average. Mr. Khadka has recommended to adopt liberal lending policy however has not explained regarding liberal lending and invest more and more percentage amount of total deposits in loans and advances. However while adopting liberal policy on lending he has not explained the consequences like bad debt, default loan, which may arise due to very flexible and liberal lending policy. He has also not explained the regarding what is good liberal lending policy.

A thesis research conducted by **Prem Bahadur Shahi, (1999)** "Investment policy of Commercial Banks in Nepal", recommended that commercial banks must mobilize its funds in different sectors such as purchasing of shares and debentures of other financial and non-financial companies. The banks should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. Loan default in commercial banks is a result of various factors

i.e. political influence, lack of necessary skills of project appraisal, improper collateral valuation, irregular supervision and lack of entrepreneurship attitude. He suggested enacting loan recovery act to enhance the function of recovery of loan.

In this study he has compared investment policy of Nepal Bank Limited with other joint ventures bank like NABIL, NGBL and NIBL. The conclusion drawn regarding the investment policy by comparing it with other three JVBs is inappropriate as NBL is a semi government, which will be different in terms like interference level of government. NBL is unexposed to the global market unlike other JVBs commercial banks.

Sabitri Shrestha (2003), in her thesis paper "Impact and implementation of NRB Guidelines (Directives on Commercial Banks- A study of Nabil Bank limited and Nepal SBI bank Limited) found out hat both the Nabil Bank and Nepal SBI Bank have been fully implementing the NRB's directives. Capital Adequacy Ratio of Nabil and Nepal SBI are 13.40% and 12.86% respectively which are more than 9%. Banks are following the directives but in some cases such like supplementary capital and balance at NRB there is shortfalls. The excess amount of core capital in supplementary capital and 1% excess amount of total deposits in balance at NRB can compensate this shortfall. The banks have categorized loan amount into four categories as per NRBs directives. The increasing loan loss- provisioning amount decreases the profit of the banks. The change in single burrower limit has brought down the limit of a fund based and non-fund based loans, which have resulted to reduce loan exposure to banks.

In her thesis study she has recommended that both Nabil and SBI banks to increase it's supplementary capital as it has shortfall in comparison with NRB guidelines and to meet the supplementary capital adequacy ratio even though it can be compensated by the excess amount of core capital. The supplementary capitals need to be increased by Rs.122.74 million in Nabil Bank and Rs.125.57 million in Nepal SBI bank. She says liquidity and profitability are like two wheels of one cart so banks cannot run in the absence of any one of them. One can be achieved only at the others. Only liquid banks can attract lower core deposits, which help in reducing interest expenses and give loan to good customer at lower rate, which results in requirement of less

provision and high net profit. So banks should increase their primary reserve now to maintain the liquidity risk due to scrap out the secondary reserves. On the basis of finding, Nabil Bank has a shortfall of Rs. 140.74 Million thus Nabil has to increase its balance at NRB by such amount for better performance even after adding 1% excess amount of cash of total deposit.

2.3.3. NRB rules regarding fund mobilization of Commercial Bank

To mobilize bank's deposit in different sectors of the different part of the nation to prevent them from the financial problems, central bank may establish a legal framework by formulating various rules and regulation. These directives must have direct or indirect impact while making decision to discuss those rules and regulation which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR loan loss provision, capital adequacy ratio, interest spread, and productive sector investment. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much flexible and helpful the NRB rules are also important. But we discuss only those, whose are related to investment function of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed here under.

CHAPTER – III
RESEARCH METHODOLOGY

3.1. Introduction

Research methodology describes the method and process applied in the entire subject of the study. It may be understood as a science of studying how research is done significantly. Research methods are those methods, which are used by the researcher during the course of studying his/her problems. This chapter bridges the problem with the result. The most sensitive part of the research and the base on which our conclusion will be drawn is included in this chapter. This chapter highlights the research methodology used in the study for analysis of investment policy of the Everest Bank Limited.

3.2. Research Design

Research design is a plan, structure and strategy to obtain the objective of the study. A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. The research will be mainly based on secondary data and information. To conduct this study the research design should be descriptive as well as analytical using the variables related with the performance of the company and return to investors. The financial statement reports of the company and the relevant subject will be included in the study.

"Research Design means an overall framework or plan for the collection and analysis of data" (Wolf and Pant, 2003:74).

Thus, a research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose.

3.3. Source of Data

The study is basically conducted on the basis of the secondary data. The data required for the analysis of directly obtained from the P/L a/c and balance sheet of concerned bank annual reports. Supplementary data and information are collected from couple of institution and regulating authorities like NRB, Ministry and finance budget speech of different fiscal years, economic survey and national planning commission.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objective. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem. Likewise, various data and information are collected from the economic journals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4. Method of Analysis

To achieve the objective of the study, various financial and statistical tools have been used. The analysis of data will be done according to the pattern of data available. Due to limitation of time and resources, simple analytical statistical tools such as percentage graph, Karl Pearson's coefficient of correlation are used in this study. Likewise, some financial tools such as ratio analysis and trends analysis have also been used for financial analysis.

Main finding of the study are derived on the basis analysis of financial data of EBL which are given below

3.4.1 Financial Tools

Financial tools are used to examine the strength and weakness of bank. In this study financial tools like ratio analysis and financial statement analysis have been used.

Ratio analysis

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus, ratio analysis is used to compare a firm's financial performance and status to that of other firms to it overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

A) Liquidity Ratios:

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities that are likely to mature in the short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of

adversities. It is the measurement of speed with which a banks asset can be covered into cash or meet deposit withdrawal and other current obligations.

A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawals, pay maturity obligation in time and convert non cash into cash to satisfy immediate needs without loss to bank and consequent impact on long run profit. In fact analysis of liquidity needs the preparation of cash budget and cash and fund, but liquidity ratios by establishing a relationship between cash and other current assets to current obligation, provide a guide measure of liquidity.
The following ratio are evaluated and interpreted under liquidity ratios:

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

Where, current assets include cash and bank balance, money at call or short term notice, loan and advances, investment in government securities and other interest receivables and miscellaneous current assets or (Total asset- fixed assets- Share, Debenture and other Bond) whereas current liabilities include deposits and other accounts short term loan, bill payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Cash and Bank Balance to Current Asset Ratio:

This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e. cash and balance. This ratio reveals the ability of the bank to make the quick payment of its customer deposits. A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice versa. This ratio can be calculated by using the following formula.

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

Where, in the present study cash and bank balance represent total of local currency foreign currencies, cheques in hand and various bank balance in local as well as

foreign banks. Both higher and lower ratio is not desirable. The reason is that is a bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In the contrast, if a bank maintain low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balance are assets that constitute the bank first line of defense and consist of cash on hand, foreign cash on hand, cheques and other cash, balance with domestic banks and balance held abroad.

Mathematically it is calculated as:

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

Where, cash and bank balance includes cash in hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks whereas the total deposits include current deposit, saving deposit, fixed deposit, money a call and short notice and other deposits. The above analysis helps to conclude that the cash and bank balance position of EBL with the respect to deposits is better against the readiness to serve its customers deposits. It implies the better liquidity position of EBL. In contrast, a high ratio of non earning cash and bank balance may be unfit which indicate the banks inability to invest its funds in income generating areas.

Investment on Government Securities on Current Assets Ratio:

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

$$\text{Investment on government securities} = \frac{\text{Investment on Goverment Securities}}{\text{Total Current Assets}}$$

Where, investment on government securities includes treasury bills, development bonds, saving bonds, government securities. The ratio examines that portion of a commercial bank's current assets, which is invested on different Govt. securities. More or less commercial bank is interested to invest their collected fund on different securities issued by government in different times to utilize their excess funds and or for other purpose. Though government securities are nit so liquid as cash and bank balance of commercial bank, they can easily be sold in the market or they can be converted into cash in other ways.

Loan and Advance to Current Asset Ratio:

Loan and advances are also included in the current assets of commercial bank because generally they provide short term loan, advance, and overdraft and cash credit. The ratio can be computed in following way:

$$\text{Loan and advance to current asset ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

In the present study loan and advance represent to local and foreign bills discounted purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency. To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earning. But high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only.

B) Assets Management Ratio:

Assets management ratio measures how efficiently the bank manages the resources at its command. The efficiency with which the assets are used would be reflected in the speed and rapidly with the assets is converted into revenues. The greater the rate of turnover or conversion, the more efficient is the management utilization of assets. So, proper balance between revenue and assets is desired for the reflection of optimum

utilization of the assets. The following ratios are used under this asset management ratio.

Loan and Advances to Total Deposits Ratio:

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

$$\text{Loan and advances to total deposits ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

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

Loan and Advances to Working Fund Ratio:

Loan and advances is the major component in the total working fund, which indicates the ability of bank to channelize its deposits in the form of loan and advances to earn high return. This ratio is compute by dividing loan and advance by total working fund. This is stated as,

$$\text{Loan and advances to working fund ratio} = \frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

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

Total Investment to Total Deposits Ratio:

Investment is one of the major forms of credit created to earn income. This implies the utilization of firms deposit on investment on government securities and shares

debentures of other companies and bank. This ratio can be calculated by dividing total investment by total deposit. This ratio can be mentioned as:

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

Here, total investment consists of investment on government securities, investment on debenture and bonds shares in subsidiary companies, shares in other companies and other investment.

Investment on Government Securities to Total Working Fund Ratio:

This ratio shows that banks investment on government securities i.e. comparison to the total working fund. A high ratio indicates better mobilization of fund as investments on government securities and vice versa. This ratio can be calculated by dividing investment o government securities by total working fund. This is presented as:

Investment on government securities to total working fund ratio

$$= \frac{\text{Investment on Govt.Securities}}{\text{Total Working Funds}}$$

Here, investment on government securities includes treasury bills and development bond etc. total working fund includes all assets of on balance sheet items i.e. (Total assets- Bills of collection). Current assets, net fixed assets, loans for development banks and other miscellaneous assets but excludes off balance sheet items such as letter of credit (L.C.), letter of guarantee etc.

Investment on Shares and Debenture to Total Working Fund Ratio:

This ratio shows the banks investment in shares and debenture of the subsidiary and other companies in terms of total working fund. This ratio is computes by dividing shares and debentures by total working fund. This can be shown as,

Investment on share &debenture to total working fund ratio

$$= \frac{\text{Investment on Share \& } Debenture}{\text{Total Working Fund}}$$

Where, numerator includes investment on debentures, bonds and shares of the other companies.

C) Profitability Ratio:

Profitability ratios are calculated to measure the efficiency of operation of a firm in terms of profit. It is the indicator of the financial performances of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. Profitability position can be evaluated through following different way.

Net Profit to Total Assets Ratio:

Return on total assets ratio measure the profitability with respect to the total assets. In the present study, the ratio is calculated and analyzed to measure the profitability of all financial resources invested in the banks assets, a higher ratio usually indicates efficiency in utilizing its overall resources and vice versa. The ratio can be computed by following process.

$$\text{Net profit to total assets ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Net Profit to Loan and Advances Ratio:

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

$$\text{Net profit to loan and advances ratio} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

Total Interest Income from Total Investment Ratio:

This ratio actually measures the total interest income from total investment. A high ratio of interest income from investment indicates high mobilization of collected deposits in investment and vice versa. This ratio is calculated by dividing total interest income from total investment by total investment and can be mentioned as:

$$\text{Total interest income from total investment ratio} = \frac{\text{Total Interest Income from Total Investment}}{\text{Total Investment}}$$

Total Interest Income from Loan and Advances and Bill Collection Ratio:

This ratio reveals how much interest income from total loan and advance and bill collection. Higher ratio implies better performance of the bank in terms of interest earning on its total loan and advances and bill collection and vice versa. This ratio is calculated by diving total interest income from money at call and others. The ratio can be presented as

$$\text{Total interest income from total investment ratio} = \frac{\text{Total Interest Loan \& } \textit{Advances \& Bill Collection}}{\text{Loan and Advances and Bill Collection}}$$

D) Risk Ratios:

Bank has to take risk to get return on its investment. The risk is compensated by the increase in profit. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the investment policy of the bank. To measure the risk ratios of EBL the following ratios has been calculated, evaluated and analyzed.

Credit Risk Ratio:

Bank has risk of default or non- repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio helps to check the probability of loan non- repayment or the possibility of loan to go into default. Credit risk ratio is expressed as the percentage of non- performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by the total assets. It can be shown as,

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

Capital Risk Ratio:

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

$$\text{Capital risk ratio} = \frac{\text{Share Capital (Paid up+Reserves)}}{\text{Risk Weighted Assets}}$$

Only loan and advances are taken as risk weighted assets.

E) Activity or Performing Ratio:

Activity or performing ratio represent measure the lending efficiency in terms of quality and turnover. For the purpose the relationship of different variables of balance sheet and profit and loss account have been used. The following ratios are analyzed for this purpose.

Non- Performing Loans to Total Loans and Advances Ratio:

This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This reflects the quality assets that the bank has. The higher ratio indicates the bad performance of the bank in mobilizing loans and advances and bad recovery rate and vice versa. It can be shown as:

$$\text{Non performing loans to total loans and advances ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loans and Advances}}$$

Loan Loss Provision to Total Loans and Advances Ratio:

This ratio measures the quality of assets that a bank is holding and the possibility of loan default of a bank. This ratio helps to signify the good quality of assets in the total volume of loans and advances. This ratio clearly describes how much risky assets in the volume of loan and advance. It indicates how efficiently it manages its loan and advances and makes efforts for loan recovery. Higher ratio implies higher portion of non performing loan in the total loan portfolio. It can be shown as:

Loan loss provision to total loans and advances ratio= $\frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}}$

F) Growth Ratio:

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

1. Growth ratio of total deposit
2. Growth ratio of total investment
3. Growth ratio of loan and advances
4. Growth ratio of net profit

3.4.2. Statistical Tools

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

A) Arithmetic Mean (Average)

It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{\sum X}{N}$$

Where,

$\overline{X}$ = arithmetic mean

N = no of observation

$\sum X$ = sum of observations

B) Standard Deviation:

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

Thus,

$$\sigma = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

Where,

σ = Standard Deviation

$\frac{\sum X^2}{N}$ = Sum of Squares of Observation

$\left(\frac{\sum X}{N}\right)^2$ = Sum of Squares of Mean

C) Coefficient of Variation

The coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

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

Or, C.V. = $\frac{\sigma}{\overline{X}}$

Where,

$\overline{X}$ = Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

D) Coefficient of Correlation:

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

1) Coefficient of correlation between deposit and loan and advances.
2) Coefficient of correlation between total deposit and total investment.
3) Coefficient if correlation between total loan and advances assets and net profit.
4) Coefficient if correlation between total investment and net profit.

The above analysis tools analyze the relationship between these the relevant variable and helps the bank to make appropriate policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization.
To find out those relationships the following formula is used,

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

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

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

E) Trend Analysis

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

1) Trend analysis of total deposit
2) Trend analysis of loan and deposit
3) Trend analysis of total investment
4) Trend analysis of net profit

The trends of a related variables can be calculated as, Y= a + bx

Where,

Y = Dependent variable

a and b = Parameter

x = Independent variable

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4. 1. INTRODUCTION

This chapter is the main body of the study which comprises of presentation, analysis and interpretation of collected data. Under this heading, various financial ratios have been calculated to evaluate the financial condition and performance of the Everest Bank Limited. All the ratios has not been calculated as the study only focus on the investment section of the Everest bank limited so only those ratios which are relevant and related to the study are being calculated.

4.2. Liquidity Ratio

4.2.1. Current Ratio

Current ratio indicates the solvency ratio of the firm. The calculation of current ratio is based on the simple comparison between current assets and current liabilities. This is the broad measurement of liquidity position of the bank. The standard of current ratio is 2:1 for the banking. This ratio is calculated by dividing the amount of current assets by the current liabilities. Current ratio of EBL from the fiscal year 2003/04 to 2007/08 is given below in Table 4.1.

Table 4.1

Current Ratio (Times)

Fiscal Year	Ratio	Index
2003/04	1.1426	-
2004/05	1.1208	0.9809
2005/06	1.1212	0.9813
2006/07	1.1499	1.006
2007/08	1.0911	0.9549
Mean	1.1251	
S.D	0.023	
C.V	0.0205	

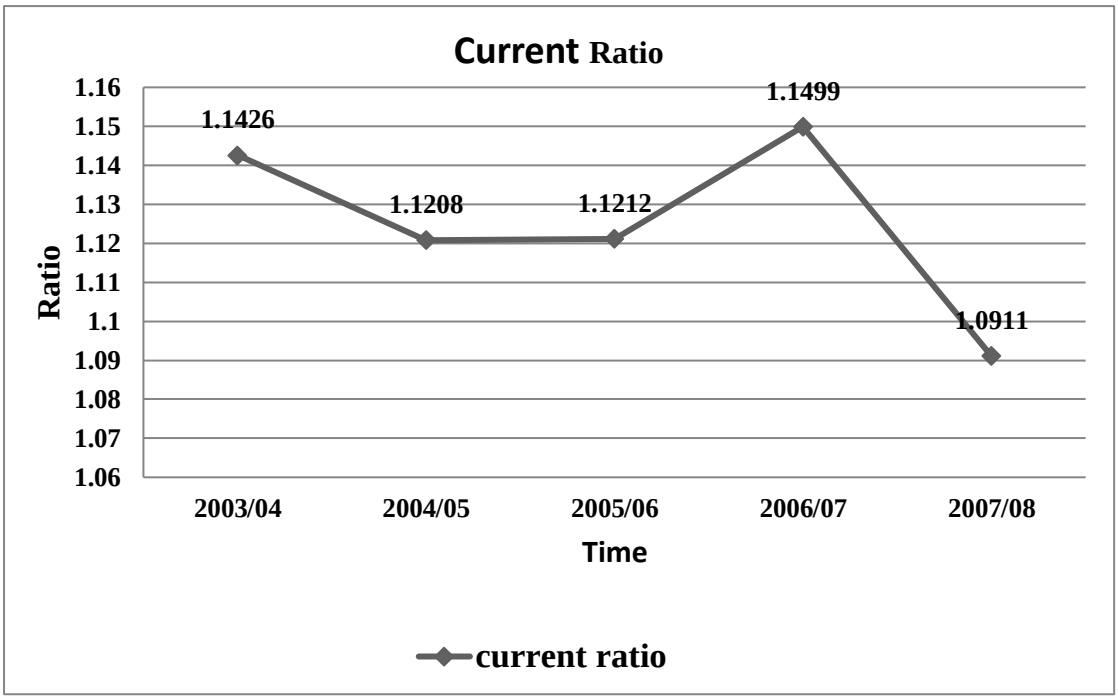
Source: Financial Statement of Bank 2003/04 to 2007/08.

The above table 4.1 shows that the current ratio of EBL from the fiscal year 2003/04 to 2007/08. The highest ratio is 1.1499 in 2006/07 while the lowest ratio is 1.0911 in the fiscal year 2007/08 with the average ratio of 1.1251 during the study period. The

coefficient of variation (C.V.) between the ratios for the study period is 2.044%, which indicates that the current ratio is consistent and less variable.

Chart: 4.1

Current Ratio Pattern of EBL



4.2.2 Cash & Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment. This ratio is calculated by dividing the cash and bank balance by current assets.

The cash and bank balance to current assets ratios have presented in the table no 4.2 from the fiscal year 2003/04 to 2007/08.

Table no 4.2

Cash and Bank Balance to Current Assets Ratio

Fiscal Year	Ratio	Index

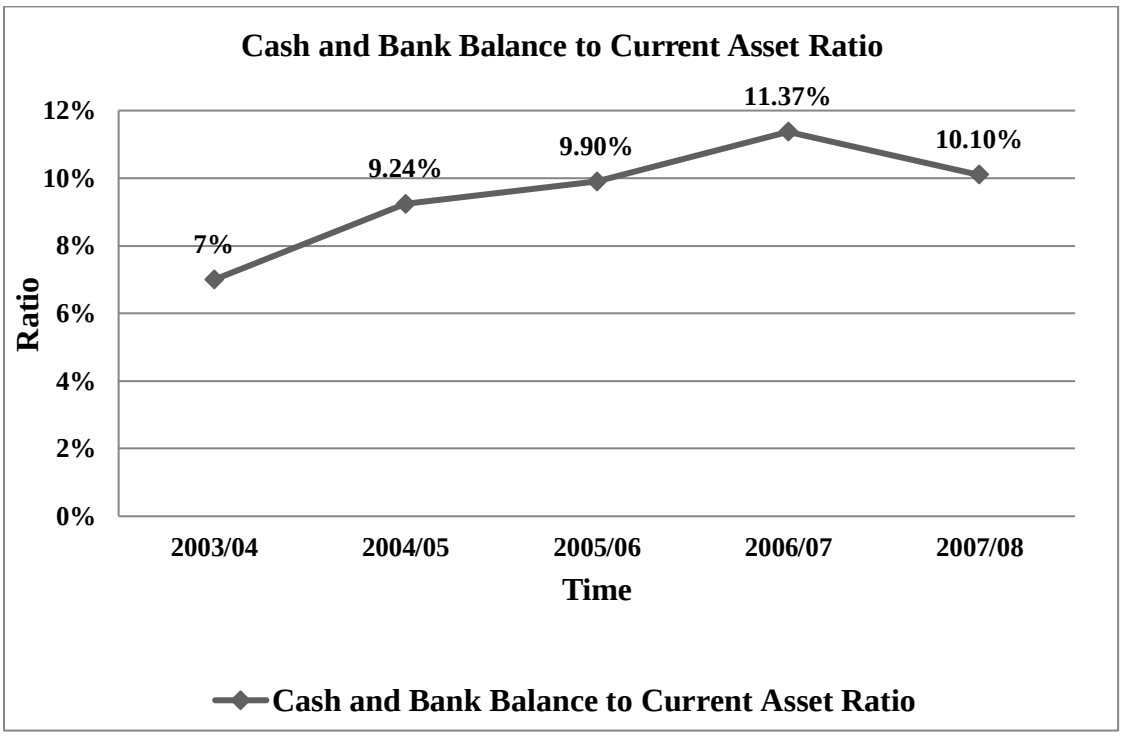
2003/04	7%	-
2004/05	9.24%	1.32
2005/06	9.90%	1.14
2006/07	11.37%	1.62
2007/08	10.10%	1.44
Mean	9%	
S.D	1.67%	
C.V	18.56%	

Source: Financial Statement of Bank 2003/04 to 2007/08.

The above table 4.2 shows that the mean, standard deviation and coefficient of variation of cash and bank balance to current asset ratio of EBL which is in fluctuation trend. The highest ratio is 11.37% in FY 2006/07 and lowest ratio is 7% in FY 2003/04. The mean ratio of the study period is 9% and its C.V and S.D are 1.67% and 18.56% respectively.

Chart 4.2

Cash and Bank Balance to Current Asset Ratio



4.2.3. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid assets, which is said to be the first defense of every bank. The ratio measures the availability of a bank's highly liquid and

immediately available fund to meet its unanticipated calls on all types of deposits. This ratio is computed buy dividing the cash and bank balance by total deposits. Higher ratio shows higher liquidity position and ability to cover the deposit and vice versa.

Cash and bank balance to total deposit ratio of EBL from the fiscal year 2003/04 to 2007/08 are given below.

Table 4.3

Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	Ratio	Index
2003/04	7.83%	-
2004/05	10.40%	1.33
2005/06	11.25%	1.44
2006/07	13.15%	1.68
2007/08	11.13%	1.42
Mean	10.75%	
S.D	1.92%	
C.V	17.87%	

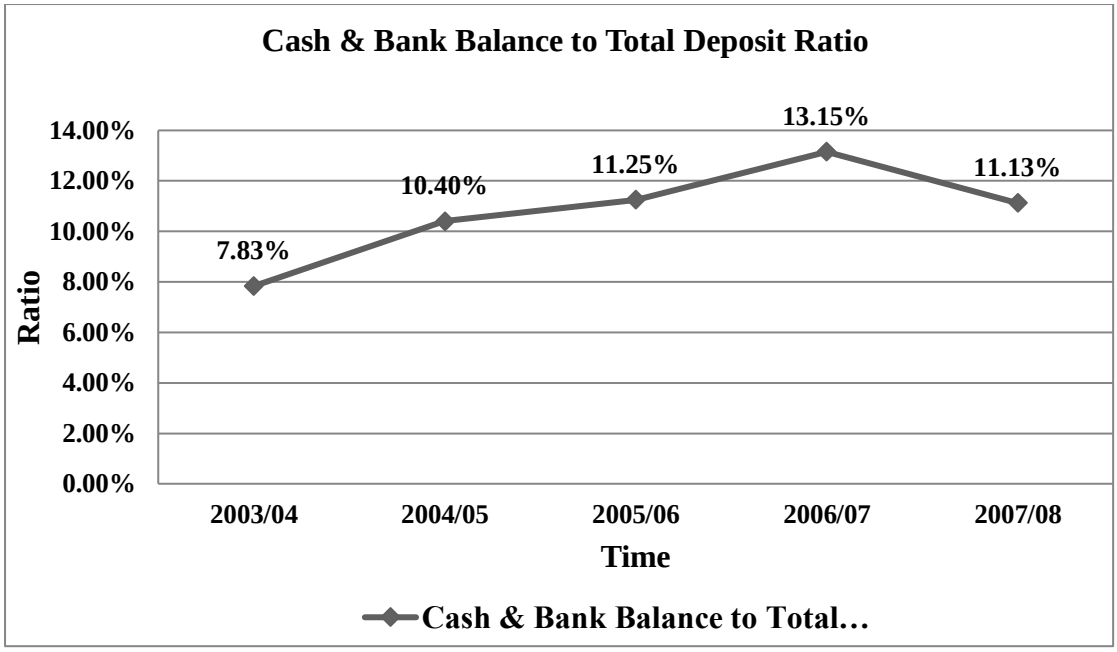
Source: Financial Statement of Bank 2003/04 to 2007/08

The ratio of cash & bank balance to total deposit ratio is in increasing trend up to 2006/07 and it decreased in 2007/08. EBL has highest ratio in the fiscal year 2006/07 which is 13.15% and the lowest ratio is 7.83% in the fiscal year 2006/07. The mean ratio of the study is 10.75% with standard deviation of 1.92% and coefficient of variation of 13.48%.

The pattern of the above calculated ratio of the Everest Bank Limited is presented in the chart no 4.3

Chart 4.3

Cash and Bank Balance to Total Deposit Ratio



4.2.4. Investment on Government Securities to Current Assets Ratio

Investment on government securities on current asset ratio reflects the current assets invested on government securities, treasury bills and development bonds. Though the government securities are not so liquid as cash & bank balance, they can be easily sold in the market or they can be easily converted into the cash in other ways and they are risk free too. This ratio shows that out of the total current asset, how much percentage of it has been occupied by the investment on government securities. This ratio is calculated by dividing the amount invested on government securities by current assets.

Table 4.4 Investment on Govt. Securities to Current Assets Ratio

Fiscal Year	Ratio	Index
2003/04	26.70%	-
2004/05	18.48%	0.692
2005/06	22.72%	0.851
2006/07	22.36%	0.837
2007/08	18.25%	0.684
Mean	21.70%	
S.D	3.49%	
C.V	16.08%	

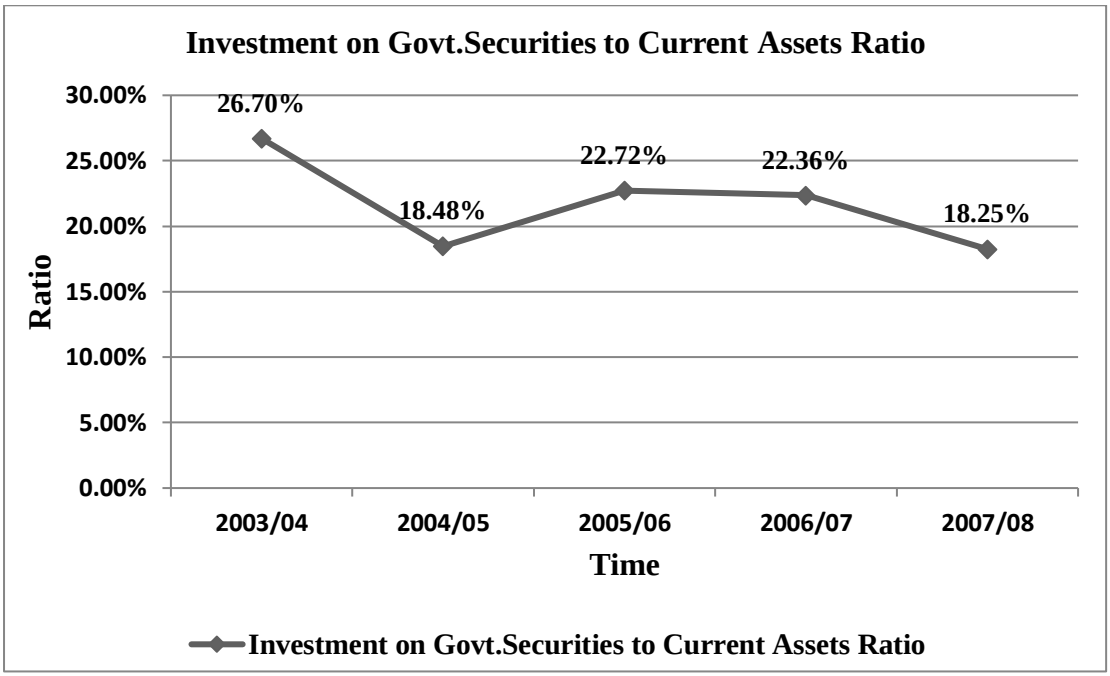
Source: Financial Statement of Bank 2003/04 to 2007/08

From the above table 4.4 we can see that the ratio of the investment on government securities to current assets ratio is in fluctuation trend. EBL has lowest ratio at FY

2007/08 with 18.25% and the highest ratio of 26.70% at FY 2003/04. The mean, standard deviation and coefficient of variation are 21.70%, 3.49% and 16.08% respectively.

Chart 4.4

Investments on Govt. Securities to Current Asset Ratio



4.2.5. Loan and Advances to Current Assets Ratio

It shows the relationship between loan and advances to current assets ratio or it shows the banks liquidity capacity of discounting and purchasing the bills and loans, cash credit and overdraft facilities to the customers. To make high profit by mobilizing its fund in the best way, bank should invest its fund as loan and advances to the customers. If sufficient loan & advances cannot be granted, it should pay interest on those unutilized funds and may loose some earnings. But high loan and advance may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity. Thus, a bank must maintain its loan & advances in appropriate level.

This ratio is computed by dividing loan and advances by current assets. The table 4.5 below shows the ratio of loan & advances to current assets ratio of EBL.

Table 4.5

Loan and Advances to Current Assets Ratio

Fiscal Year	Ratio	Index
2003/04	63.69%	-
2004/05	66.88%	1.05
2005/06	62.74%	0.99
2006/07	64.94%	1.02
2007/08	69.43%	1.09
Mean	65.54%	
S.D	2.64%	
C.V	4.08%	

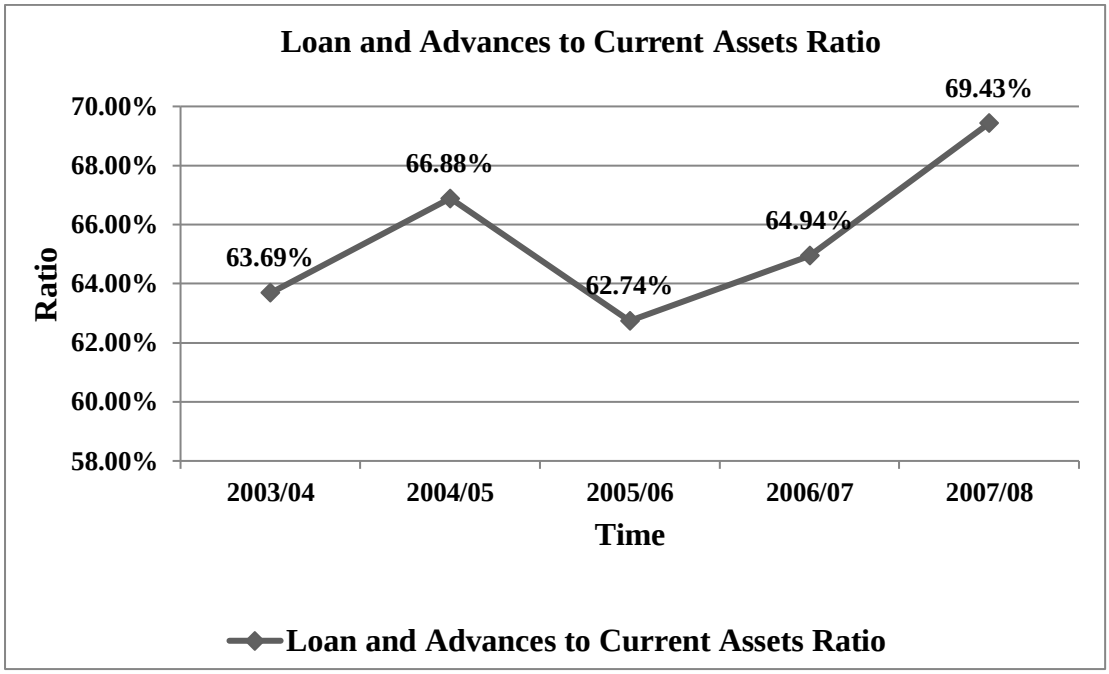
Source: Financial Statement of Bank 2003/04 to 2007/08

The loan and advances to current assets ratio of EBL is in fluctuating trend with mean ratio of 65.54% and C.V. 4.08%. The standard deviation of the bank during the study period is 2.67%.

At the end of fiscal year 2007/08 the ratio has been increased by 9.01% in comparison to base year 2003/04.

Chart 4.5

Loan and Advances to Current Assets Ratio



4.3. Assets Management Ratio

Assets management ratio or activity ratios are employed to evaluate the efficiency with which the firm manage and utilized its assets. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the turnover or conversion, the more efficient is the management or utilization of assets. Here, some the ratios are computed to assess the bank's efficiency in utilization of available assets.

4.3.1. Loan & Advances to Total Deposit Ratio

This ratio actually measures the extent to which the bank is successful to mobilize the total deposits on loan and advances for the purpose of profit generation. A high ratio of loan and advances indicated better mobilization of collected deposits and vice versa. But it should be noted that too high ratio may not be favorable. This ratio is calculated by dividing loan and advances by total deposits. The table below 4.6 shows the loan & advances to total deposit ratio of EBL from fiscal year 2003/04 to 2007/08

Table 4.6

Loan and Advances to Total Deposit Ratio

Fiscal Year	Ratio	Index
2003/04	72.97%	-
2004/05	75.45%	1.04
2005/06	71.01%	0.97
2006/07	75.13%	1.03
2007/08	76.49%	1.05
Mean	74.21%	
S.D	2.20%	
C.V	3%	

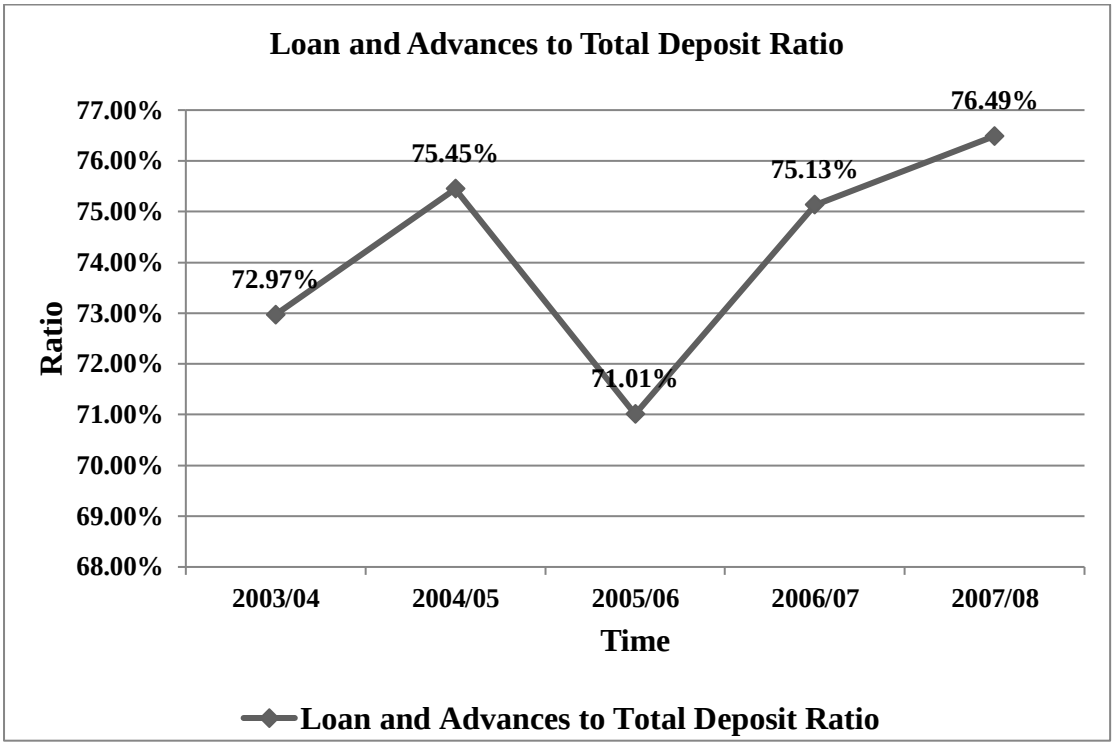
Source: Financial Statement of Bank from 2003/04 to 2007/08

The above table 4.6 shows that the loans and advances to total deposit ratios are in increasing trends during the study period. The deposit of the EBL is in increasing trend during the study period. The investment in loan and advances of EBL has been increase with the increasing along with the increase in deposit except the fiscal year 2005/06. The average mean ratio is 74.21% with standard deviation of 2.20% and

coefficient of variation of 3%. The coefficient of variation between the ratios shows that the ratios are satisfactory consistent over the study period. It shows that the ratios ate consistent and less variable. From the index we can conclude that the ratio has been increase by 5% as compared to the base year.

Chart 4.6

Loan and Advances to Total Deposit Ratio



4.3.2. Loan and Advances to Total Working Fund Ratio

Loan and advances is an important part of the total assets. Commercial banks must be very careful in mobilizing the total assets as loan & advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are successful in mobilizing their assets loans and advances for the purpose of income generation. A higher ratio indicated better in mobilization of funds as loans and advances and vice versa.

The table 4.7 below shows the loans and advances to total working funds of EBL from fiscal year 2003/04 to 2007/08.

Table 4.7

Loan and Advances to Total Working Fund Ratio

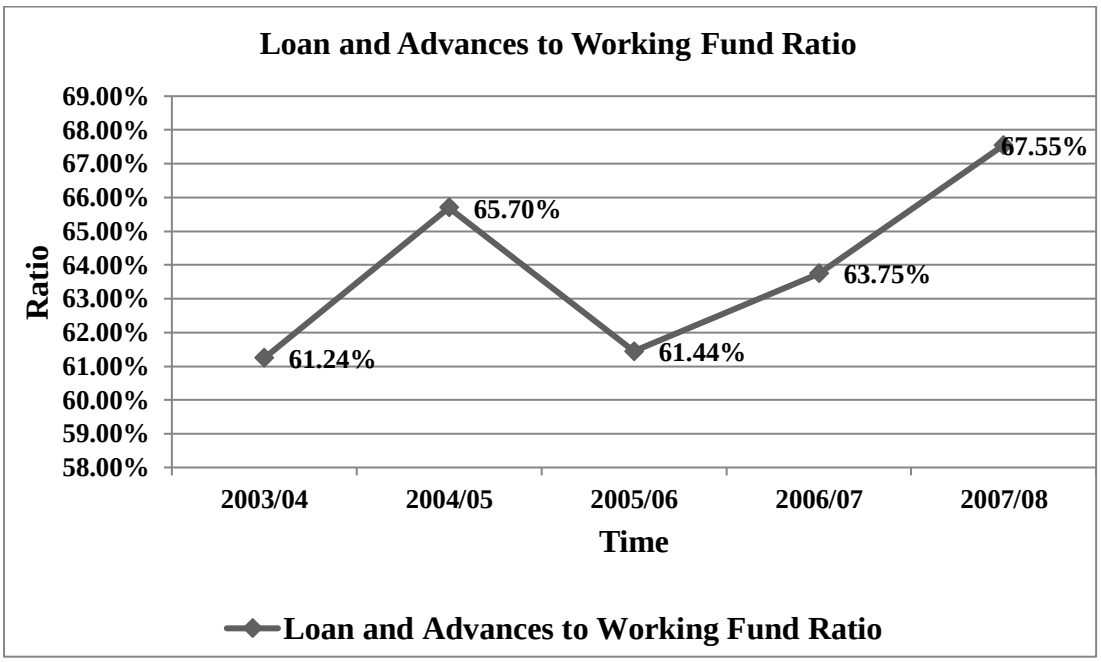
Fiscal Year	Ratio	Index
2003/04	61.24%	-
2004/05	65.07%	1.063
2005/06	61.44%	1.003
2006/07	63.75%	1.041
2007/08	67.55%	1.103
Mean	63.81%	
S.D	2.64%	
C.V	4.14%	

Source: Financial Statement of Bank 2003/04 to 2007/08

Referring to the above table 4.7, we can see that the EBL highest ratio is 67.55% during the fiscal year 2007/08 and the lowest ratio is 61.24% in the fiscal year 2003/04. The mean ratio and standard deviation is found to be 63.81% and 2.64% during the study period. The coefficient of variation is 4.14% which shows the EBL has consistent and less variable. The ratio is in increasing trend and has been increased by 1.103 points in FY 2007/08 in relation to base year 2003/04.

Chart 4.7

Loan and Advances to Working Fund Ratio



4.3.3. Total Investment to Total Deposit Ratio

Total investment to total deposit ratio indicated how properly firm's deposits have been invested on government securities and shares and debentures of the other companies. This ratio can be computed by dividing the total investment by total amount of deposit collections. A high ratio is the indicator of high success to mobilize the banking fund as investment and vise versa.

The table 4.8 below shows the ratio of total investment to total deposit.

Table 4.8

Total Investment to Total Deposit Ratio

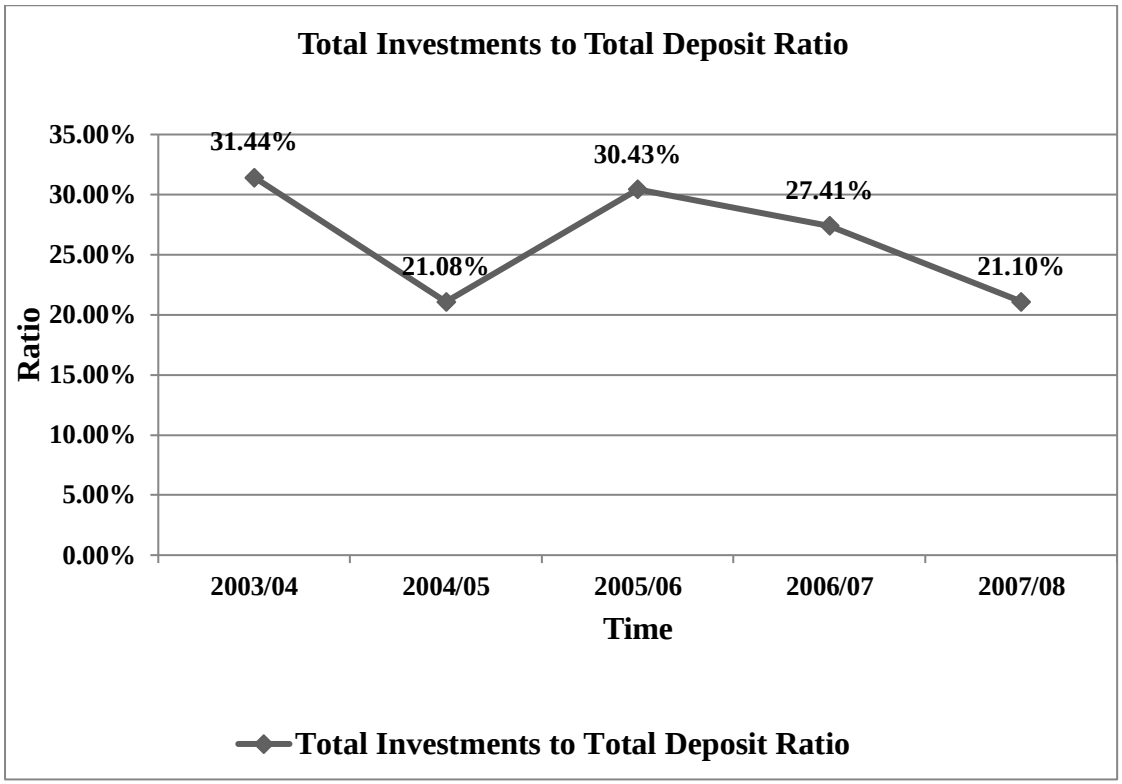
Fiscal Year	Ratio	Index
2003/04	31.44%	-
2004/05	21.08%	0.671
2005/06	30.43%	0.968
2006/07	27.41%	0.872
2007/08	21.10%	0.671
Mean	26.29%	
S.D	4.98%	
C.V	18.94%	

Source: Financial Statement of Bank 2003/04 to 2007/08

In the table no. 4.8, EBL has the fluctuating trend regarding the ratios. During the study period the highest ratio was in fiscal year 2003/04 with 31.44% and the lowest ratio was in the fiscal year 2004/05 with 21.08%. The mean value of EBL is 26.29% and standard deviation of 4.98%. The coefficient of variation is 19 percent which reveals that the investment policy is in average position.

Chart 4.8

Total Investments to Total Deposit Ratio



4.3.4. Investment on Government Securities to Total Working Fund Ratio

This ratio measures the contribution made by investment on government securities in total working fund of the bank. Besides mobilizing its major portion of funds in the form of loans and advances, banks invest their funds in purchasing different types of government securities. They do so mainly to utilize the excess funds for income generation without taken more risk and to maintain the adequate level of liquidity since these securities are more liquid assets than loans and advances. A high ratio indicates better mobilization of fund as investments on government securities. This ratio can be computed by dividing investment on government securities by total working fund.

The Table 4.9 below shows the ratio of investment ton government securities to total working fund ratio.

Table 4.9

Investment on Government Securities to Total Working Ratio

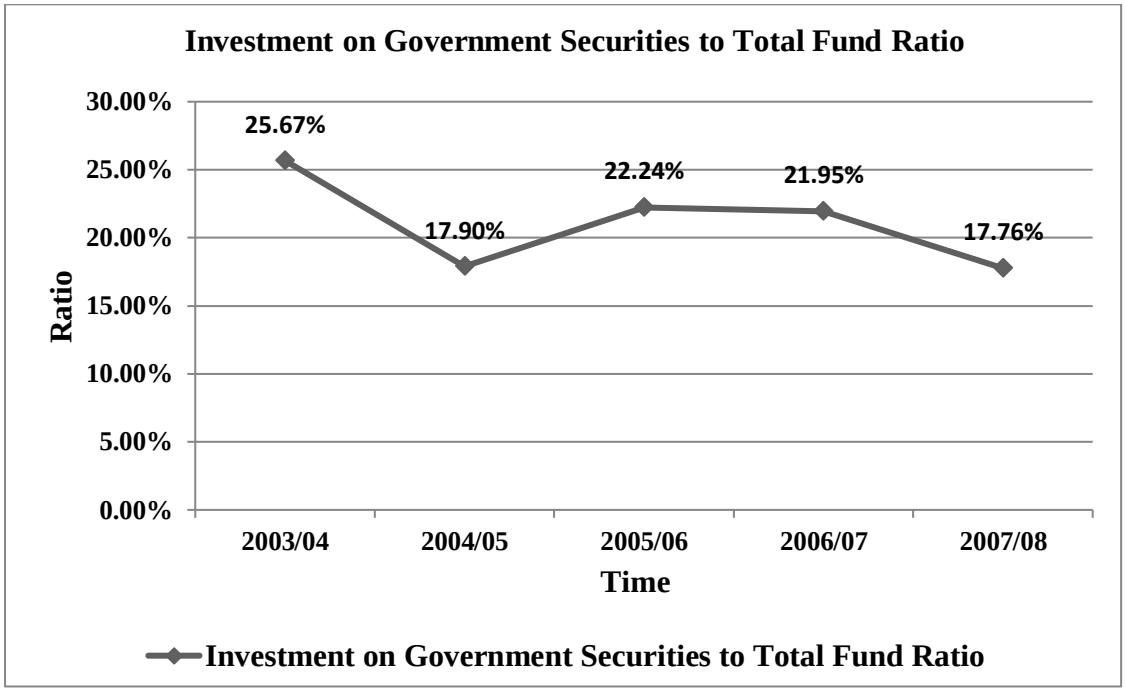
Fiscal Year	Ratio	Index
2003/04	25.67%	-
2004/05	17.94%	0.698
2005/06	22.25%	0.867
2006/07	21.95%	0.855
2007/08	17.76%	0.692
Mean	21.11%	
S.D	3.32%	
C.V	15.72%	

Source: Financial Statement of Bank 2003/04 to 2007/08

The above table 4.9 reveals that Investment on government securities to total working fund ratio is in fluctuating trend during the study period. The highest ratio was found in the FY 2003/04 with 25.67% and the lowest was in FY 2007/08 with 17.76%. The mean ratio is found to be 21.11% and its standard deviation is 3.32%with the coefficient of variation is 15.72%.

Chart 4.9

Investments on Government Securities to Total Working Ratio



4.3.5 Investment on Shares and Debentures to Total Working Fund Ratio

This ratio measures the contribution made by investment on shares and debentures government securities in total working fund of the bank. A high ratio indicates better mobilization of fund as investments on shares and debentures and vice versa. Investment on shares and debentures to total working fund ratio shows the investment of banks and other financial institutions on shares and debentures of the other companies in terms of total working fund. The ratio can be computed by dividing investment on shares and debentures by total working fund.

The table 4.10 below shows the ratio of investment on shares and debentures to working fund ratio of EBL from fiscal year 2003/04 to 2007/08.

Table 4.10

Investment on Shares and Debentures to Total Working Fund Ratio

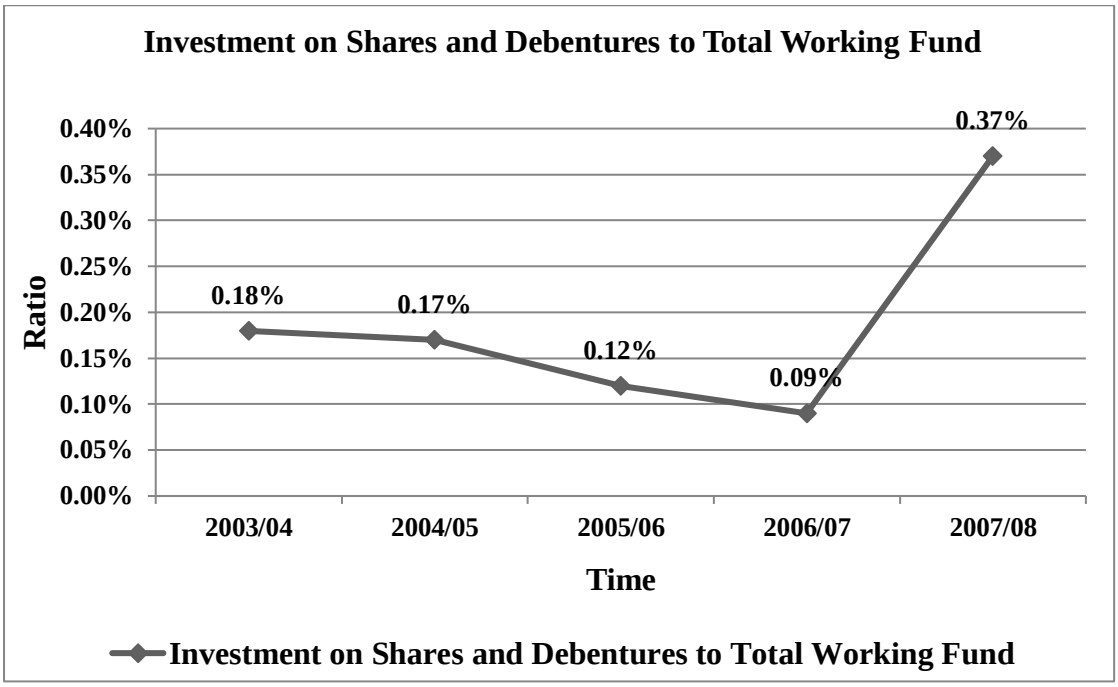
Fiscal Year	Ratio	Index
2003/04	0.18%	-
2004/05	0.17%	0.944
2005/06	0.12%	0.667
2006/07	0.09%	0.50
2007/08	0.37%	2.06
Mean	0.18%	
S.D	0.11%	
C.V	0.59	

Source: Financial Statement of Bank 2003/04 to 2007/08

The above table 4.10 shows the investment on shares and debentures to total working fund ratio with the mean ratio of 0.18% and standard deviation of 0.11% during the study period. The highest ratio was found in the fiscal year 2007/08 with 0.37% and the lowest ratio was 0.09% in the fiscal year 2003/07. The coefficient of variation is 59% which shows that the ratios are variable and not consistent during the study period.

Chart 4.10

Investment on Shares and Debentures to Total Working Fund Ratio



4.4. Profitability Ratio

One of the major objectives of the commercial bank is to earn more profit. Management and shareholders of the bank want reasonable and more return. Profitability ratio indicates public acceptances of the service of the bank. In this study, the profitability ratios are computed by relating the profits of banks to their investment. To measure the profitability of EBL following ratios have been calculated and analyzed.

4.4.1. Net Profit to Total Assets Ratio

Return on total assets ratio measure the profitability with respect to total assets. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the banks assets. A higher ratio usually indicates efficiency in utilization of its overall resources and vice versa. This ratio is computed by dividing net profit by total assets.

The table 4.11 below shows the ratio of net profit to total assets of EBL from fiscal year 2003/04 to 2007/08.

Table 4.11

Net Profit to Total Assets Ratio

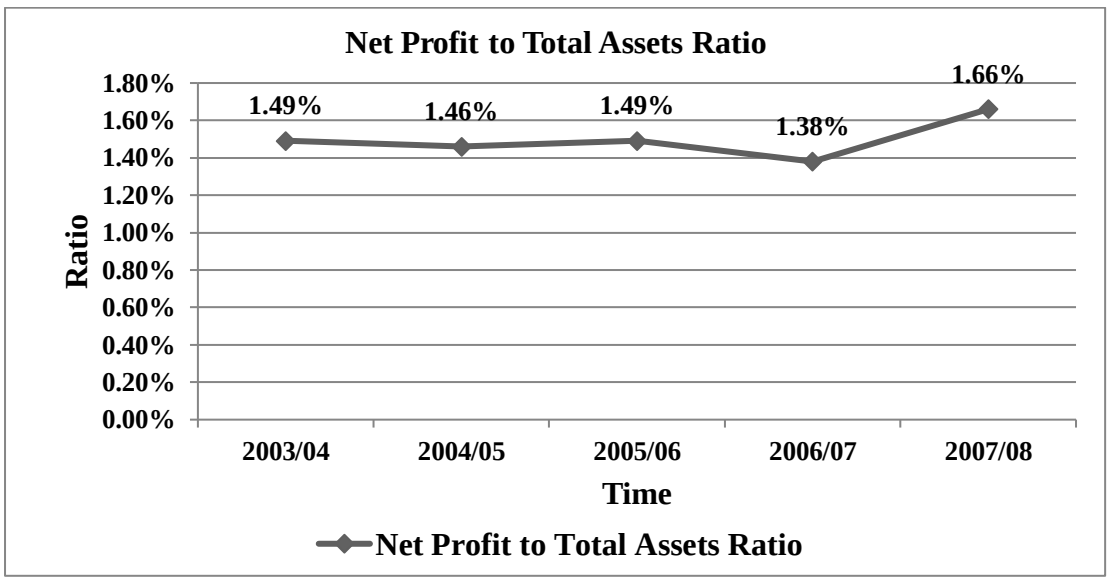
Fiscal Year	Ratio	Index
2003/04	1.49%	-
2004/05	1.46%	0.980
2005/06	1.49%	1
2006/07	1.38%	0.926
2007/08	1.66%	1.114
Mean	1.5%	
S.D	0.10%	
C.V	6.67%	

Source: Financial Statement of Bank 2003/04 to 2007/08

Referring to the above table 4.11, we can say that the ratio is in fluctuating trend during the study period. The highest ratio is found in the FY 2007/08 i.e. 1.66% and the lowest is in the FY 2006/07 which is 1.38%. The standard deviation and coefficient of variation was found to be 0.10% and 6.67% respectively and the mean was 1.5% during the study period. In the fiscal year 2007/08 the ratio has been increased by 1.114 points with reference to the base year 2003/04.

Chart 4.11

Net Profit to Total Assets Ratio



4.4.2. Net Profit to Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its mobilized loan and advances. A high ratio indicates greater success to mobilize fund as loan and advances and vise versa.

Return on loan and advances ratio shows how efficiently the bank has utilized their resources to earn good return form providing loan and advances. This ratio can be computed by dividing net profit/loss by total loan and advances.

The table 4.12 below shows the ratio of net profit/loss to the total loan and advances of EBL from the fiscal year 2003/04 to 2007/08.

Table 4.12

Net Profit to Loan and Advances Ratio

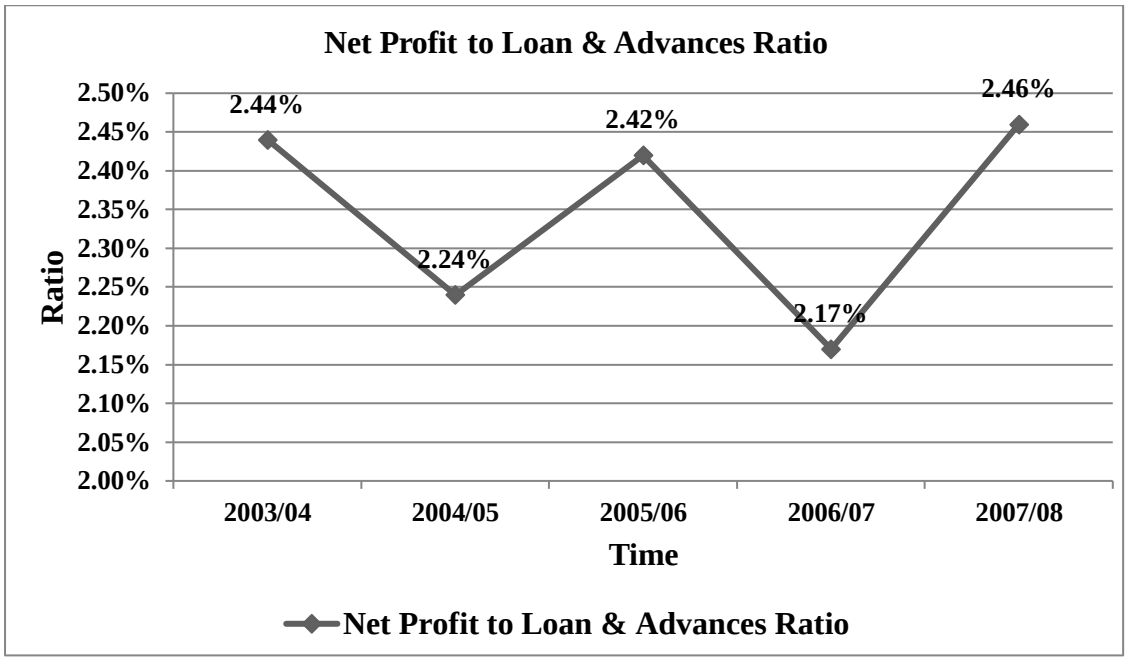
Fiscal Year	Ratio	Index
2003/04	2.44%	-
2004/05	2.24%	1.089
2005/06	2.42%	0.992
2006/07	2.17%	0.889
2007/08	2.46%	1.008
Mean	2.35%	
S.D	0.13%	
C.V	5.53%	

Source: Financial Statement of Bank 2003/04 to 2007/08

Table no. 4.12 explains that eh ratios are in fluctuating trend ranging between 2.17% to 2.46%. The highest ratio was found in FY 2007/08 i.e. 2.46% and lowest ratio with 2.17% in FY 2006/07. The mean ratio is found to be 2.35% with 0.13% standard deviation and 5.53% coefficient of variation which indicates that the ratios are less variable and consistent during the study period.

Chart 4.12

Net Profit to Loan and Advances Ratio



4.4.3. Total Interest Income from Total Investment Ratio

Thos ratio actually measures the total interest income from total investment. A high ratio of interest income from investment indicates high mobilization of collected deposits in investment and vice versa. This ratio can be computed by dividing total interest income from investment by total investment.

The table 4.13 shows the total interest income from total investment ratio of EBL from fiscal year 2003/04 to 2007/08.

Table 4.13

Total Interest Income form total Investment Ratio

Fiscal Year	Ratio	Index
2003/04	3.65%	-
2004/05	3.66%	1.003
2005/06	2.32%	0.636
2006/07	2.58%	0.707
2007/08	3.82%	1.047
Mean	3.21%	
S.D	0.70%	
C.V	22%	

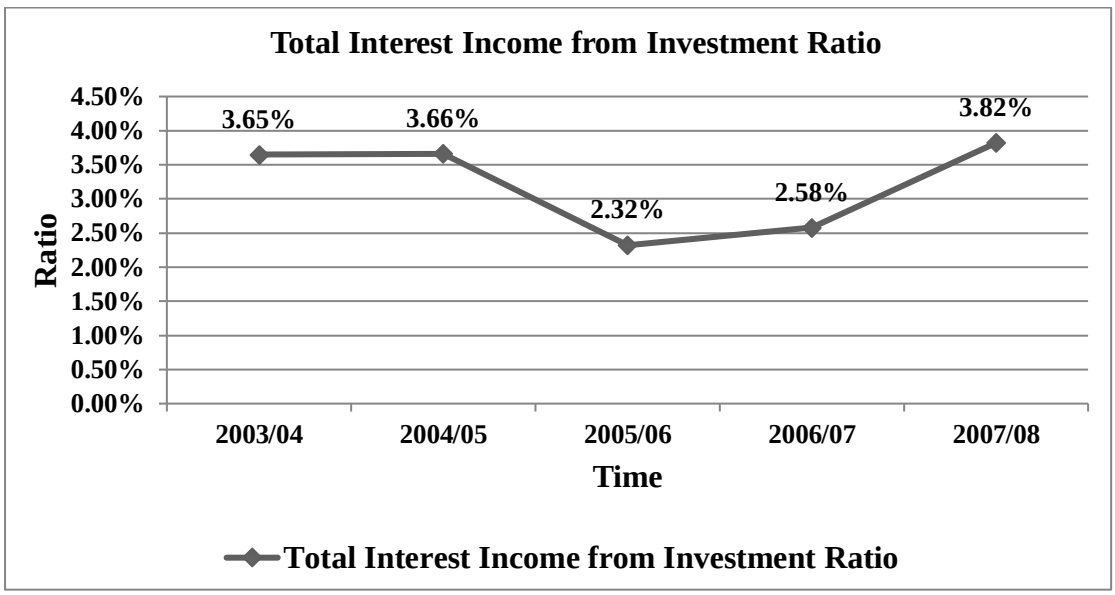
Source: Financial Statement of Bank 2003/04 to 2007/08

Total interest income from investment ratio of EBL has followed fluctuating trend. The highest ratio was found in FY2007/08 with 3.82% and lowest ratio is 2.32% in FY 2005/06. The mean ratio was 3.21% with 0.70% of standard deviation and 22% of coefficient of variation. The index shows that the ratio has been increased by 1.047 points in fiscal year 2007/08 with respect of the fiscal year 2003/04.

The above table is presented in the following chart 4.13

Chart 4.13

Total Interest Income from Investment Ratio



4.4.4. Total Interest Income from Loan and Advances and Bill Collection Ratio

This ratio actually measures the total interest income from total loan and advances and bill collection. A high ratio of interest income from investment indicates high mobilization of collected deposits in investment and vice versa. This ratio can be computed by dividing total interest income from loan and advances and bill collection by total loan and advances and bill collection.

The table below shows the trend of the total interest income from loan and advances and bill collection ratio.

Table 4.14

Total Interest Income from Loan and Advances and Bill Collection

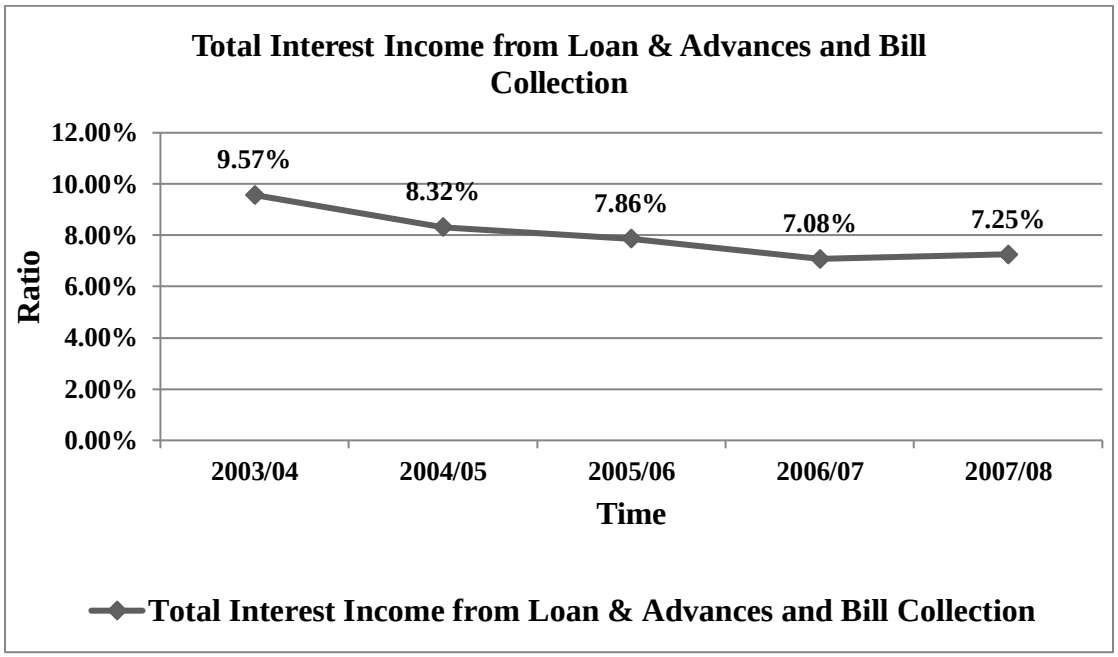
Fiscal Year	Ratio	Index
2003/04	9.57%	-
2004/05	8.32%	0.870
2005/06	7.86%	0.821
2006/07	7.08%	0.740
2007/08	7.25%	0.758
Mean	8.02%	
S.D	0.99%	
C.V	12.34%	

Source: Financial Statement of Bank 2003/04 to 2007/08

The table 4.14 reveals that the EBL has been experiencing the decreasing trend of total Interest income from loan and advances and bill collection ratio. It has range from 7.08% to 9.57%. The highest and lowest ratio during the study period was found to be 9.57% and 7.08% with mean ratio of 8.02% and standard deviation and coefficient of variation of 0.99% and 12.34%.

Chart 4.14

Total Interest Income from Loan and Advances and Bill Collection



4.4.5. Detail description of Interest Income:

Table: 4.15

Total Net Interest Income (Rs. in million)

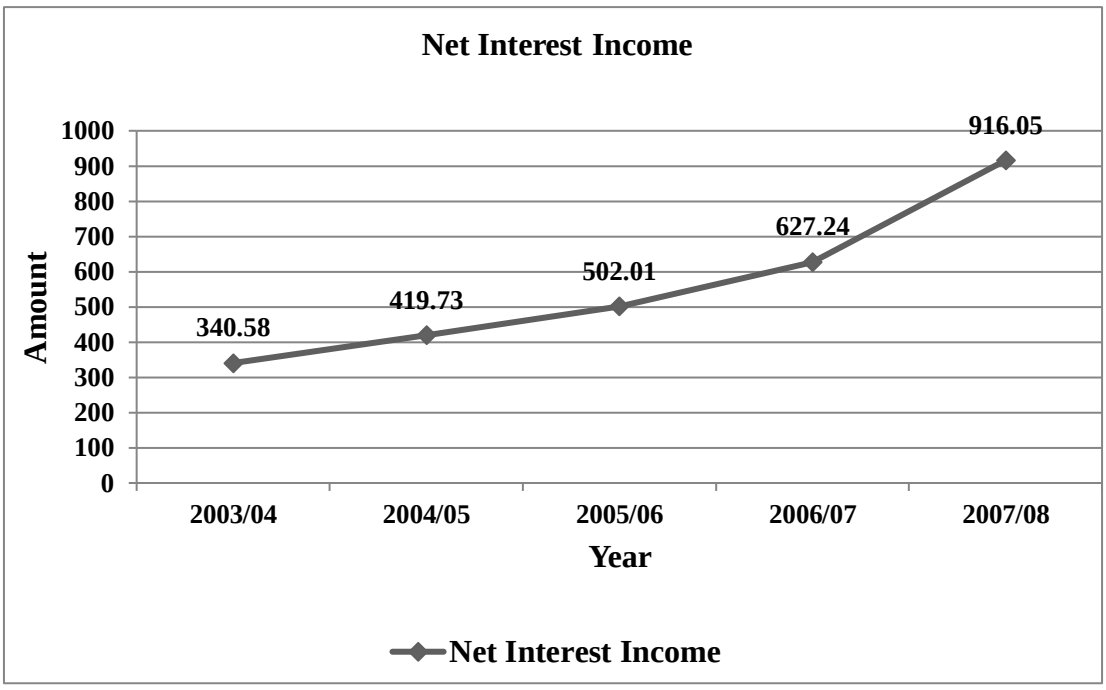
Year	Total Interest Income	Total Interest Expenses	Net Interest Income
2003/04	657.25	316.37	340.58
2004/05	719.30	299.57	419.73
2005/06	903.41	401.40	502.01
2006/07	1144.41	517.17	627.24
2007/08	1548.66	632.61	916.05

Source: Financial Statement of Bank 2003/04 to 2007/08

The bank has substantial net income in each year. It is in increasing trend standing Rs.916.05 million in the fiscal year 2007/08.

Chart 4.15

Net Interest Income



4.5. Risk Ratios

The possibility of risk makes banks investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the

bank opting for high profit has to accept the risk and manage it effectively. Through the following ratios, effort has been made to measure the level of risk.

4.5.1. Credit Risk Ratio

Credit risk ratio helps to check the probability of loan non payment or the possibility of loan to go into defaults. Credit risk ratio is expressed as the percentage of non performing loan to total loan and advances. Risk of non repayment of loan is known as credit risk. This ratio can be calculated by dividing total loan and advances by total assets.

The table 4.16 shows the ratio of total loan and advances to total assets of EBL from fiscal year 2003/04 to 2007/08.

Table 4.16

Credit Risk ratio

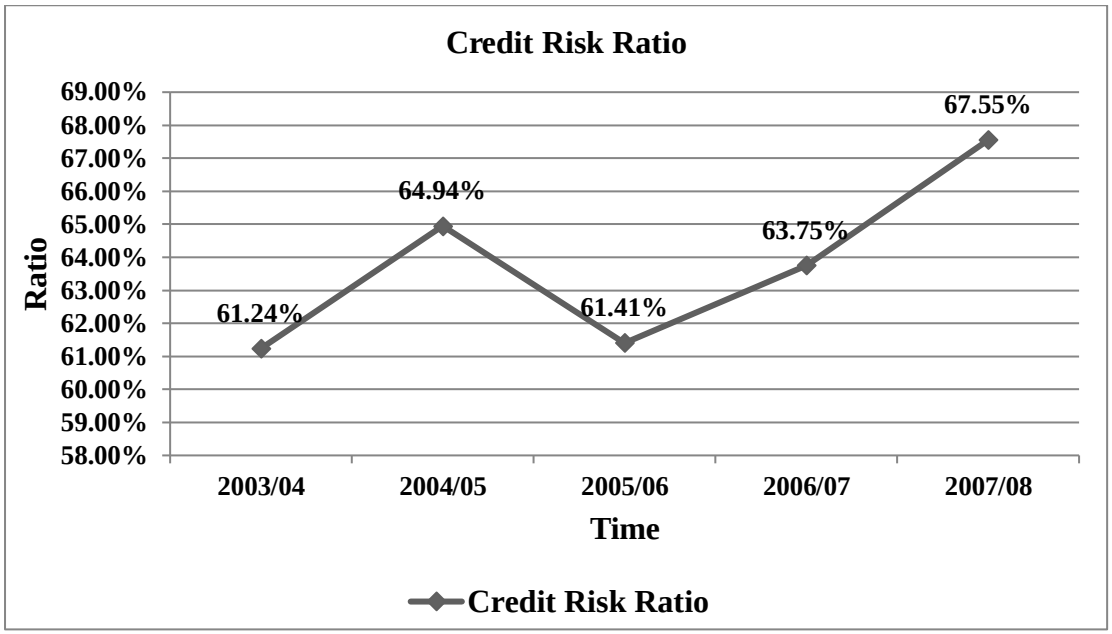
Fiscal Year	Ratio%	Index
2003/04	61.24%	-
2004/05	64.94%	1.060
2005/06	61.41%	1.003
2006/07	63.75%	1.041
2007/08	67.55%	1.103
Mean	63.78%	
S.D	2.63%	
C.V	4.12%	

Source: Financial Statement of Bank 2003/04 to 2007/08

The credit risk ratio of EBL has followed fluctuating trend. It has ranged from 61.24% to 67.55%. During the study period the mean ratio is found to be 63.78% with standard deviation of 2.63% and coefficient of variation of 4.12%. It indicates the credit policy of EBL is in consistent.

The above calculated ratios have been presented in the following chart no 4.16

Chart 4.16 Credit Risk Ratio



4.5.2. Capital Risk Ratio

The capital risk ratio of a bank indicated how many assets value may decline before the position of deposition and other creditor is jeopardize. Therefore, a bank must maintain adequate capital in relation to the mature and condition of its assets, its deposit liabilities and other corporate responsibilities. Capital risk ratio measures banks ability to attract deposits and inter bank fund. It also determine the level of profit, a bank can earn if a bank chooses to take high capital risk, and its ROE will be higher and vice verse. The ratio is computed by dividing share capita by total assets.

The table 4.17 shows the capital risk ratio of EBL from the fiscal year 2003/04 to 2007/08.

Table 4.17

Capital Risk Ratio

Fiscal Year	Ratio	Index
2003/04	4.74%	-
2004/05	4.42%	0.932
2005/06	3.25%	0.686
2006/07	2.42%	0.511
2007/08	3.06%	0.646
Mean	3.58%	
S.D	0.97%	
C.V	27.14%	

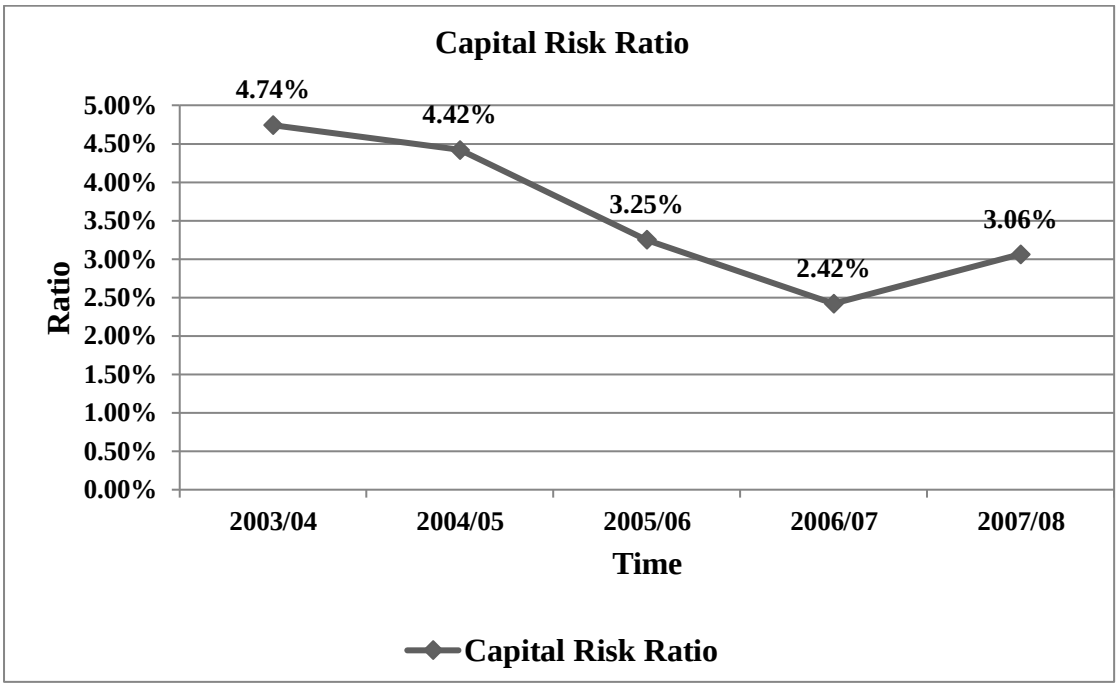
Source: Financial Statement of Bank 2003/04 to 2007/08

The above table 4.17 shows that the capital risk ratio of the EBL is in fluctuating trend with highest ratio of 4.74% in FY 2003/04 to lowest of 2.42% in FY 2006/07. During the study period, the mean ratio was found to be 3.58% with S.D. of 0.97% and C.V of 27.14% respectively.

The above ratios are plotted in the following chart no 4.17 which in fluctuating trend.

Chart 4.17

Capital Risk Ratio



4.6. Activity or Performing Ratio

In this section the lending efficiency in terms of quality and turnover is measured. Lending on loan and advances is very risk activity and it also deserves high return too. Lending will not effective if they are not managed. Activity or performing ratio helps to describe over all investment policy and lending efficiency of the bank.

4.6.1. Non- Performing Loan to Total Loans and Advances Ratio

This ratio measures the proportion of non- performing loans on the total volume of loan and advances. This reflects the quantity of quality assets that the bank have. Higher ratio reflects the bad performance of the bank in mobilization of loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the

non- performing loans by total loans and advances. The table below shows the ratio between the non performing loan to total loan and advances

Table 4.18

Non- Performing Loan to Total Loans and Advances Ratio

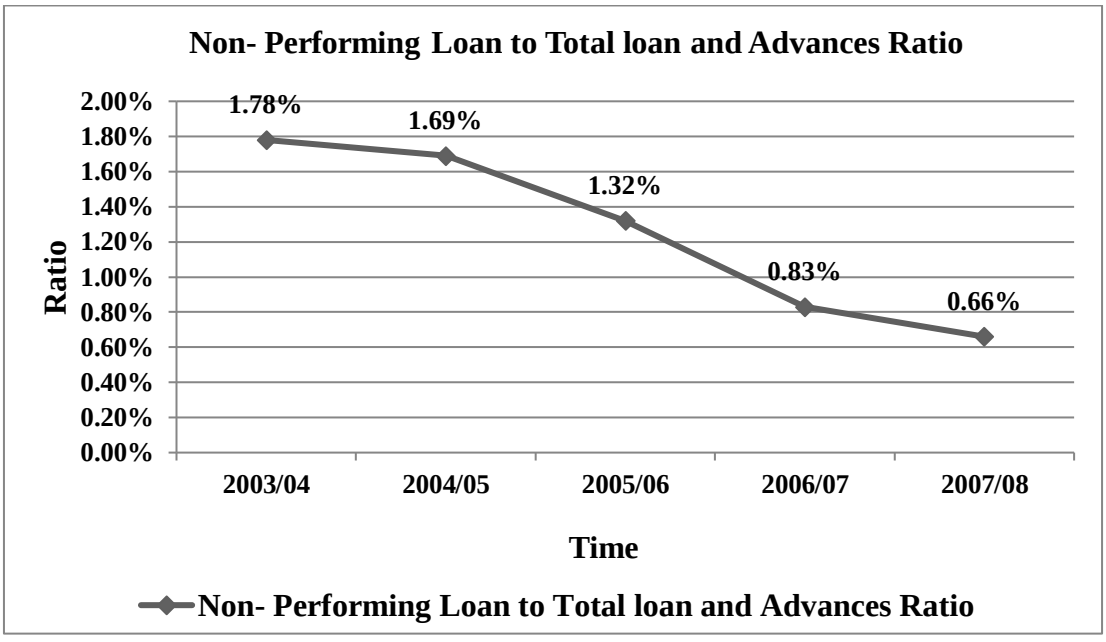
Fiscal Year	Ratio	Index
2003/04	1.78%	-
2004/05	1.69%	0.949
2005/06	1.32%	0.742
2006/07	0.83%	0.466
2007/08	0.66%	0.371
Mean	1.26%	
S.D	0.50%	
C.V	39.68%	

Source: Financial Statement of Bank 2003/04 to 2007/08

The above table 4.18 exhibits that the ratios for the study period are in decreasing trend. The highest ratio is found in the FY 1.78% and the lowest ratio is 0.66% in FY 2007/08. The average mean ratio is 1.26% with standard deviation of 0.50% and coefficient of variation of 39.68%.

Chart 4.18

Non- Performing Loan to Total Loans and Advances Ratio



4.6.2. Loan Loss Provision to Total Loan and Advances Ratio

The provision for loan loss reflects the increasing probability of non- performing loans in the volume of total loans and advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The positive ratio signifies the increase in loan loss provision than previous and negative ratio indicates the decrease in loan loss provision.

Table 4.19

Loan Loss Provision to Loan and Advances Ratio

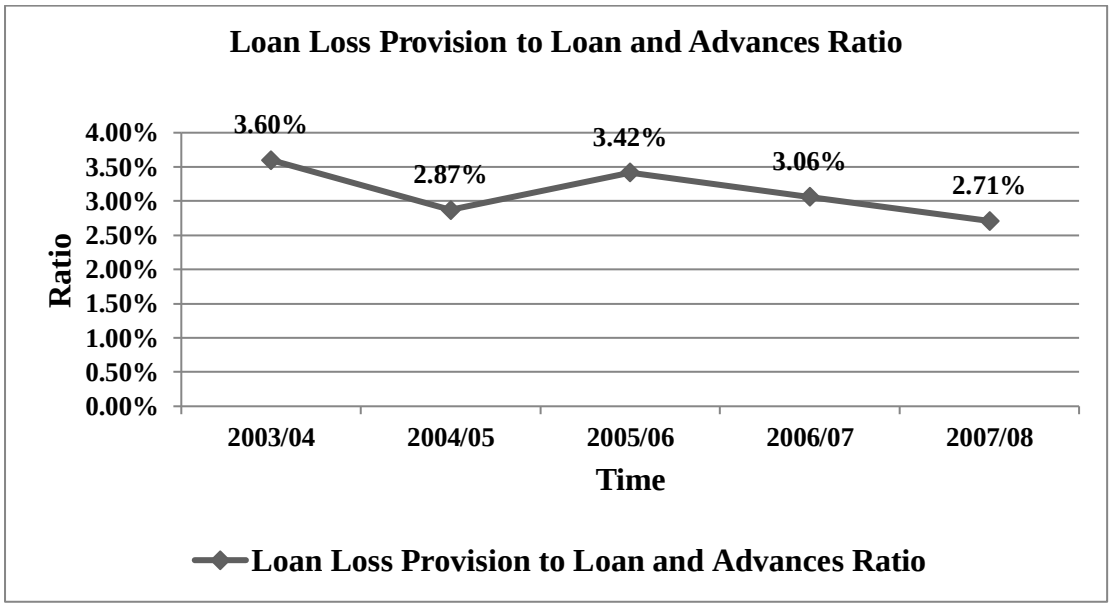
Fiscal Year	Ratio	Index	
2003/04	3.60%	-	
2004/05	2.87%	0.797	
2005/06	3.42%	0.950	
2006/07	3.06%	0.850	
2007/08	2.71%	0.753	
Mean	3.13%	0.869	
S.D	0.37%	C.V.	11.84%

Sources: Financial Statement of Bank 2003/04 to 2007/08

The ratio of loan loss provision to total loan and advances ratio is in fluctuating trend. The mean ratio during the study period is 3.13% with standard deviation and coefficient of variation of 0.37% and 11.84% respectively.

Chart 4.19

Loan Loss Provision to Loan and Advances Ratio



4.7. Loan Disbursement to Priority and Deprive Sector

Priority and deprive sectors credit program based on area development approach has been implemented through directions of NRB. Agriculture, cottage and service sector has been recognized as the deprived sectors. The current situation of priority sectors and deprives sectors lending of the EBL has been presented below.

Table no 4.20

Deprived Sector Lending to Loan and Advances Ratio

Year	2003/04	2004/05	2005/06	2006/07	2007/08
Ratio	2.94%	2.95%	3.03%	2.71%	2.86%

Source: Bank and Financial Statement of NRB 2003/04 to 2007/08

The above table no. 4.20 shows the deprived sector lending in total lending of EBL throughout the study period. The total deprived sector lending of EBL throughout the study period is in increasing trend up to three fold but the deprived sector lending is in somewhat fluctuating trend. The deprived sectors loan ratio is 2.86% in the fiscal year 2007/08. The above table shows that the EBL is lending a satisfactory level loan to the deprived sector.

4.8. Growth Ratios

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

Table 4.21

Growth Ratios

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Ratios**
Deposit	8063.902	10097.69	13802.44	18186.25	23976.3	25.10%
Loan & Advances	5884.123	7618.761	9801.307	13664.082	18339.086	26.35%
Investment	2535.66	2128.93	4200.52	4984.32	5059.56	20.29%
Net Profit	143.57	170.81	237.38	296.41	451.20	27.01%
Current Assets	9239.03	11367.59	15621.75	21039.82	26412.62	24.14%
Fixed Assets	118.375	134.068	152.06	170.097	360.512	30.10%

Source: Financial Statement of Bank 2003/04 to 2007/08

The above table 4.21 explains the growth ratios of total deposits, total investment, total loan and advances and net profit of EBL during the study period. The analysis shows that the EBL has sufficient growth in total deposit i.e. 25.10% the total deposits of EBL is highest during the fiscal year 2007/08 and lowest in the fiscal year 2003/04. The analysis of the total loan and advances and investment of the bank is in increasing trend with net growth rate of 26.35% and 20.29% respectively. The profit of EBL is also in increasing trend with growth rate of 27.01% during the study period. The current and fixed assets are also in increasing trend with net growth of 24.14% and 30.10% respectively.

4.9. Trend Analysis

Under this topic, we analyze and interpret the trend of deposits, loan and advances, investment, current assets, fixed assets and net profit of EBL that helps to make forecasting for the next six years. The following trend value analysis has been used in this study.

4.9.1. Trend Analysis of Total Deposits

Here an effort has been made to calculate the trend values of total deposits of EBL for five years from FY 2003/04 to 2007/08 and forecasted for next six years till 2013/2014. The following table 4.22 shows the trend value of total deposits of EBL from FY 2003/04 to 2013/2014.

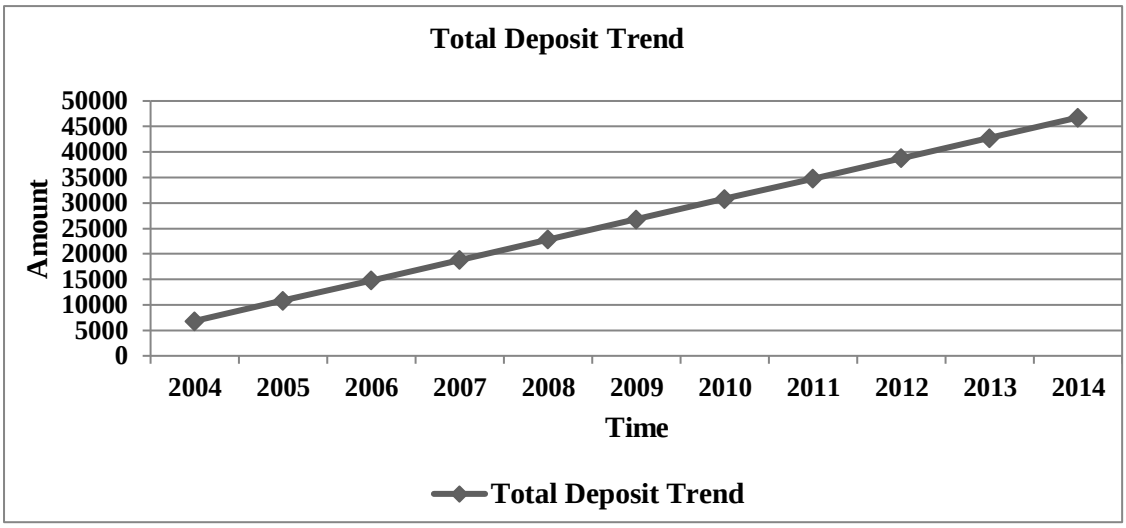
Table 4.22 Trend Value of Total Deposits of EBL (Rs. in million)

Year (t)	Trend value Yc=a+bx Yc=14825.32+3997.336x	Index
2004	6842.648	-
2005	10833.98	1.583
2006	14825.32	2.17
2007	18816.66	2.75
2008	22807.99	3.33
2009	26799.33	3.92
2010	30790.66	4.50
2011	34782	5.08
2012	38773.34	5.67
2013	42764.67	6.25
2014	46756.01	6.83

From the above table 4.22, it is clear that the total deposit of EBL is in increasing trend. While forecasting the trend, the total deposit will increase by 6.83 points in the FY 2014 as compare to FY 2004.

Chart 4.20

Total Deposit Trend of EBL



4.9.2 Trend Analysis of Loan and Advances of EBL

Here, the trend value of total loan and advances of EBL from FY 2003/04 to 2007/2008 has been made and the forecast for next six years i.e. from FY 2008/09 to 2013/2014.

Table 4.23

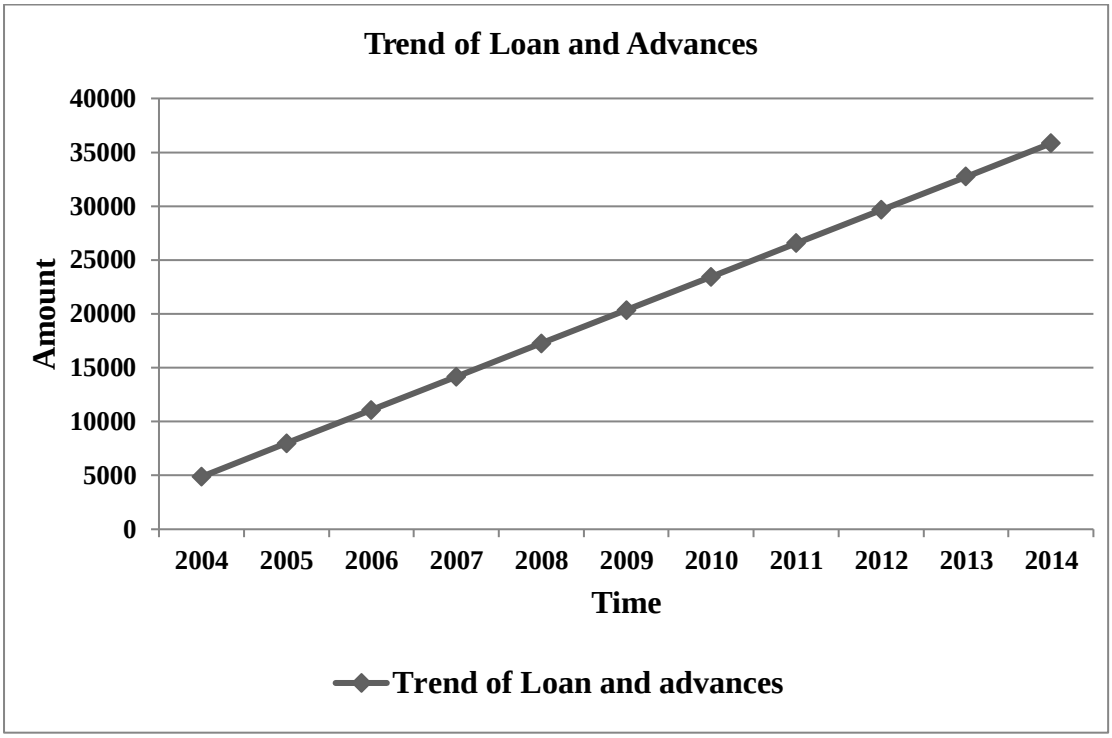
Trend Value of Total Loan and Advances of EBL (Rs. in million)

Year (t)	Trend value Yc=a+bx Yc=11061.45+30950535x	Index
2004	4870.38	-
2005	7965.915	0.611
2006	11061.45	2.271
2007	14156.99	2.907
2008	17252.52	3.542
2009	20348.06	4.178
2010	23443.59	4.814
2011	26539.13	5.449
2012	29634.66	6.085
2013	32730.2	6.720
2014	35825.73	7.356

The above table 4.23 shows that the loan and advances of EBL is in increasing trend. The index in the table shows that if other things remaining same, the total loan and advances will be Rs.35825.73 (in million) in fiscal year 2014 which is 7.356 point high as comparison to the base year 2004.

Chart 4.21

Total Loan and Advances Trend of EBL



4.9.3 Trend Analysis of Investment

Here the trend value of investment from FY 2003/04 to 2007/08 has been calculated and forecasted for the FY 2008/09 to 2013/2014.

Table 4.24

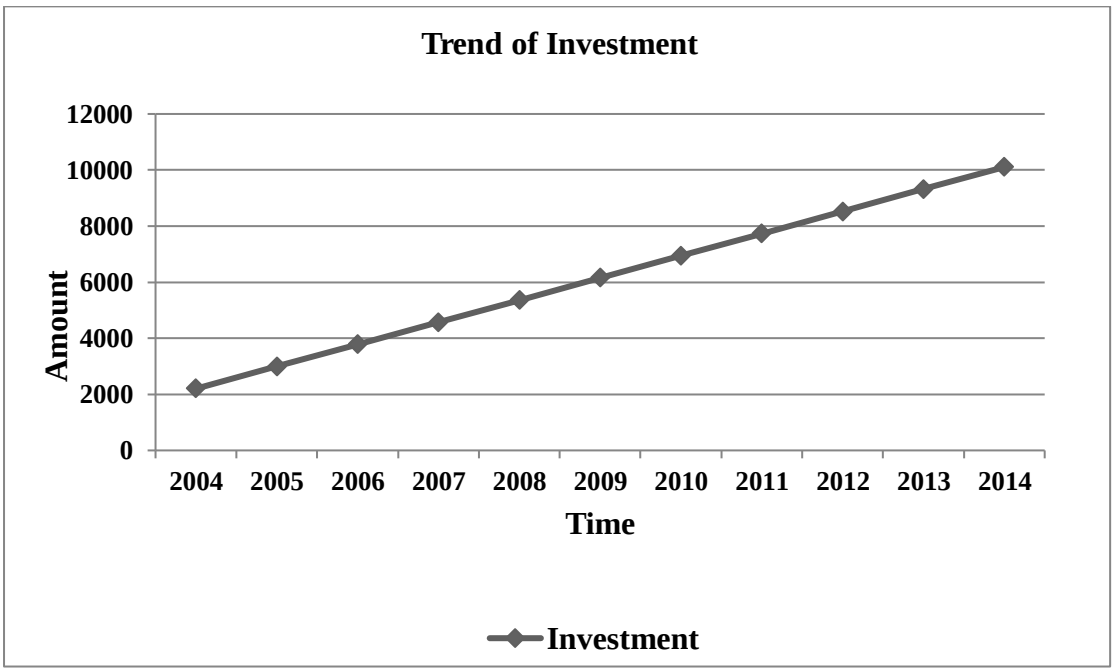
Trend values of investment of EBL. (Rs. in million)

Year (t)	Trend value Yc=a+bx Yc=3781.7954+790.319x	Index
2004	2201.16	-
2005	2991.48	1.359
2006	3781.80	1.172
2007	4572.11	2.077
2008	5362.43	2.436
2009	6151.80	2.795
2010	6943.07	3.154
2011	7733.69	3.513
2012	8523.71	3.872
2013	9314.03	4.231
2014	10104.34	4.590

The above table no. 4.24 shows that the investment of EBL is in the increasing trend. The table shows that in the FY 2014 total investment will increase by 4.59 points in comparison to base year.

Chart 4.22

Investment Trend of EBL



4.9.4 Trend Value of Net Profit of EBL

Here the effort has been made to find out the trend value of net profit of EBL from FY 2003/04 to 2007/08 and forecasted for the coming six years i.e. from FY 2008/09 to 2013/14.

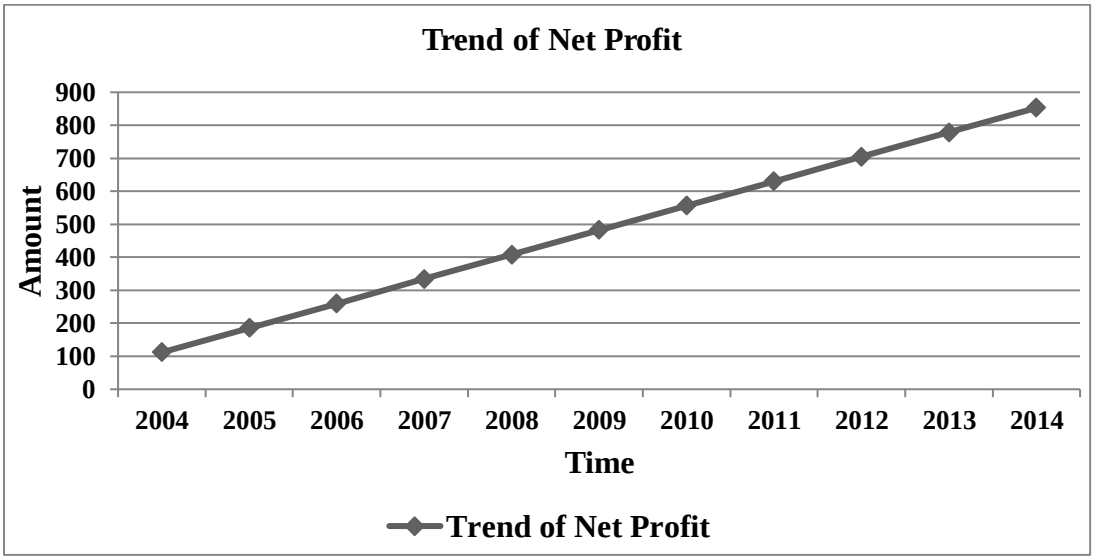
Table 4.25

Trend Value of Net Profit of EBL (Rs. in million)

Year (t)	Trend value Yc=a+bx Yc=259.874+74.086x	Index
2004	111.702	-
2005	185.788	1.66
2006	259.874	2.33
2007	333.96	2.99
2008	408.046	3.65
2009	482.132	4.32
2010	556.218	4.98
2011	630.304	5.64
2012	704.39	6.31
2013	778.476	6.97
2014	852.562	7.63

Form the above table no 4.25 it is clear that the net profit is increasing trend. Other thing remaining the same the net profit of EBL will be 852.562 in the fiscal year 2013/14.

Chart 4.23 Net Profit Trend of EBL



4.9.5 Trend Analysis of Current Assets

Here the attempt has been made to analyze the trend value of current assents of EBL for the five year from FY 2003/04 to 2007/08 and forecasted for the coming six year till 2013/2014. The following table shows that the trend values of the current assets of EBL for the 11 year from FY 2003/04 to 2013/2014.

Table 4.26

Trend values of Total Current Assets of EBL. (Rs. In million)

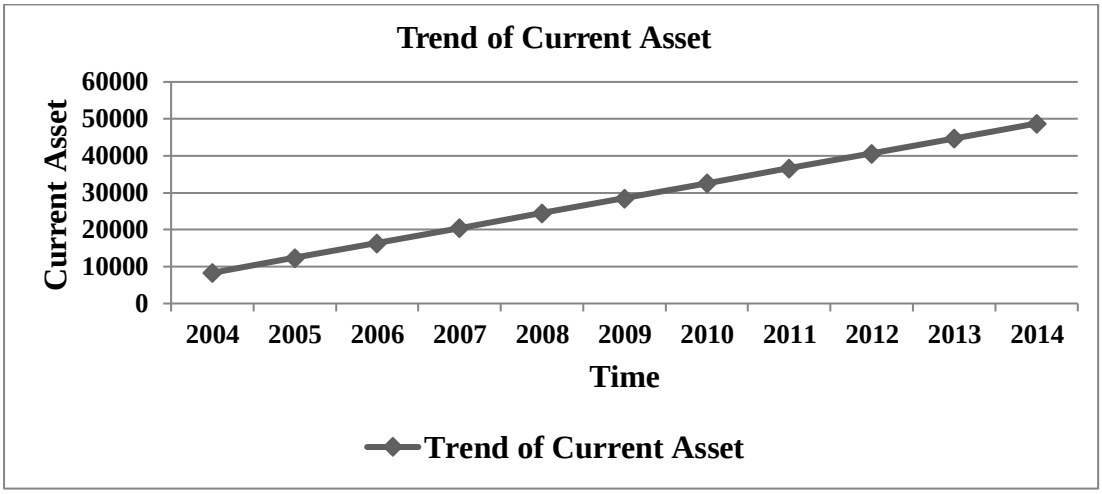
Year (t)	Trend values Yc=a+bx Yc=16386.85+4045.22x	Index
2004	8295.91	-
2005	12341.63	1.488
2006	16386.85	1.975
2007	20432.07	2.463
2008	24477.29	2.951
2009	28522.61	3.438
2010	32567.73	3.926
2011	36612.95	4.413
2012	40658.17	4.901
2013	44703.39	5.389
2014	48748.61	5.876

From the above table it is cleat that the total current asset of EBL is in the increasing trend. Other thing remaining same, total current assets of the bank will be 48748.61 (in million) in the fiscal year 2014. This is about 5.876 point higher than the base year i.e.2004.

The above table has been presented in the following chart.

Chart 4.24

Trend of Current Asset of EBL



4.9.6. Trend Analysis of Fixed Assets

Here, the effort has been made to calculate the trend values of total fixed assets of EBL for the five years from FY 2003/04 to 2007/08 and forecasted for next six years till 2014. The following table shows the trend values total fixed assets of EBL for 11 years from 2003/04 to 2013/14.

Table 4.27

Trend value of Total Fixed Assets of EBL

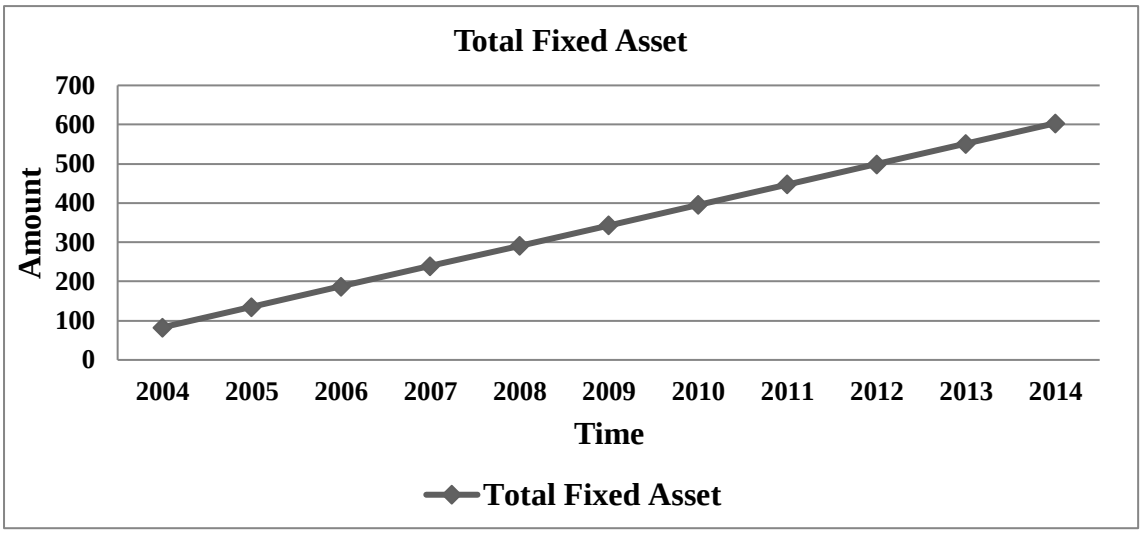
(Rs. In million)

Year(t)	Trend values Yc=a+bx Yc=187.03+52.030x	Index
2004	82.97	-
2005	135	1.627
2006	187.03	2.254
2007	239.06	2.881
2008	291.09	3.508
2009	343.12	4.135
2010	395.15	4.763
2011	447.18	5.390
2012	499.21	6.017
2013	551.24	6.644
2014	603.27	7.071

From the above table it is clear that a fixed asset of EBL is in increasing trend. If the other things remaining same the fixed assets of EBL will be Rs.603.27 (in million) in FY 2014.

Chart 4.25

Total Fixed Asset Trend of EBL



4.10. Coefficient Correlation Analysis

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

i. Coefficient of correlation between deposit and loan and advances.

ii. Coefficient of correlation between total deposit and total investment.

iii. Coefficient of correlation between total loan and advances and net profit.

iv. Coefficient of correlation between total investment and net profit.

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

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

Coefficient of correlation (r) $= \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}}$

P.Er. = $0.6745 * \frac{1-r^2}{\sqrt{N}}$

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

4.10.1. Coefficient of Correlation between Total Deposit and Loan and Advances

Deposits have played a very important role in the performance of a commercial bank and similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan and advances in a proper way or not. The table 4.28 shows the value of coefficient of correlation 'r', Probable Error (P.Er.) and 6P.Er.between total deposits and loan and advances.

Table no: 4.28

Coefficient of Correlation between Total Deposits and Loan and Advances

Correlation of coefficient	P.Er.	6*P.Er.	Remarks
0.9985	0.0009	0.0054	r>6*P.Er.

The above table shows correlation coefficient (r) between total deposits and loan and advances of the EBL which is 0.9985 i.e. positive and probable error multiplied by six found to be 0.0054. Since r>6*P.Er., it is significant and there is correlation between total deposit and loan and advances in EBL.

4.10.2. Coefficient of Correlation between Total Deposit and Total Investment

Coefficient of correlation between total deposit and total investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and investment is dependent variable (Y). The main

objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The table 4.29 shows the value of coefficient of correlation 'r', Probable Error (P.Er.) and 6P.Er.between total deposits and total investment.

Table no: 4.29

Coefficient of Correlation between Total Deposits and Total Investment

Correlation of coefficient	P.Er.	6*P.Er.	Remarks
0.8967	0.0592	0.3552	r>6*P.Er.

The above table shows correlation coefficient (r) between total deposits and investment of the EBL which is 0.8967 i.e. positive and probable error multiplied by six found to be 0.3552. Since r>6*P.Er., it is significant and there is correlation between total deposit and investment of EBL.

4.10.3. Coefficient of Correlation between Loan and Advances and Net Profit.

Coefficient of correlation between loan and advances and net profit measure the degree of relationship between these two variables. In this analysis, loan and advances is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether loan and advances and net profit is significantly correlated or not. The table 4.30 shows the value of coefficient of correlation 'r', Probable Error (P.Er.) and 6P.Er.between total loan and advances and net profit.

Table no: 4.30

Coefficient of Correlation between Total Loan and Advances and Net Profit

Correlation of coefficient	P.Er.	6*P.Er.	Remarks
0.9907	0.0056	0.0336	r>6*P.Er.

The above table shows correlation coefficient (r) between total loan and advances and net profit of the EBL which is 0.9907 i.e. positive and probable error multiplied by six found to be 0.0336. Since r>6*P.Er., it is significant and there is correlation between total loan and advances and net profit of EBL.

4.10.4. Coefficient of Correlation between Investment and Net Profit.

Coefficient of correlation between investment and net profit measure the degree of relationship between these two variables. In this analysis, investment is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether investment and net profit is significantly correlated or not. The table 4.31 shows the value of coefficient of correlation 'r', Probable Error (P.Er.) and 6P.Er.between investment and net profit.

Table 4.31

Coefficient of Correlation between Investment and Net Profit

Correlation of coefficient	P.Er.	6*P.Er.	Remarks
0.8498	0.0839	0.5034	r>6*P.Er.

The above table shows correlation coefficient (r) between investment and net profit of the EBL which is 0.8498 i.e. positive and probable error multiplied by six found to be 0.5034. Since r>6*P.Er., it is significant and there is correlation between investment and net profit of EBL.

4.10.5. Correlation Matrix among the Variables under Liquidity Ratio

The correlation coefficient of different variable under the liquidity ratio has been shown under the table no. 4.32

Table no 4.32

Correlation Matrix under Liquidity Ratio

	CA	**CL**	**CBB**	**TD**	**IGS**
CL	0.9985	…..			
CBB	0.9853	0.9754	…..		
TD	0.9986	0.9999	0.9759	…..	
IGS	0.9442	0.9287	0.9559	0.9292	…..
L/A	0.9963	0.9984	0.9712	0.9985	0.9165

Table no. 4.32 shows the correlation among the different independent variable under the liquidity ratio. The correlation coefficient i.e. r is positive and near to one thus it shows there is positive correlation among the variables. To determine whether the calculated value of r is significant or not, probable error has been calculated. The

probable error multiplied by six is less than the r thus it is significant and there is correlation among the variables.

4.10.6. Correlation Matrix among the Variables under Assets Management Ratio

The following table no. 4.33 shows the correlation coefficient of different ratio under the assets management ratio from the fiscal year 2003/04 to 2007/08.

Table no. 4.33

Correlation Matrix under the Assets Management Ratio

	L/A	TD	TWF	TI	IGS
TD	0.9985	……			
TWF	0.9973	0.9999	……		
TI	0.8757	0.8967	0.9083	……	
IGS	0.9165	0.9292	0.9413	0.9868	…….
ISD	0.8219	0.8070	0.7854	0.7854	0.5856*

Note: * insignificant

The above table no 4.33 shows the correlation coefficient between the variables under the assets management ratio. The value of r is positive which shows there is positive relation between the calculated variables. The entire variable except the correlation coefficient between investment in government securities and investment in share and debenture is significant.

4.10.7. Correlation Matrix among the Variables under Profitability Ratio

The following table no. 4.34 shows the correlation coefficient of different ratio under the assets management ratio from the fiscal year 2003/04 to 2007/08.

Table no 4.34

Correlation matrix under profitability ratio

	NP	TA	L/A	Total int. income
TA	0.9839	……		
L/A	0.9907	0.9800	……	
Total int. income	0.9677	0.8945	0.8945	……
TI	0.8499	0.9276	0.8757	0.7846

Table no 4.34 shows the correlation among the different independent variable under the profitability ratio. The correlation coefficient i.e. r is positive and near to one thus it shows there is positive correlation among the variables. To determine whether the calculated value of r is significant or not, probable error has been calculated. The probable error multiplied by six is less than the r thus it is significant and there is correlation among the variables.

4.10.8. Correlation Matrix among the Variables under Risk Ratio

The following table no. 4.35 shows the correlation coefficient of different ratio under the assets management ratio from the fiscal year 2003/04 to 2007/08.

Table no 4.35

Correlation Matrix under Risk Ratio

	L/A	TA
TA	0.9973	……
Share Capital	0.8708	0.8383

Table no 4.35 shows the correlation among the different independent variable under the risk ratio. The correlation coefficient i.e. r is positive and thus it shows there is positive correlation among the variables. The probable error multiplied by six is less than the r thus it is significant and there is correlation among the variables under risk ratio.

4.10.9. Correlation Matrix among the Variables under Activity/ Performing Ratio

The following table no. 4.36 shows the correlation coefficient of different ratio under the assets management ratio from the fiscal year 2003/04 to 2007/08.

Table no 4.36

Correlation Matrix under Activity Ratio

	Non- Performing Loan	L/A
L/A	0.1260*	……..
Loan Loss Provision	0.0854*	0.9785

Note: * shows insignificant

Table no 4.36 shows the correlation among the different independent variable under the activity ratio. The correlation coefficient i.e. r is positive and thus it shows there is positive correlation among the variables. The probable error multiplied by six is less

than the r in correlation between loan loss provision and loan and advances, thus it is significant but the P.Er. multiplied by six under the correlation coefficient between loan and advances and non performing loan and in between loan loss provision and non performing loan is greater than 'r' thus there is insignificant relation between the variable.

4.11. Major findings of the study

The preceding chapter have discussed and explored the facts and matters for the various parts of the study. Analytical part, which is the heart of the study, makes an analysis of various aspects of the investment policy of EBL by using some of important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestion for further improvement. This would be meaningful to the top management of the bank to initiate action and achieve the desire result. The objective of the researcher is not only to point errors and mistakes but also to correct them and give directions for further growth and improvement.

The main findings of the study that are derived on the basis of financial data analysis are presented below:

Findings from the Liquidity Ratios Analysis

The current assets of EBL have exceeded the current liabilities in average. The average ratio is 1.13 during the study period. The coefficient of variation (C.V.) between the ratios for the study period is 2.044%, with standard deviation of 0.023 which indicates that the current ratio is consistent and less variable. This indicates that the bank has sufficient amount to meet the normal contingencies. In general, the current ratio analysis shows that the bank is able to meet its short term obligations.

The cash and bank balance to current assets ratio of EBL is in fluctuation trend. The mean ratio of the study period is 9% and its coefficient of variation and standard deviation are 1.67% and 18% respectively. On the basis of C.V. the ratios seems to be less variable and consistent. It indicates that EBL is in better position in maintaining

its cash and bank balance to meet its daily requirement to make the payment on customer's deposits withdrawal. The cash and bank balance to total deposits ratio of EBL is in fluctuating trend. The mean ratio of the study is 10.75% with standard deviation of 1.92% and coefficient of variation of 13.48%. This indicates that the ratios are not consistent.

The investment on government securities to current assets ratio of EBL has the fluctuation trend. The mean ratio of EBL during the study period was found to be 21.70% with standard deviation and coefficient of variation of 3.49% and 16.08% respectively. According to the directives of NRB, there is no restriction for the commercial banks to investment in the securities of government issued by Nepal Rastra Bank. Hence, EBL investment in government securities can be considered as good. It shows the proportion of additional source of liquidity in addition to cash and bank balance to the total assets.

The loan and advances to current assets ratio of EBL is in fluctuating trend with mean ratio of 65.54%. The standard deviation of the bank during the study period is 2.67% and the coefficient of variation has found to be 4.08% which indicates that the ratio seems to be less variables and consistent.

Findings from the Assets Management Ratios:

The loans and advances to total deposit ratios are in increasing trends during the study period. The deposit of the EBL is in increasing trend during the study period. The investment in loan and advances of EBL has been increase with the increasing along with the increase in deposit. The average mean ratio is 74.21% with standard deviation of 2.20% and coefficient of variation of 3%. The coefficient of variation between the ratios shows that the ratios are satisfactory consistent over the study period. It shows that the ratios ate consistent and less variable. Loan and advances is the most risky assets. High level of risk is not desirable for the commercial banks as the default loans can increase the loan loss provision and hence decrease the profit.

The loan and advances to total working fund is in increasing trend. The mean ratio of loan and advances to total working fund of EBL 63.81% and standard deviation is found to be 2.64% during the study period. The coefficient of variation is 4.14%

which shows the EBL has consistent and less variable. The mean ratio shows that the about sixty five percent of the assets of the bank comprises loan and advances i.e. risky assets. High ratio suggests high risk and eventually yields high return for the bank.

The total investment to total deposit ratio of the EBL is in fluctuating trend. The mean value of EBL is 26.29% and standard deviation of 4.98%. The coefficient of variation is 19 percent which reveals that the investment policy is in average position. The figure suggest that the bank has mobilized significant amount i.e. about one forth in average of its total deposits in government securities and shares and debentures of the other companies.

Investment on government securities to total working fund ratio is in fluctuating trend during the study period. The mean ratio is found to be 21.11% and its standard deviation is 3.32% with the coefficient of variation is 15.72% which indicates that the ratios are variable and not consistent during the study period. Investment on government securities is the risk free investment for the commercial banks. This ratio shows the proportion of risk free assets in the total assets of the bank. Analysis shows that the bank has mobilized about less than one fifth of fund in government securities i.e. low productive and risk free sectors.

The investment on shares and debentures to total working fund ratio is in fluctuating trend with the mean ratio of 0.18% and standard deviation of 0.11% during the study period. The coefficient of variation is 59% which shows that the ratios are variable and not consistent during the study period. EBL has invested very less percentage of total working fund into shares and debentures of other companies.

Finding from Profitability Ratios:

The net profit to total assets ratios are in fluctuating trend during the study period. The standard deviation and coefficient of variation was found to be 0.10% and 6.67% respectively and the mean was 1.5% during the study period.

Net profits to loan and advances ratios of EBL are in fluctuating trend ranging between 2.17% to 2.46%. The mean ratio is found to be 2.35% with 0.13% standard

deviation and 5.53% coefficient of variation which indicates that the ratios are less variable and consistent during the study period.

Total interest income from investment ratio of EBL has followed fluctuating trend. The mean ratio was 3.21% with 0.70% of standard deviation and 22% of coefficient of variation. The index shows that the ratio has been increased by 1.047 points in fiscal year 2007/08 with respect of the fiscal year 2003/04. The interest income from investment ratio depends on the discount rate offered by NRB on treasury bills and the international money market. The fluctuation in these can affect the interest income from these instruments.

Total interest income from loan and advances and bill collection ratio of EBL has been experiencing the decreasing trend. It has range from 7.08% to 9.57%. The mean ratio of EBL was found to be 8.02% with standard deviation and coefficient of variation of 0.99% and 12.34% respectively.

Finding from Risk Ratio

The credit risk ratio of EBL has followed fluctuating trend. It has ranged from 61.24% to 67.55%. During the study period the mean ratio is found to be 63.78% with standard deviation of 2.63% and coefficient of variation of 4.12%. It indicates the credit policy of EBL is in consistent.

The capital risk ratio of the EBL is in fluctuating trend with highest ratio of 4.74% in FY 2003/04 to lowest of 2.42% in FY 2006/07. During the study period, the mean ratio was found to be 3.58% with S.D. of 0.97% and C.V of 27.14% respectively.

Findings from Activity or Performing Ratios:

Non performing loans to total loans and advances ratio for the study period are in decreasing trend. The average mean ratio of non performing loan is 1.26% with standard deviation of 0.50% and coefficient of variation of 39.68% which shows that the ratios are variable and not consistent. The bank has been putting the effort in reducing the NPA. The non performing assets to total loan and advances of the bank should be single digit to be considered as satisfactory. Thus the EBL is also successful to meet the standard of non performing loan.

The ratio of loan loss provision to total loan and advances ratio is in fluctuating trend. The mean ratio during the study period is 3.13% with standard deviation and coefficient of variation of 0.37% and 11.84% respectively.

Finding from Growth Ratios:

The growth ratios analyze the growth of total deposits, total investment, total loan and advances and net profit of EBL during the study period. The analysis shows that the EBL has sufficient growth in total deposit i.e. 25.10% the total deposits of EBL is highest during the fiscal year 2007/08 and lowest in the fiscal year 2003/04. The analysis of the total loan and advances and investment of the bank is in increasing trend with net growth rate of 26.35% and 20.29% respectively. The net profit of EBL is also in increasing trend with growth rate of 27.01% during the study period. The growths of deposit have the positive correlation with the loan and advances and investment are also in the increasing trend with satisfactory and high growth rate. The net profit is also in satisfactory level which ultimately shows the performance and overall operation of the bank.

Findings from the Correlation Analysis:

The correlation coefficient (r) between total deposits and loan and advances of the EBL is 0.9985 i.e. positive and probable error multiplied by six found to be 0.0054. Since r>6*P.Er., it is significant and there is correlation between total deposit and loan and advances in EBL. Correlation is positive and near to 1, so it is inferred that there is positive correlation between total deposit and loan and advances during the study period. It means the change in total deposit of the bank have direct effect in the volume of loan and advances.

The correlation coefficient between total deposits and investment of the EBL is 0.8967 i.e. positive and probable error multiplied by six found to be 0.3552. Since r>6*P.Er., it is significant and there is correlation between total deposit and investment of EBL.

The correlation coefficient between total loan and advances and net profit of the EBL is 0.9907 i.e. positive and probable error multiplied by six found to be 0.0336. Since

r>6*P.Er., it is significant and there is correlation between total loan and advances and net profit of EBL.

The correlation coefficient between investment and net profit of the EBL is 0.8498 i.e. positive and probable error multiplied by six found to be 0.5034. Since r>6*P.Er., it is significant and there is correlation between investment and net profit of EBL.

The correlation coefficient between the different variable under the liquidity ratio, profitability ratio and risk ratio are significant. Similarly the correlation between the different variable under the assets management ratio is significant except in between the investment in share and debenture and investment in government securities is insignificant. Likewise the correlation in between the different variable under the activity ratio is insignificant the correlation in between the loan and advances and loan loss provision.

Findings from Trend Analysis:

The trend analysis of the total deposits, loan and advances, investment, current and fixed assets and net profit shows that they are in increasing trend while forecasting for the coming six years. The total value projected for the total deposits, loan and advances, investment, current and fixed assets and net profit are Rs.46756.01 million, Rs.35825.73 million, Rs. 10104.34 million, Rs.48748.61 million, Rs. 603.27 million, and Rs.852.562 million respectively. Bank is adopting the proper policy to increase the profit. The collected fund has been effectively utilized in the productive sector through the optimum investment policy.

CHAPTER - V

SUMMARY, CONCLUISON AND RECOMMENDATION

5.1. INTRODUCTION

This chapter highlights some conclusions and recommendations on the basis of the major findings of the study derived from the analysis of investment policy of EBL. This chapter includes two aspects of the study. First aspect of the study focuses on summarizing the fact findings of the study and making concluding remarking upon them. The second aspect of the study focused on making some useful suggestions and recommendations based on findings of the study to improve the investment policy of EBL.

5.2. SUMMARY

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of bank helps the investments operation of the bank to be efficient and profitable by minimizing the inherent risk. A healthy development of any banks depends upon its investment policy. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors. Therefore, the funds received by the bank should be invested in such a way that they will be readily available to repay and distribute the returns.

Investment refers to buying of shares, stocks and bond of the capital market in terms of banking investment, it means purchasing of stocks, securities, treasury bills etc. a commercial bank should mobilize its deposits and other funds to secured, profitable and marketable sector so that it can be easily liquidated when necessary. Investment policy provides guidelines to handle their operation smoothly ensuring maximum return with minimum exposure of risk.

Main investment of bank is lending its collected fund in different sector of economy. The formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledges to security borrowing, interest rate

policy. Lending affects the company's profitability and liquidity, so it is one of the crucial decisions for the commercial banks.

The major source of income of bank is interest income from loans and investments and fee based income. Loan is not the money market investment but it is considered as the investment of the bank. Loan and advances provided by commercial banks are very risky. Risk of non repayment of loan is known as credit risk or default risk. Performing loan has multiple benefits to the society by helping the growth of economy while non performing loan even erodes existing capital. The directions and guidance provided by NRB are the major policy statements for Nepalese commercial banks. So commercial banks have to follow these policies to utilize their funds. Thus, proper utilizations of the resources have become relevant and current issues for the banks.

The main objective of the study was to evaluate the investment policy of EBL and to suggest measures to improve the investment policy of the bank. The study had been constrained by various common limitations. The study was based on the secondary data from F/Y 2003/04 to F/Y 2007/08. The data has basically obtained from annual reports and financial reports, official records, various published and relevant unpublished master's degree thesis.

Financial as well as statistical tools have been used in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, activity ratio, risk ratio, profitability ratios and growth ratios have been analyzed and interpreted. Under statistical analysis, some relevant statistical tools i.e. coefficient of correlation and trend analysis have been used. These analyses give the clear picture of the bank with regard to its investment operation and policy.

5.3. CONCLUSION

The main focus of the study is basically confined to reviewing the investment policy of EBL and its status in terms of the investment portfolio declared by central bank. From the study from the fiscal year 2003/04 to 2007/08, the following conclusion can be made.

Liquidity Ratio

The results of the findings show that the EBL has maintained consistent level of current ratio, which can be regarded as satisfactory and sufficient to meet the normal contingencies. The EBL is in better position in maintaining its cash and bank balance to meet its daily withdrawal. It indicates that the cash and bank balances position of EBL with respect to total deposit is sufficient to serve its customers demands. It implies the satisfactory liquidity position of EBL.

Although the liquidity position of EBL is satisfactory, the bank still has some room to increase its liquidity strength. For this, the bank can increase its investment in treasury bills and also the investment on Treasury bill will decrease the liquidity risk of the bank as well as total risk weighted assets.

EBL has the large proportion of current assets invested in the government securities. Investment in loan and advances to current assets ratio is high and consistent, which says EBL, has good mobilization of liquid assets.

Assets Management Ratio

EBL has adopted moderate risk policy towards the mobilization of its fund. The bank has utilized significant amount in the risk free assets such as government securities. EBL has nearly half of its fund in the highly risk and high income generating assets i.e. loan and advances. The major indicator of financial sectors efficiency and profitability is the level of financial intermediation cost. The difference between deposit rate and lending rate is generally taken as financial intermediation cost. The bank has good earning capacity from its assets and has utilized its assets satisfactorily. The return from loan and advances is in increasing trend and more than any other investments of EBL. The investment has significantly increased with the increase in the total deposits.

Activity or Performing Ratio

As all other commercial banks, EBL is also suffering from the non performing loans. However the bank has been able to maintain the average mean ratio is 1.26% with standard deviation of 0.50% and coefficient of variation of 39.68%. Although the proportion of non performing assets on total loan and advances of the bank is more

than tile satisfactory level the bank should not ignore the ever increasing loan loss provision. The loan loss provision of the bank has been increasing every year with the mean ratio of 3.13% which indicates that the quality of loan is degrading every year.

Risk Ratio

Capital risk of bank is stable and consisted during the study period. EBL has been maintaining moderate credit risk and have nearly 50% investment in loan and advances.

Growth

The deposit of the bank has been in increasing every year. Due to the increase in the deposits, investment in loan and advances and other sectors have also been increasing every year. So, both the uses and sources of the funds are in increasing trend. Meanwhile, the net profit of the bank is also in the increasing trend over the study period. It indicates that indicates that the bank has been successful to adopt the appropriate investment policy which increases the profitability of the bank.

Correlation

The correlation analysis shows that the correlation coefficient ‘r’ between deposits and loan and advances of the bank is 0.9985 and more than probable error multiplied by six was found to be 0.0054, this infers that there is very strong positive correlation between deposit and loan and advances during study period. The analysis shows that there is the positive correlation between total deposit, total investment and total loan and advances. The probable errors have also been found to be less than six times in all the cases.

Trend analysis

Positive trend has been observed on the growth of total deposit, loan and advances, net profit current assets and fixed assets. The bank has also been able to increase its profitability. Therefore it can be concluded that the bank has been adopting a good investment policy.

From the overall analysis of the investment policy of EBL with the help of financial and statistical tools the problems sets for the study is answered as under, which is the main objective of this study.

5.4. Recommendation

On the basis of analysis, findings, issues and gaps of the study, following recommendation can be advanced to overcome weakness, inefficiency and to revitalize and improve present fund mobilization and investment policy of EBL.

1. The liquidity position of a bank can be affected by external as well as internal factors. The affecting factors can be interest rates, supply as well as demand position of deposits and loan and advances, investment situation, central banks directive, the lending policies, capability of management, strategic planning and funds flow situations. Liquidity position of the bank is found fair enough. The commercial banks are facing the competition and have been difficult to maintain its liquidity position. Therefore, EBL is recommended to increase the investment in the government securities, which helps to utilize funds into income generating assets as well as minimize the risk and helps to maintain the liquidity position.

2. The management of the bank should work in the interest of its owners such as promoters and share holders. Therefore, the bank must always analyze and investigate thoroughly on every investment opportunities. The bank must also have the research team to hunt for the new areas of opportunities. All these facts, be it very general and simple, can increase the profit.

3. Bank can gain more net profit if it can reduce its non performing assets because non-performing asset decrease net profit of the bank. On the basis of findings, the bank has large amount of loan being apportioned as non- performing assets. Therefore, there is an urgent need to workout a suitable mechanism through which the default loans can be realized.

4. Regarding non performing assets the bank must focus on credit risk management. The thorough analysis of the project and feasibility studies before granting credit facility can reduce the default. In addition to this corporate ethics and a strong corporate

culture with high degree of awareness of credit risk should be present. As a prerequisite, establishing adequate policies and procedures is advisable.

5. Portfolio management of bank assets basically means allocation of funds into different components of banking assets having different degree of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk can be achieves. So, portfolio condition should be examined from time to time and attention should be given to maintain equilibrium in the portfolio condition as far as possible. The bank should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize its investment portfolio.

6. The bank should be careful in increasing net profit in a real sense to maintain the confidence of shareholders, depositors, its customers and the general public. Although the bank is utilizing the fund in the productive area and gaining the sustainable profit, the bank has not been able to gain the optimum profit in compare to its contemporary banks. Therefore the bank is recommended to decrease the expenses by controlling the operating expenses as well as by collecting the interest free deposits.

7. Looking to the investment portfolio focusing on the government securities for the investment as a result of various sectors among the important one are government policies and regulations framework of the central bank. Therefore investment on government securities should be decreased and investment on other sectors.

8. The bank should open the credit control bureau so that it would take the responsibility of collection of the loan of the bank.

9. Portfolio condition of a bank should be regularly revised from time to time and it should always try to maintain the equilibrium in the portfolio condition of the bank. Basically the portfolio management refers to the allocation of funds in different small component of its assets having different degree of risk, different rate of return in such a way that the conflicting goal of maximum yield, minimum risk can be properly achieved. The bank always tries to make continuous efforts to explore competitive and highly yielding investment opportunities to optimize its investment portfolio.

10. The bank is recommended to adopt innovative approach for marketing in the light of growing competition in the banking sector. The business to the bank should be customer oriented. It should strengthen and active its marketing function, as it is an effective tool to attract and retain the customers. Fro this purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

Trend Value of Total Deposits of Everest Bank Limited

Year (t)	Total Deposit (Y)	X=(t-2006)	X^2	XY	Yc=a+bx Yc=14825.32+3991.336x
2004	8063.9	-2	4	-16127.8	6842.648
2005	10097.69	-1	1	-10097.7	10833.98
2006	13802.44	0	0	0	14825.32
2007	18186.25	1	1	18186.25	18816.66
2008	23976.3	2	4	47952.6	22807.99
Total	**74126.58**	**0**	**10**	**39913.36**	

$$\mathbf{a} = \frac{\sum Y}{N} = \frac{74126.58}{5} = 14825.32$$

$$\mathbf{b} = \frac{\sum XY}{X^2} = \frac{39913.36}{10} = 3991.336$$

Trend Values of Total Deposits of EBL (2009- 20014)

Year (t)	X=(t-2006)	Yc=a+bx Yc=14825.32+3991.336x
2009	3	26799.33
2010	4	30790.66
2011	5	34782
2012	6	38773.34
2013	7	42764.67
2014	8	46756.01

Trend Value of Loan and Advances of EBL

Year (t)	Loan and Advances (Y)	X=(t-2006)	X^2	XY	Yc=a+bx Yc= 11061.45+3095.535x
2004	5884.12	-2	4	-11768.2	4870.38
2005	7618.67	-1	1	-7618.67	7965.915
2006	9801.31	0	0	0	11061.45
2007	13664.08	1	1	13664.08	14156.99
2008	18339.09	2	4	36678.18	17252.52
Total	**55307.27**	**0**	**10**	**30955.35**	

$$\mathbf{a} = \frac{\sum \mathbf{Y}}{\mathbf{N}}$$

$$= \frac{55307.21}{5}$$

$$= 11061.45$$

$$\mathbf{b} = \frac{\sum \mathbf{XY}}{\mathbf{X^2}}$$

$$= \frac{30955.35}{10}$$

$$= 3095.535$$

Trend values of loan and advances of EBL (2009-2014)

Year (t)	X=(t-2006)	Yc=a+bx Yc=11061.45+3095.535x
2009	3	20348.06
2010	4	23443.59
2011	5	26539.13
2012	6	29634.66
2013	7	32730.2
2014	8	35825.73

Trend value of investment of EBL

Year (t)	Investment (Y)	X=(t-2006)	X^2	XY	Yc=a+bx Yc=3781.198+790.02x
2004	2535.66	-2	4	-5071.32	2201.16
2005	2128.93	-1	1	-2128.93	2991.179
2006	4200.52	0	0	0	3781.198
2007	4981.32	1	1	4981.32	4571.217
2008	5059.56	2	4	10119.12	5361.236
Total	18905.99	0	10	7900.19	

$$\mathbf{a} = \frac{\sum \mathbf{Y}}{\mathbf{N}}$$

$$= \frac{18905.99}{5}$$

$$= 3781.198$$

$$\mathbf{b} = \frac{\sum \mathbf{XY}}{\mathbf{X^2}}$$

$$= \frac{7900.19}{10}$$

$$= 790.019$$

Trend value of investment of EBL (2009-2014)

Year (t)	X=(t-2006)	Yc=a+bx

		Yc=3781.198+790.019x
2009	3	6151.255
2010	4	6941.274
2011	5	7731.293
2012	6	8521.312
2013	7	9311.331
2014	8	10101.35

Trend value of Net Profit of EBL

Year (t)	**Net Profit (Y)**	**X=(t-2006)**	**X^2**	**XY**	**Yc=a+bx Yc=259.874+74.086x**
2004	143.57	-2	4	-287.14	111.702
2005	170.81	-1	1	-170.81	185.788
2006	237.38	0	0	0	259.874
2007	296.41	1	1	296.41	333.96
2008	451.2	2	4	902.4	408.046
Total	1299.37	0	10	740.86	

$$\mathbf{a} = \frac{\sum \mathbf{Y}}{\mathbf{N}} = \frac{1299.37}{5} = 259.874$$

$$\mathbf{b} = \frac{\sum \mathbf{XY}}{\mathbf{X^2}} = \frac{740.86}{10} = 74.086$$

Trend value of Net Profit of EBL (2009-2014)

Year (t)	**X=(t-2006)**	**Yc=a+bx Yc=259.874+74.086x**
2009	3	482.132
2010	4	556.218
2011	5	630.304
2012	6	704.39
2013	7	778.476
2014	8	852.562

Trend value of Current Assets

Year (t)	Current Assets (Y)	X=(t-2006)	X^2	XY	Yc=a+bx Yc=16386.85+4045.224x
2004	9239	-2	4	-18478	8296.402
2005	11392.16	-1	1	-11392.2	12341.63
2006	15622	0	0	0	16386.85
2007	21039.8	1	1	21039.8	20432.07
2008	24641.3	2	4	49282.6	24477.3
Total	81934.26	0	10	40452.24	

$$\mathbf{a} = \frac{\sum \mathbf{Y}}{\mathbf{N}}$$

$$= \frac{81934.26}{5}$$

$$= 16386.85$$

$$\mathbf{b} = \frac{\sum \mathbf{XY}}{\mathbf{X^2}}$$

$$= \frac{40452.24}{10}$$

$$= 4045.224$$

Trend value of Current Assets of EBL (2009-2014)

Year (t)	X=(t-2006)	Yc=a+bx Yc=16386.85+1045.224x
2009	3	28522.52
2010	4	32567.75
2011	5	36612.97
2012	6	40658.19
2013	7	44703.42
2014	8	48748.64

Trend value of Fixed Assets of EBL

Year (t)	Fixed Assets (Y)	X=(t-2006)	X^2	XY	Yc=a+bx Yc=187.03+52.030x
2004	118.375	-2	4	-236.75	82.9678
2005	134.068	-1	1	-134.068	134.9981
2006	152.09	0	0	0	187.0284
2007	170.097	1	1	170.097	239.0587
2008	360.512	2	4	721.024	291.089
Total	935.142	0	10	520.303	

$$\mathbf{a} = \frac{\sum \mathbf{Y}}{\mathbf{N}}$$

$$= \frac{935.142}{5}$$

$$= 187.03$$

$$\mathbf{b} = \frac{\sum \mathbf{XY}}{\mathbf{X^2}}$$

$$= \frac{520.303}{10}$$

$$= 52.0303$$

Trend value of Fixed Assets of EBL (2009-2014)

Year (t)	X=(t-2006)	Yc=a+bx Yc=187.03+52.0303x
2009	3	343.1193
2010	4	395.1496
2011	5	447.1799
2012	6	499.2102
2013	7	551.2405
2014	8	603.2708

Correlation Coefficient between Total Deposit (X) and Loan and Advances (Y) of EBL

Year	X	Y	$x=X-\bar{X}$	$y=Y-\bar{Y}$	x^2	y^2	xy
2003/04	8063.9	5884.12	-6761.42	-5177.33	45716800.42	26804745.93	35006103
2004/05	10097.69	7618.67	-4727.63	-3442.78	22350485.42	11852734.13	16276190
2005/06	13802.44	9801.31	-1022.88	-1260.14	1046283.494	1587952.82	1288972
2006/07	18186.25	13664.08	3360.93	2602.63	11295850.46	6773682.917	8747257.2
2007/08	23976.3	18339.09	9150.98	7277.64	83740434.96	52964043.97	66597538
Total	74126.58	55307.27	0	0	164149854.8	99983159.76	127916060

Mean ($\bar{\mathbf{X}}$) = 14825.32
Mean ($\bar{\mathbf{Y}}$) = 11061.45
$\sqrt{\sum x^2}$ = 12812.10
$\sqrt{\sum y^2}$ = 9999.16

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

$$= \frac{127916060}{12812.10 * 9999.16}$$

r = 0.9985

P.Er. $= 0.6745 * \frac{1-r^2}{\sqrt{N}}$

$= 0.6754* \frac{1-(0.9985)^2}{\sqrt{5}}$

$= 0.6754* \frac{0.0030}{2.2361}$

$= 0.0009$

Coefficient of Correlation between Total deposit (X) and Total Investment (Y) of EBL

Year	X	Y	$x=X-\bar{X}$	$y=Y-\bar{Y}$	x^2	y^2	xy
2003/04	8063.9	2535.66	-6761.42	-1246.138	45716800.42	1552859.915	8425662.4
2004/05	10097.69	2128.93	-4727.63	-1652.868	22350485.42	2731972.625	7814148.3
2005/06	13802.44	4200.52	-1022.88	418.722	1046283.494	175328.1133	-428302.36
2006/07	18186.25	4984.32	3360.93	1202.522	11295850.46	1446059.16	4041592.3
2007/08	23976.3	5059.56	9150.98	1277.762	83740434.96	1632675.729	11692775
Total	74126.58	18908.99	0	0	164149854.8	7538895.543	31545875

Mean ($\bar{X}$) = 14825.32

Mean ($\bar{Y}$) = 3781.798

$\sqrt{\sum x^2}$ = 12812.10

$\sqrt{\sum y^2}$ = 2745.71

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

$= \frac{31545875}{12812.10*2745.71}$

r = 0.8967

P.Er. $= 0.6745 * \frac{1-r^2}{\sqrt{N}}$

$= 0.6754* \frac{1-(0.8967)^2}{\sqrt{5}}$

$= 0.6754* \frac{0.1959}{2.2361}$

$= 0.0592$

Coefficient of Correlation between Total Loan and Advances (X) and Net Profit (Y) of EBL

Year	X	Y	$x=X-\bar{X}$	$y=Y-\bar{Y}$	x^2	y^2	xy
2003/04	5884.12	143.57	-5177.33	-116.304	26804745.93	13526.62042	602144.19

2004/05	7618.67	170.81	-3442.78	-89.064	11852734.13	7932.396096	306627.76
2005/06	9801.31	237.38	-1260.14	-22.494	1587952.82	505.980036	28345.589
2006/07	13664.08	296.41	2602.63	36.536	6773682.917	1334.879296	95089.69
2007/08	18339.09	451.2	7277.64	191.326	52964043.97	36605.63828	1392401.8
Total	55307.27	1299.37	0	0	99983159.76	59905.51412	2424609

Mean ($\bar{X}$) = 11061.45
Mean ($\bar{Y}$) = 259.874
$\sqrt{\sum x^2}$ = 9999.16
$\sqrt{\sum y^2}$ = 244.76

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

$$= \frac{2424609}{9999.16 * 244.76}$$

r = 0.9907

$$P.Er. = 0.6745 * \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6754 * \frac{1-(0.9907)^2}{\sqrt{5}}$$

$$= 0.6754 * \frac{0.01853}{2.2361}$$

= 0.00559

Coefficient of Correlation between Total Investment (X) and Net Profit (Y) of EBL

Year	**X**	**Y**	**x=X- $\bar{X}$**	**y=Y- $\bar{Y}$**	**x^2**	**y^2**	**xy**
2003/04	2535.66	143.57	-1246.14	-116.304	1552859.915	13526.62042	144930.83
2004/05	2128.93	170.81	-1652.87	-89.064	2731972.625	7932.396096	147211.04
2005/06	4200.52	237.38	418.722	-22.494	175328.1133	505.980036	-9418.7327
2006/07	4984.32	296.41	1202.522	36.536	1446059.16	1334.879296	43935.344
2007/08	5059.56	451.2	1277.762	191.326	1632675.729	36605.63828	244469.09
Total	18908.99	1299.37	0	0	7538895.543	59905.51412	571127.57

Mean ($\bar{X}$) = 3781.798
Mean ($\bar{Y}$) = 259.874
$\sqrt{\sum x^2}$ = 2745.70
$\sqrt{\sum y^2}$ = 244.76

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

$$= \frac{571127.57}{2745.70 * 244.76}$$

r **= 0.8498**

P.Er. $= 0.6745 * \frac{1-r^2}{\sqrt{N}}$

$= 0.6754* \frac{1-(0.8498)^2}{\sqrt{5}}$

$= 0.6754* \frac{0.2778}{2.2361}$

$= 0.0839$

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