

INVESTMENT POLICY OF COMMERCIAL BANKS

**(With reference to NABIL Bank Limited and Nepal Investment Bank
Limited)**

A THESIS

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CHAPTER I

INTRODUCTION

1.1 Background of the Study

Investment in financial sense is placing of money in the other for their use expecting a return or the participation in expected profits. But for manufacturing and trading firms the terms investment will be long term expenditures that aim at increasing return of efficiency or at building up goodwill thereby producing and increasing return over as period. Investment also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other risks.

Investment by individuals, business and government involves a present sacrifice of income to get on expected on future benefit as a result investment raises an economy of nations. Investment usually involves putting money into a bet, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other hand speculation is usually a shorter run phenomenon. Speculators tend to buy assets with the expecting of a profit than can be earned from subsequent price change and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

Sharpe, Alexander and Baily (1988) states that Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and its magnitude generally is certain.

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

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 advances 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 is the one of the major 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 low 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 the economy. Successful formulation and effective implementation of the investment policy is the prime requisite for any financial institution. It becomes everybody concern when their performance does not seem so satisfactory in terms of utilization of its resources effectively on productive sectors. The study of the commercial banks' investment policy focusing on interest 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 the commercial banks and point out the defects inherent in it and provide package of suggestions for its improvement.

1.2 Profile of Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Limited was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, that's a subsidiary of one the largest banking Group in the World. With the decision of credit Agricole Indosuez to divest a group of companies comprising of bankers, professionals industrialists and businessmen has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez bank ltd. The name of the bank has been changed to Nepal Investment Bank Limited. Upon approval of bank's annual General Meeting, Nepal Rastra Bank and Company Registrar's Office with the following shareholding structure.

- A group of companies (holding 50% of the capital)
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

NIBL managed by a team of experienced bankers, professional and businessmen. Can offer people what they are looking for? NIBL sure that customer's choice be guided among other things by its reliability and professionalism. NIBL's vision is to be the most preferred provider of financial services in Nepal.

A banker, a premier financial journal published by financial times of London has announced NIBL as the whiner of "Bank of the year" 2003, 2005 and 2008. not only it, NIBL also awarded by ICAN" Best presented accounts awards "2006. The share capital of NIBL as at July 2011 is mentioned below;

Table 1.1

Share Capital of Nepal Investment Bank Limited (As at 15 July 2012)

Authorized Capital (40,000,000@100)	NRs.4,000,000,000
Issued Capital (24,090,977@100)	NRs.3,012,924,200
Paid up Capital (24,090,977@100)	NRs. 3,012,924,200

(Source: www.nibl.com.np)

1.3 Profile of Nabil Bank Limited

Nabil Bank limited is the first joint venture bank of Nepal. It commenced operation in 12th July 1984 partnering with Dubai Bank Ltd., through a Technical Service Agreement, Nabil was incorporated with the objective of extending international standard modern banking services to various sector of the society pursuing its objective, Nabil provides a full range of commercial banking services through its 49 points of representations with its branches at different strategic locations throughout the nation and over 170 reputed correspondent banks across the globe. Nabil has the following shareholding structure.

- A group of companies & institution are holding 16.15% of the capital
- Foreigners are holding 50% of the Capital.
- Others institutions are holding the 3.85% of the Capital.
- The remaining 30% being held by the General Public

Nabil is come as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking in story of Nepal. It started an era of modern banking with customer satisfaction, measured as a focal objective while doing business. Operation of the bank including day to day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped by modern technology which includes ATMs, credit Card, state of art, and world renowned software from Infosys technologies system. Bangalore, India, Inter banking system & tele-banking system. Financial times of London have announced Nabil Bank Ltd as the whiner of the "Bank of The Year" 2004. Not only it Nabil Bank also awarded by ICAN, "Best Presented Accounts Award"2009 and 2010.

Table 1.2

Share capital of Nabil Bank (as at 15 July 2012)

Authorized Capital (21,000,000@100)	NRs.2,100,000,000
Issued Capital (20,297,694@100)	NRs.2,029,769,400
Paid up Capital (20,297,694@100)	NRs.2,029,769,400

(Source: www.nabilbank.com)

1.4 Statement of Problem

Nepalese commercial banks have not formulated their investment policy in an organized manner. They rely much on the guidelines and instruction of the Nepal Rastra Bank. They do not have a clear view towards investment policy and have not formulated their own organized investment policy. Lack of foresightedness in policy making and absence of strong commitment towards its proper implementation has caused many problems to commercial banks, furthermore, the implementation of the 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 has 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 in less risky and highly liquid sectors. These types of unfavorable investment situations reduce the rate of return for the bank, which in turn affects the interest rate being offered to the depositors and lowers the market value of the shares. Such conditions may cause a high liquid market and can impact the condition of the whole country negatively.

In the end of Mid July 2011, there are 32 commercial banks. All these banks created cutthroat competition in banking sectors. The main focus of the study will be towards the investment matter of the bank. Investment policy is the main factor for every bank and financial institutions. They are Nabil Bank Ltd and Nepal Investment Bank Ltd. This study basically deals with the following issues of joint venture banks.

- What is the investment trend of banking institutions?
- Are the available funds properly utilized or not?
- What is the relationship between investment, loan and advance, deposit and net profit?
- Does the investment decision affect the total earnings of the commercial bank?
- What is the investment portfolio behavior of the banks?

1.5 Objectives of the Study

The basic objective of the study is to assess the investment policy and strategy followed by the bank with reference to Nabil Bank Ltd. and Nepal Investment Bank Ltd. The main objectives of this study mentioned are below:

- To assess the deposit utilization for five years of NABIL and NIBL.
- To examine the relationship between total investment, deposit, loan and advance and net profit.
- To evaluate the liquidity, efficiency, risk position and profitability of the selected banks.
- To assess the financial position of NIBL and NABIL in terms of deposit collection and investment procedure.
- To find out the NRB guidelines in investment policy

1.6 Significance of the Study

Suitable strategy plays vital role in a bank for their sustain existence. The study will be helpful to aware the shareholder regarding investment policies of their banks. The study suggests to the management how they can improve their managing power and recommends what is the clue to raise the profit. Though, this is only study but it gives feedback to policy makers, will useful them who formulate the policy for regulation. All stakeholders can identify which bank is the best and to whom have to invest.

1.7 Limitation of the Study

This study is subject to the following limitations

- This study is conducted only investment of commercial bank and excludes other banking & financial transaction.
- This study is mainly concerned to only two banks i.e. Nabil Bank Ltd and Nepal Investment Bank Ltd.
- This study only based on the investment & investment policy of selected bank.
- The 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.
- The study period covers only five years period's data.

- Only selected tools and techniques are used.

1.8 Organization of the Study

The study will be organized into five chapters

Chapter I: Introduction

This chapter deals with the subjects matters of the study consisting background of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter II: Review of literature

This chapter deals with review of the different literature of the study field. Therefore, it includes conceptual framework along with the review of major books, journal, research work and thesis etc.

Chapter III: Research methodology

This chapter deals with research methodology and it includes research design, population and sample, source and technique of data collection, data analysis tools and limitation of the methodology.

Chapter IV: Data presentation and analysis

This chapter deals with analysis and interpretation of the data using financial and statistical tools describe in chapter three. Similarly, This chapter also includes the major findings of the study.

Chapter V: Summary, Conclusion and Recommendations

This chapter deals with summary of the study held, the conclusion made ultimately and the possible suggestion.

In front part of the study recommendation, viva-voce sheet, declaration, acknowledgement are presented & at the end of bibliography & appendices are also included.

CHAPTER II

REVIEW OF LITERATURE

Several research works has been done in various aspects of the commercial banks especially financial performance, investment policy, resources mobilization, lending policy, compliance of NRB directives by banks etc. there are some books, journals, articles, others studies with the investment policy. Some of the relevant studies, literature on lending and investment are reviewed below.

2.1 Conceptual Framework

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

2.1.1 Concept of Commercial Bank

Commercial bank Act 1975 A.D. defines as A commercial bank is one which exchange money deposits accepts deposits, grants loans and performs commercial banking function and Co-operatives, agriculture and industries for such specific purpose

American Institute of Banking (1972) states that Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other service.

Commercial bank has main role in the economic development. For economic development, commercial bank should mobilize then collection towards the profitable, secured and marketable sectors.

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 procedures and policies it is always taken in MMD that “the greater the credit created by the bank-Higher will be the profitability.” Sound policies help commercial banks to maximize quality and quantity of investment and thereby achieve the own objective of profit maximization and social welfare.

2.1.2 Concept of Investment and Investment policy of Bank

Investment can be defined as sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too. Uncertainty is measured by risk that why there is always involvement of risk in investment.

Investment usually involves putting money into an asset, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other hand speculation is usually a shorter term phenomenon. Speculators tend to buy assets with expecting of a profit that can be earned from subsequent price change and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

Bhattacharai (2004) states that Investment is made in assets, Assets in all are of two types real assets (land and building, factories etc.) and financial assets (stock, bond, t-bill etc.). These two investments are not competitive but complementary. Highly developed institutions for financial greatly facilitate real investment.

Investment is nothing but deploying our saving in a manner that ensures safety of our money and provides a sustained return to supplement our regular income (Delhi Stock exchange 2002). The term investment covers a possible way where there is a devoured saving. If all the income and saving are consumed to solve the problems of hand to mouth and to other basic needs then there is no existence of investment and they are interrelated.

Features of sound investment policy

The commercial banks are inspired with the goal of earning profit. There are many reasons after the goals of gaining profit. In order to reach their desired goals, they profit must invest the resources. It is not better to keep the available resources idle. The bank should be able to clear the policy of its investment by making a deep study on the subjects that which sector would be the trust worthier and dependable to invest the funds collected in the bank, they should have the ability to use the policy of banking investment in its goal. The income and profit of the bank depends upon its investment policy and term Landry procedure of its funds in different securities. The greater the credit created by the bank the Higher will be the profitability. A sound bending and investment policy is not only prerequisite for the bank's profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Therefore, the following principles or features of investment policy must be abided by the commercial banks in order to achieve the goals.

A. Safety and Security

Commercial banks must pay a special attention to the principle safety and security. There will be a loss whether it is small or big, if the bank has not invested in secure and safe sectors; Investment in unsafe and insecure sectors with the hope of getting more return is to accept the security of law quality. The condition of unsafe arise when a bank invest in large loan against less securities by receiving commission, invests in new places without careful observation, landing to long-term borrowers etc. All these unsafe conditions should be avoided as much as possible. A bank should be very much conscious in investing procedures and profitable sectors. It should never invest its fund on those securities, which are subjected to too much for volatility (Depreciation are fluctuation) because a little alternation may cause a great loss. It must not invest its fund into speculative businessman, who may be bankrupt at once and who may earn millions in minute also. Only Commercial durable, marketable and

high market valued securities should be accepted. For This purpose "MAST" should be followed, where MAST stands for

- M - Marketable
- A - Ascertainable
- S - Stability
- T - Transferability

B. Profitability

The profit of commercial bank mainly depends on the interest rate, volume of loan and its time period and nature of investment in different securities. It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and lending so, they must invest their funds where they gain maximum profit. Ambition of profit to commercial bank seem reasonable as the bank has to cover all the expenses and make payment in the forms dividend to the shareholder who contribute to build up to bank's capital and interest to the depositors. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity. Obligation, it will go ahead for investment good bank is one who invests more of its fund in different earning assets standing. Safety from the problem of liquidity i.e. keeping cash resurvey to meet day to day requirements of the depositors.

C. Liquidity

It is the position of the firm to meet current or short-term obligations. General public or customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customers, every firm must keep proper cash balance with then while investing in difference securities and granting loan from excess fund.

D. Purpose of Loan

This is very important question for any banker is that, why a customer is in need for loan. If borrower misused the loan granted by the bank, he can never repay. Therefore, in order to avoid this situation each and every bank should demand all the essential detailed information about the scheme of the project or activities would be examined before lending.

E. Diversification

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

F. Tangibility

A commercial bank should proper tangible security to an intangible one. Thought it may be considered that tangible property does not yield an income apart from intangible securities, which have lost their value due to price level inflation.

G. Legality

A commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. Illegal secretes will bring out any problems to investors.

2.2 Some Important Terms

The various sections in this study comprise some important banking terms. The efforts have been made to clarify the meaning, which are frequently used in this study are given below.

A. Loan and Advances

Loan, advances and overdraft are the main source of income for a bank. Bank deposit can cross beyond a desired level but the level of loans, advances and overdraft will never cross it.

B. Investment on Government Securities, Shares and Debentures

Though a commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of income of banking business. A commercial bank may extend credit by purchasing government securities bond and shares for several reasons.

Some of them are given as

It may want to spare, its maturity so that the inflow of cash coincide, with expected withdrawals by depositors or large loan demands of its customers.

- It may also be forced to invest because the demand for loans of it decreased or is not sufficient to absorb its excess reserves.
- It may wish to have grade marketable securities to liquidate if its primary reserve becomes inadequate.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of bank liabilities that since depositors may demands fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

C. Deposits

Financial institution collect deposits from the customers in various accounts, like current account, saving account and fixed account. Therefore, the sums of money collected by the financial institutions from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

D. Investment on Other Company's Share and Debenture

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of Nepal Rastra bank's directives many commercial banks have to utilize their funds to purchase shares and debentures of other financial and non-financial companies. Now-a-day's most of the commercial banks purchase shares and debentures of regional development bank, NIDS and other development bank's Shares.

E. Other Use of Fund

A commercial bank must maintain the minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 3% cash balance and local cash balance, in local currency accounts must be maintained in the vault of the bank. Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers and stationary etc.

F. Off-balance Sheet Activities

Off-balance sheet activities involve contracts for future purchase sale of assets and all these activities are contingent obligations. These are not recognized, as assets are liabilities on balance sheet. Some good examples of these items are letter of credit (L/C), letter of guarantee, bills of collection etc. Now days, some economist and finance specialists to expand the modern, transaction of a bank stressfully highlight sub activities.

2.2.1 An overview of on NRB Rules Regulation Investment on

Commercial Banks

NRB established in 2013 BS is the central banks of Nepal. Its determine role in economic plans and implementation in the country is major. The main objectives of NRB are to manage the economic and financial transaction over the country. Systematically allocation and management and implementation economic factor over the state is governed by NRB as a central bank. All economic plans progress, policy, strategies, implementation, evaluation made by government are performed under the direction of NRB. So, NRB is the bank of government works for the welfare of nation. Similarly NRB

direct the bank and other financial institution too Plans, policies, direction, rules, regulations from NRB as a representative of government. To allocate and mobilized the deposits collected by commercial bank in different sectors' of different policies etc. In fact NRB controls the over the overall activities made by the commercial bank as well as establishment or operation or dissolution of banks. For so NRB has formulated commercial bank act 2053 for the establishment and operation of commercial bank. Here the directions, rules, regulation, directed by NRB in terms of investment made by commercial bank are briefly mentioned below. (NRB Rules 2061)

A. Establishment of New Commercial Banks

NRB has enhanced liberal policy for establishment of new commercial bank in Nepal. For such objectives of NRB has regulated the following direction.

- A minimum of Rs. 2 Billion of paid up capital is required for opening a new bank inside the Kathmandu Valley.
- Similarly, as per directions by NRB Rs. 1.2 Billion necessary for starting banking business out of Kathmandu.
- Rs. 500 million paid up capital are necessary for opening central office of bank out of Kathmandu.
- Commonly for establishing the commercial bank in rural areas NRB has directed Rs. 300 million as compulsory paid up capital.
- The investor can invest Ins/her its can be invested maximum up to 70% of total paid up to capital if the bank is promoted by domestic investor and 30% of paid up to capital should be as liquidity margin for repayment for certain deposits.
- For joint venture bank, foreign investor can invest minimum 40% of paid up capital and 50% as maximum. Such bank should manage 30% of paid up capital as floatation for general public.
- Individually, firm or company or groups of company can invest up to 110% of paid up capital.
- Application for the establishment of new banks are to be adopted within the stipulated times fixed by NRB.

B. Direction for Raising Fund

Commercial banks are directed to raise the capital fund at minimum level of Rs. 500 million. For this, Commercial bank can include paid up capital and deduction made loss for meeting such requirement.

C. Directives for Single Borrower Limit

NRB has beard the single borrower limit as 35% in the case of fund based credit and 50% in the case of non fund based such letter of credit, acceptance latter etc.

D. Regulation for Expansion of Commercial Bank

- For opening of a branch with the area of Kathmandu, Latipur, Pokhara, Birjung, Biratnagar, Narayanghat Joint venture banks need to open firstly at least two branch in adjoining semi-urban area and secondary at least one branch in rural area not adjoin to any municipalities.
- Banks are not required to open their new branch in semi-urban or rural area it they open new branch outside the seven municipalities.
- For the permission of establishment of new branch commercial banks have to specify the whole details about the new branch, they must open a branch in a rural or semi-urban area before opening in urban area.

E. Direction for Extension Counters of Joint Venture Banks

- Commercial banks can't open extension in metropolitan area except during trade fairs, festive, ceremonies, celebrations etc. as a directed by NRB such extension must be converted and a branch within two years otherwise must be closed.
- The extension opened can accept deposit and made payment as well as exchange of foreign currencies after the permission for NRB.
- If the extension is open in the area of royal palace, hospitals, foreign diplomatic offices, those extension are not allowed to operate as a branch as mentioned in (II).

F. Credit for Shareholders

The individual or group who holds more than 1% of shares of the commercial banks can't borrow from same bank under the directions from NRB 2061 B.S.

G. Fluctuation in Interest

The agreement can be made between bank and customer for making change in bank loan interest rate up to 0.5% in now cancelled by NRB to be effective from 2061/062 B.S.

2.3 Review of Books

Sharpe, Alexander and Bailey Jack (1999) states that Investment analysis and management that investment in its broadest sense means that sacrifices of current dollars for future dollars. Two different arbutus are generally involved Time and Risk. The sacrifice takes place in the present and is certain. The reward comes later of at all and the magnitude is generally uncertain.

- a) Real Investment Generally, it involves some kind of tangible assets such as land, machinery and factories.
- b) Financial Investment It involves contract written on piece of paper such as common stocks and bonds.

Crosse and Hempal (1963) states that Commercial banks as to bring into being the most important ingredient of the money supply, demand deposits through the creation of credit in the form of loans and investment. Banks are the custodians of the community's money as well as the suppliers of its liquidity, since the study is concerned with the investment

activities of commercial in Nepal, we take in to consideration exclusively the sector that are required for and related to the same.

Reilly (1986) states that Investment is the current commitment of funds for a period of time to obtain a future flow of funds that will compensate the investment unit for the time the funds are committed for the expected rate of inflation and also for the uncertainty involved in the future flow of fund

Shrestha (1995) explains in her book that Portfolio behavior of commercial banks of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial is based on the profit maximizing of the institution as well as the economic enhancement of the country.

From above definition, it is clear that an investment means to trade a known rupee amount for some expected future stream of payment or benefits that will exceed currently outlay by an amount that will compensate the investor for the time of uncertainty involved in expected future cash flows. This investment is the most important function of commercial banks. It is very challenging task for commercial banks. So, a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

2.4 Review of Articles

Shrestha (1999) in his article “A study on deposit and credit of commercial bank in Nepal” concluded that the credit deposit ratio would be 51.30% other things remaining same in 2004 A.D. which was the lowest under the period of review. So, it is strongly recommended that the commercial banks should try to give more credit earning field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Sharma and Bhatt (2007) in their article “Priority receiver sector” has present “The commercial banks should take care of board national interest and they should not confine their lending activities only to commercial area providing quick interest if some proportion could be directed to the area conducive to build economic infrastructures of the country it would create atmosphere conducive to their investment in future. In our

society where ignorance and literacy is in wild scale, it is necessary that the banks search entrepreneurs instead of entrepreneurs searching bank. So, they have opined that the priority sector program is a timely and opportunities there by increasing production and the general living standard of rural poor. But the success of the largely depends upon the interpreted operation with other program design for rural development. Further they agree that various programmes Rural development land reform, back to the village national, champion audit literacy etc. couldn't materialise their objectives despite their some theoretically philosophy and food objectives.”

Pradhan (2003) in his research paper has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equation used in this study have been estimated at current prices as well as in real term with the entire study period divided into different sub-period.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving. Investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to three important conclusions first, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment.

2.5 Review of Theses

On the topic “Investment Policy” has published by many researchers in their research article. The mentioned theses were reviewed as they are relevant to the present research.

Joshi (2011) has conducted a study on “Investment Policy of Commercial Bank of Nepal” a comparative study of EBL with NABIL & BOK and she found that;

- EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.
- Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque scheme, house building deposit scheme, recurring deposit scheme, deposited linked life insurance scheme, monthly interest scheme, direct finance housing scheme, education loan and scheme, vehicle loan scheme and many others.
- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should be kept in the same basket”. The bank should make continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.
- It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize it found in different sector such as to purchase share & debentures of other financial and non financial companies out of total fund. EBL has invested it’s more of funds i.e. total invest on total deposit ratio, in caparison to other commercial bank hut percentage of investment on share and debenture in very nominal. So, EBL is recommended to invest more its fund in shares and debentures of different companies.
- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor’s fund. So it is recommended that the bank should fix minimum level of bank balance and the amount needed to open accounts should also be affordable for such small depositor’s.
- On the basis of above facts, it is seen that EBL has invested much of its fund in total outside assets but it has no achieved the desire result. So, it is hereby recommended that the EBL should play tactfully while investing its fund keeping in mind the interest rates so as to be earning high returns from the investment.
- The risk taken by EBL, from the angle of credit and capital are in an average whreas the consistencies of the same are highly volatile which may result higher loss. The bank should nit rest those risks on an experiment basis as seen from the consistency angle.

Raya (2010) “Investment Policy and Analysis of Commercial Bank in Nepal made a comparative study of SCBNL with NIBL and NB Bank” where he has to found as:

- Mean current ration of SCBL is slightly higher than that of SCBL and NIBL.
- Mean ration of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL.
- Liquidity position of SCBL is comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio. SCBL has a good deposit collection. Ti has made enough investment on government securities but it has maintained loan investment policy on loan and advance.
- SCBL is comparatively average successful in it’s on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.
- SCBL is comparatively higher position than that of other banks, as well as its use to provide interest to the customers for different activities.
- There is significant relationship between deposit of loan and advance and between asset and net profit of SCBL.

Shrestha (2009) conducted a study on “Nepal Rastra Bank Guidelines on Investment policy of commercial banks in Nepal (A case study of Nepal Investment Bank)” in which he found that:

- Bank is in good position to meet the daily cash requirement as bank has maintained the average cash and bank balance in respect to total deposit.
- The performance of NIBL regarding deposit collection granting loan and advance and investment is quite satisfactory but doesn't seem to follow definite policy.
- NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital.
- Interest earned to total operating income of NIBL is high. However bank failed to maintain net profit on the study.
- From the analysis of coefficient of correlation. There is positive and significant relation between total deposit and loan and advances and current assets and current

liabilities and loan and advances but there is negative and no significant relationship between outside assets and her profit.

Dawadi (2009) conducted a study on “Investment policy of commercial banks in Nepal A comparative study of Everest Bank Limited, NIBL and Bank of Kathmandu” has presented research finding of the study are:

- The liquidity position of the EBL is comparatively better than NIBL and BOK. EBL has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. NIBL has lowest liquidity position than that of other two banks. EBL has good deposit collection and has made enough investment on government securities but it is maintained moderate investment policy on loan and advances.
- From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to NIBL and BOK. The total investment of EBL is in between in compared to other two banks.
- In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios. EBL is average profitability ratios. EBL is average profitable in comparison to other compared banks i.e. NIBL and BOK. From the view point of risk ratio, EBL has higher capital risk but average of credit risk ratio in compared to NIBL and BOK.

2.6 Research Gap

The purpose of the research work is quite different from the studies made by the above persons (related to commercial bank). This study focuses in effectiveness in investment policy analysis of Nabil Bank and NIBL Bank Ltd. banking comprehensive manner considering the major items. Different financial and statistical tools have been used in this study. Among them, ratio analysis, regression analyses are the strong financial tools. From the above study, it is found that some research in the related topic but no research was found in detail research and analysis on Investment policy of commercial banks. Hence the research has attempted to fill the gap by taking reference of Nabil Bank Limited and Nepal Investment Bank limited. This study will try to show the present issues, latest information on bank’s Deposits collection, Investment on government

securities, shares and debentures and other ratios, data and real picture of loan and advances of Nepalese Commercial Bank.

After reviewing the relevant literatures, the next chapter concentrates in the research methodology applied in the study.

CHAPTER III

RESEARCH METHODOLOGY

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 NABIL Bank and NBIL

3.1 Research Design

Research design means an overall framework for the activities to be taken during the course of a research study. It enables the way of research providing the tools and techniques for the data collection and analysis and sampling plan to be followed. 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 the 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 frame work or plan for the collection and analysis of data” (Wolf and Pant, 2003; P74)

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

3.2 Sources 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 account and Balance sheet of the 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 the 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.

3.3 Population and Sample

Population or universe refers to the industries of the same-nature of its service and product. It is the collection or the aggregate of objects or the set of results of an operation. On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusions about the population under study.

In context of Nepal, 31 commercial banks are in operation in data. These Thirty two banks are regarded as population. But, it is not possible to study all data related with these thirty one banks. Hence two banks have been taken as sample from the whole population i.e. thirty one banks. The sample banks are as follows-

- Nabil Bank Ltd.
- Nepal Investment Bank Ltd.

3.4 Sampling Procedure

The selection procedure of the sample is purposive it is not random. The key assumptions for the section are as follows

- Two banks were established in around the same date. So, it is would be interested to know which banks performed well as compared to another on their equal operation period.
- Share capital structure of these two banks is same. This factor also helps to select theses banks as sample bank to know how the performance of the banks affects by foreign investment.

3.5 Data Analysis Procedure

To achieve the objectives of the study, the collected data are categorized, tabulated, processed and analyzed using different financial tools like liquidity, assets management, risk ratio, profitability along with statistical tools like mean, standard deviation, coefficient of variation, Karl Pearson's coefficient of correlation are adopted in the study. Calculated results were tabulated under different headings the objectives to compare with each other and their significance carried out to interpret the result.

3.6 Data Analysis Tools

Data analysis refers to the analyzing the data in order to determine the inherent facts or meanings from the tabulated data, presentation and analysis of data is the care of the research work. Data that has been collected are first presented in systematic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the objectives of the study. The tools applied are as follows

3.6.1 Financial Tools

In this analysis the relationship between accounting figure is analyzed. To compare a firm's financial performance and status to that of other firms, or itself over time of period and to trace out the strength and weaknesses. Following financial ratios are calculated and analyzed.

A) Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligation of a company. Under this ratio the following ratios are calculated.

NRB balance to Total Deposit

NRB has made the Commercial Banks to deposit certain fund of the Commercial Bank in the central bank which is changing time to time as the demand of the time. The ratio is calculated as followed;

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{NRB Deposit}}{\text{Total Deposit}}$$

Total Liquid Fund to Total Deposit

Total liquid fund to total deposit ratio is the indication of the short term obligation capacity of the demand of the depositor money. Higher ratio shows the higher capacity of payment on demand of the money and vice versa. We have,

$$\text{Total liquid fund to Total Deposit} = \frac{\text{Total Liquid Fund}}{\text{Total Deposit}}$$

B) Activity Ratio (Assets Management Ratio)

Activity ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. A commercial Bank must manage its asset properly to earn high profit. Under in this research study, deposit collection and investment procedure of the selected bank is also explained with the help of activity ratio. Under in this chapter following ratios are analyzed.

Loan and advances to Total Deposit

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances are outside asset which yield profit to the bank. Increment of loan and advances is the main target of all Commercial Banks, So higher the ratio better is the mobilization of the funds.

We have,

$$\text{Credit to total deposit} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

Total Investment to Total Deposit

A Commercial Bank mobilizes its deposits by investing its funds in different securities issued by government and other financial institution. in this ratio is calculated to know how the banks are mobilizing their deposit in the investment of the various securities. A high ratio indicates the success in mobilizing the funds in securities.

We have,

$$\text{Total Investment to Total Deposit} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Investment on Deprived Sector to Total Deposit Ratio

NRB has directed all the commercial banks to extend minimum 3% of total loan and advances (including bills purchased and discounted) to the deprived sector in order to contribute to the national economy.

We have,

$$\text{Investment in deprived sector to Total Deposit Ratio} = \frac{\text{Investment in Deprived Sector}}{\text{Total Deposit}}$$

Investment on Priority Sector to Total Deposit Ratio

Effective from 2007/08, investment in priority sector shall not be compulsory for the commercial banks. But the CBs should continue investing in those sectors for providing banking service to poor communities and backward areas for overall economic development by channeling credit to more productive and employment oriented areas.

We have,

$$\text{Investment in priority sector to total Deposit Ratio} = \frac{\text{Investment in Priority Sector}}{\text{Total Deposit}}$$

Investment on Financial Institution to Total Deposit Ratio

Commercial Banks have various options to mobilize their funds. Credit to financial institution is one of them. But from the view point of profit commercial banks avoid to extent loan on this area. However it has to invest certain portion of their total credit outstanding to this sector.

We have,

$$\text{Investment on Financial Institution to Total Deposit Ratio} = \frac{\text{Investment on Financial Institution}}{\text{Total Deposit}}$$

Investment on Shares, Debentures and Bonds to Total Deposit Ratio

Commercial banks use their fund by making investment in different sector. They make investment in government securities, debentures and bonds. It is the total amount that the bank mobilizes. This is the asset that the commercial bank mobilizes in order to get the profit.

We have,

$$\text{Investment on shares, debentures and bonds to total deposit ratio} = \frac{\text{Investment on Shares, Debentures and Bonds}}{\text{Total Deposit}}$$

Loan Loss Ratio

Loss of loan is occurred when the debtor's fail to pay their loan. Loss of loan is not only the default of debtor's but it is because of the failure of recovery of loan by the bank. Negligence in its part makes a negative impact on the earnings and capital of a bank very badly. Greater loan loss provision is made high income statement if high loss is expected. But this will lead to low profit and possible losses that produce low increase or decrease in capital. The loan loss ratio shows how efficiently the bank manages its loan and advances and, makes effort for timely recovery of loan. We have,

$$\text{Loan Loss Ratio} = \frac{\text{Loan Loss Provision}}{\text{Loan and Advance}}$$

C) Risk Ratio

Risk ratio measures the risk associated with the banking variables. A bank raise capital accepts deposit and finally grant loan. These entire things come along with the risk. A bank must consider the risk associated with it. Higher the ratio higher will be the profit and vice versa. Under this ratio following ratios are analyzed

Credit Risk Ratio

This ratio measures the possibilities that loan will not be repaid or that investment will deteriorate in quality of going into default with consequently loss to the bank. According to definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances.

We have,

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

Interest Risk Ratio

The possibility of loss due to change in interest rate is known interest rate risk. There is higher degree of risk related with interest rate.

We have,

$$\text{Interest Rate Risk Ratio} = \frac{\text{Interest Sensitive Asset}}{\text{Interest Sensitive Liabilities}}$$

Capital Risk Ratio

Capital risk ratio measures banks ability to attract deposits and interbank funds. It also determines the level of profit a bank can earn if banks choose to take high capital risk and its ROE will be higher and vice versa.

We have,

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

D) Profitability Ratio

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

Return on Loan and Advances

Return on loan and advance ratio indicates how efficiently the bank has utilized its resources in form of loan and advances.

This ratio is calculated as

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

Return on Total Working Fund Ratio

This ratio shows the overall profitability of all working fund i.e. total assets, it is also known as Return on Assets (ROA). A firm has to earn satisfactory return on assets of working fund in order to provide long-term service.

This ratio is calculated as

$$\text{Return on Total Working Funds Ratio} = \frac{\text{Net profit}}{\text{Total Working Fund}}$$

Total Interest Earned to Total Outside Assets

This ratio measures the capacity of the firm for earning interest through proper utilization of outside assets. Higher ratio shows die efficiency of using outside assets to earn interest.

This ratio can be calculated as

$$\text{Total Interest Earned to Total Outside Assets} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

3.6.2. Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyses the relationship between variables and helps to 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 tool are also used to analyses 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

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

Where,

\bar{X} = Arithmetic mean

N = No. of observation

$\sum X$ = Sum of Observation values

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 of the squares of the deviation 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,

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

Where,

σ = Standard deviation

N = No. Of observations

$\sum X^2$ = Sum of Square of observation values

$\sum X$ = Sum of Observation values

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 uniformity or more homogeneous or more stable than the others and vice versa. It is calculated as

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

$$\text{or, } C.V = \frac{\sigma}{\bar{X}} \times 100$$

Where,

\bar{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 the association between the two variables i.e. one dependent and one independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables

- Coefficient of correlation between deposit and loan and advances.
- Coefficient of correlation between deposit and investment.
- Coefficient of correlation between total loan and advances between and net profit.
- Coefficient of correlation between total investment and net profit.

The above analysis tools analyses the relationship between these the relevant variable and helps the bank to make appropriate policies regarding deposit collection, fund utilization and profit maximization.

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

Where,

- N = Numbers of pairs in Observations
- X = Product of the first Variables
- Y = Product of the second Variables

The result of coefficient of correlation is always between -1 to +1, when $r=+1$, it means there is significant relationship between two variables and when $r= -1$, it means that 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 Nabil Bank and Nepal investment Bank that helps to make forecasting for the 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 advances
- 3) Trend analysis of total investment
- 4) Trend analysis of net profit

The trend of related variables can be calculated as; $Y = a+bx$

Where,

Y = Dependent Variables

a and b = Parameter

X = Independent Variable

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter is an important part of the study which comprises of presentation, analysis and interpretation of data of collected data. Under this chapter various financial ratios are used which are related to analyze the investment policy of the selected banks. The financial indicators of selected banks are compared with the help of statistical tools i.e. mean, S.D, C.V etc.

4.1 Liquidity Ratio

Liquidity ratio measures the ability of banks to meet the investment purposes. A commercial bank must maintain its satisfactory liquidity positron to meet the credit need of the customer also. Banks have to maintain enough liquidity because they have to meet the demand of deposits, withdrawals, pay maturity etc.

4.1.1 NRB Balance to Total Deposit Ratio

NRB has directed all the commercial banks to deposit certain percentage of total deposit In NRB balance. The ratio is calculated by dividing the amount of NRB Balance by Total Deposits. NRB Balance to Total Deposit Ratio of Nabil Bank and Nepal Investment Bank from the fiscal year 2008 to 2012 is given below in table 4.1.

Table 4.1

NRB Balance to Total Deposit Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.%
NABIL	4.77	5.73	7.09	1.18	1.18	3.99	2.409	60.398
NIBL	5.64	5.28	9.45	6.46	3.43	6.052	1.967	32.508

(Source: Annexure A1)

In the above table the ratio of two commercial banks are obtained from annexure A1. Through this table it is analyzed the short term obligation capacity of two banks. NRB has directed all the commercial banks to deposit certain percentage of total deposit in the NRB balance. Due to the changes in directives from time to time it seems fluctuating to maintain the liquidity position of the selected banks.

From the above table it has found that Nabil Bank has maintained average 3.99% as NRB balance out of its total deposit. It has fluctuating trend of liquidity position. It has maintained highest ratio of 7.09% in the year 2010 and lowest ratio of 1.18% in the year 2012. The S.D of Nabil Bank is 1.409% and C.V is 60.398%.

Investment bank has maintained an average ratio of 6.052% as NRB balance. It also has fluctuating trend of liquidity position. It has maintained highest ratio of 9.45% in the year 2010 and lowest ratio of 3.43% in the year 2012. The S.D of NIBL is 1.967 and C.V is 32.508%.

It is clear from the above table that the selected banks have followed the NRB requirement. The mean ratio of NIBL is higher than that of Nabil Bank. It indicates that NIBL has maintained more liquidity in NRB balance than that of Nabil Bank. NIBL has more consistency and uniformity to maintain liquidity position as it has lower ratio of C.V. i.e. 32.508%.

4.1.2 Total Liquid Fund to Total Deposit Ratio

The capacity of short term obligation of the bank is measured by the ratio of total liquid fund to total deposit. Higher ratio shows the higher capacity of payment on demand of money and vice versa. The ratio is calculated by dividing the amount of Total Liquid Fund by Total Deposits. Total Liquid Fund to Total Deposit Ratio of Nabil Bank and Nepal Investment Bank from the fiscal year 2008 to 2012 is given below in table 4.2,

Table 4.2

Total Liquid Fund to Total Deposit Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.%
NABIL	8.41	14.49	10.51	9.73	9.83	10.594	2.063	19.476
NIBL	11.4	10.9	16.96	15.09	16.14	14.098	2.484	17.620

(Source: Annexure A2)

Liquid fund is the amount kept by bank which is equivalent to the cash. Liquid funds are required to meet the short Term obligation and to gain the image and satisfaction of the customers. NRB has directed all the commercial banks to maintain minimum 5% CRR which is changing from time to time. NRB has decreased its minimum requirement from 7% to 5%. Hence, the selected banks have decreased the liquidity ratio so as to increase the amount of loan and advances.

From the above table it has found that Nabil Bank has maintained average 10.594% as liquid fund of its total deposit. It has fluctuating trend of liquidity position. It has maintained highest ratio of 14.49% in the year 2009 and lowest ratio of 8.41% in the year 2008. The S.D of Nabil Bank is 2.063 and C.V is 19.476%.

Investment bank has maintained an average ratio of 14.098% as liquid fund. It also has fluctuating trend of liquidity position. It has maintained highest ratio of 16.96% in the year 2010 and lowest ratio of 10.9% in the year 2009. The S.D of NIBL is 2.484 and C.V is 17.620%.

It is clear from the above table that the selected banks have maintained the minimum requirement CRR set by the NRB. The mean ratio of Nabil Bank is 10.594% and that of NIBL is 14.098%. That mean NIBL has maintained higher level of liquidity position than that of Nabil Bank and C.V of NIBL is lower than that of Nabil Bank which represents that NBIL is more consistency and uniformity in liquidity purposes than that of Nabil Bank.

4.2 Activity Ratio (Assets Management Ratio)

A commercial bank must be able to manage its assets very well to earn High profit, to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manages the resources it mobilizes. Under This research study deposit collection and investment procedure of the selected bank is also explained with the help of activity ratio. The following ratios measured the assets management ability of the NIBL and Nabil Bank in comparisons.

4.2.1 Loan and Advances to Total Deposit Ratio

This ratio measures the ability of the bank to mobilize their' total deposit on loan and advances. Increase in loan and advances results increase in profit of the banks. Hence, commercial banks target to increase the loan and advances to yield higher profit. Higher ratio indicates better utilization of fund. The ratio is calculated by dividing the amount of Total Liquid Fund by Total Deposits. Loan and Advance to Total Deposit Ratio of Nabil Bank and Nepal Investment Bank from the fiscal year 2008 to 2012 is given below in table 4.3.

Table 4.3

Total Loan and Advances to Total Deposit

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	66.6	66.94	73.9	69.5	76.5	70.7	3.913	5.534
NIBL	70.6	78.36	77.6	80.5	81.96	77.8	3.920	5.038

(Source: Annexure A3)

The table shows that Nabil Bank has an average mean ratio of 70.7%. During 5 years of period the highest investment of Nabil Bank in loan and advances is 76.50% in FY 2012 and lowest ratio is 66.60% in the year 2008. S.D of This bank is 3.913 and C.V is 5.534%.

NIBL has an average mean ratio of 77.80%. It has highest ratio of Loan and advances is 81.96% in the year 2012 and lowest ratio of 70.60% in the year 2008. The S.D of the NBIL is 3.920 and C.V is 5.038%.

It is clear from the above table that NIBL has invested more deposits in loan and advances than that of Nabil Bank. It shows that C.V of Nabil Bank is 5.534% and that of NIBL is 5.038%. Since NIBL has lower C.V ratio, it indicates more consistency in this regard. NIBL seems stronger than Nabil Bank to advance loan to the market. From this we can conclude that NIBL has accepted higher risk to survive in the market.

By the end of Mid-July 2012, loan and advances to total deposit ratio of overall commercial banks increased to 76.79% from 68.69% in the last year 2008. Higher growth rate of loans and advances compared to deposit mobilization contribution to increase in this ratio.

Figure No. 4.1

Loan and Advances to Total Deposit of Nabil Bank

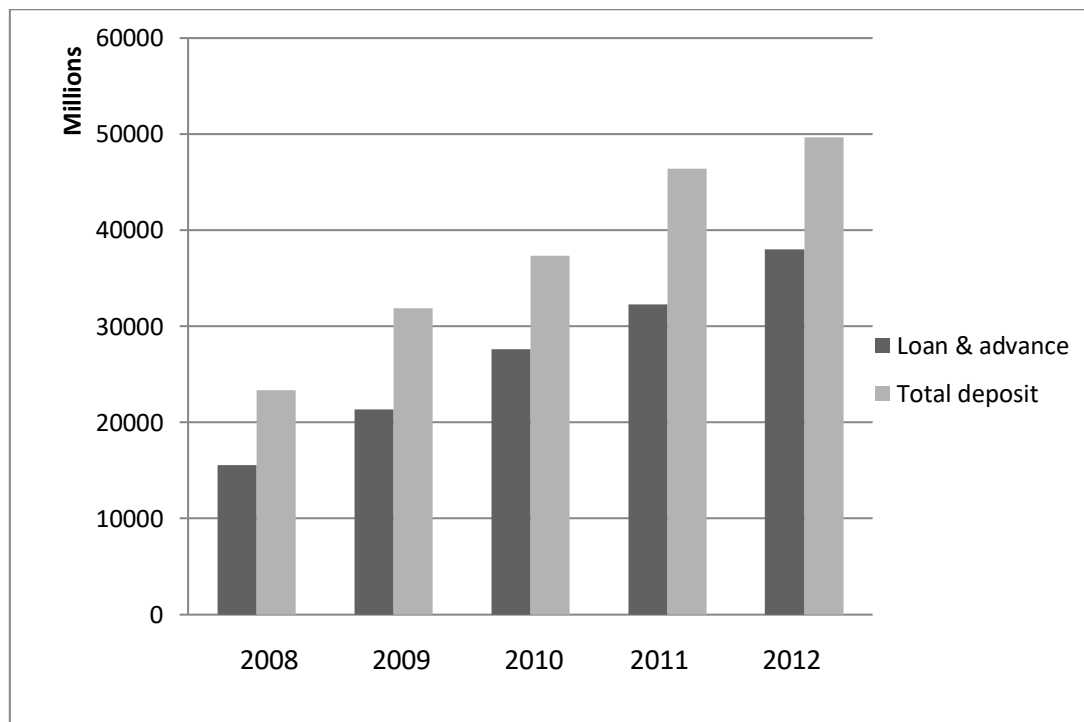
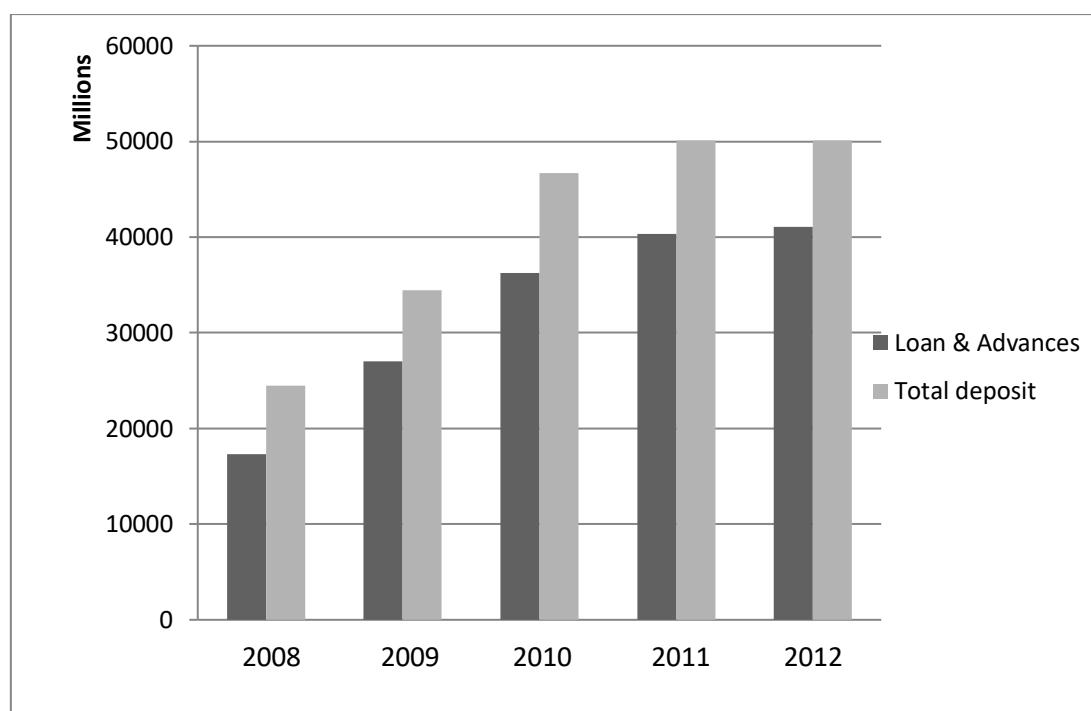


Figure No. 4.2

Loan and Advances to Total Deposit of NIBL Bank



4.2.2 Total Investment to Total Deposit Ratio

The main objective of the commercial banks is to make more profit. They make investments in different securities issued by government and other financial institutions. The ratio is calculated to know the efficiency of the commercial banks in utilizing the available deposits in different investment alternatives.

The ratio is calculated by dividing the amount of Total Investment by Total Deposits. Total Investment to Total Deposit Ratio of Nabil Bank and Nepal Investment Bank from the fiscal year 2008 to 2012 is given below in table 4.4.

Table 4.4

Total Investment to Total Deposit

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	38.32	31.14	28.99	23.4	26.17	29.61	5.072	17.13
NIBL	26.57	19.95	15.85	17.2	14.81	18.88	4.212	22.31

(Source: Annexure A4)

The above table shows that the ratio of Nabil Bank is in decreasing trend from 2008 to 2011 but it has increased during FY 2012. The mean ratio of Nabil Bank is 29.61%. The

S.D is 5.072 and C.V is 17.13%. It has the highest ratio of investment of 38.32% in the year 2008 and lowest ratio of investment of 23.4% in the year 2011.

The mean ratio of NIBL is only 18.88% and ratios are also in fluctuating trend during 5 years of period. It has the highest ratio of investment of 26.57% in the year 2008 and lowest ratio of investment of 14.81% in the year 2012. The S.D is 4.212 and C.V is 22.31%.

It is clear from the above table that Nabil Bank has Higher mean ratio than that of NIBL and the C.V of Nabil is also lower than that of NIBL this represents more consistency of investment procedure of Nabil but it has higher mean ratio which represents that Nabil Bank has more investment alternatives than that of NIBL.

Figure No. 4.3
Investment to Total Deposit of Nabil Bank

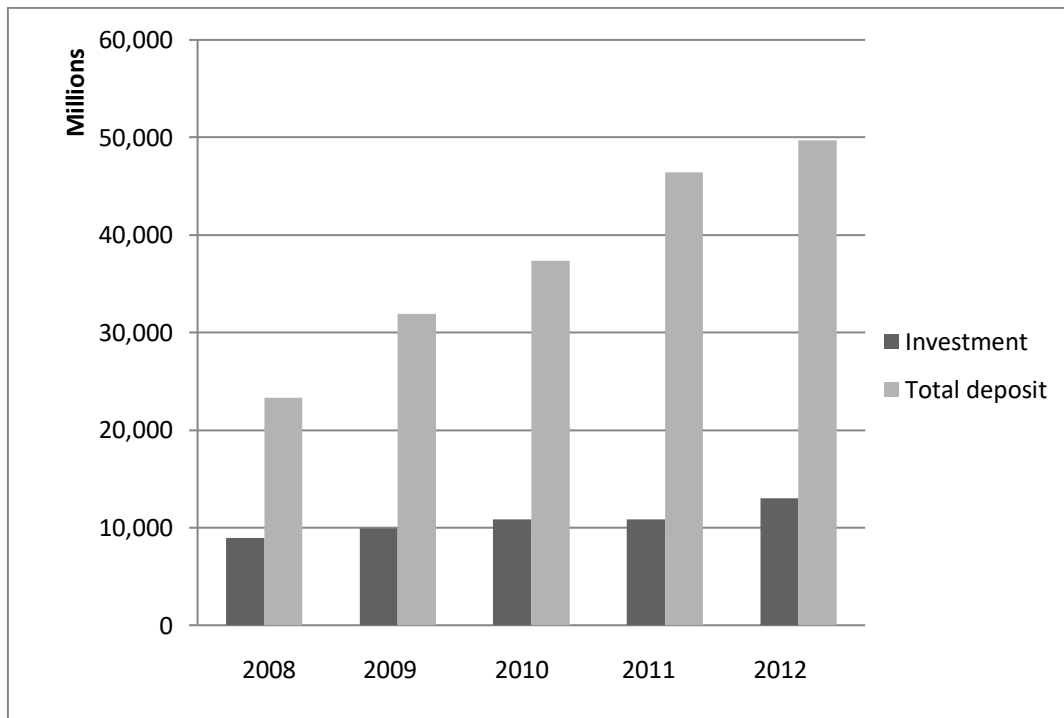
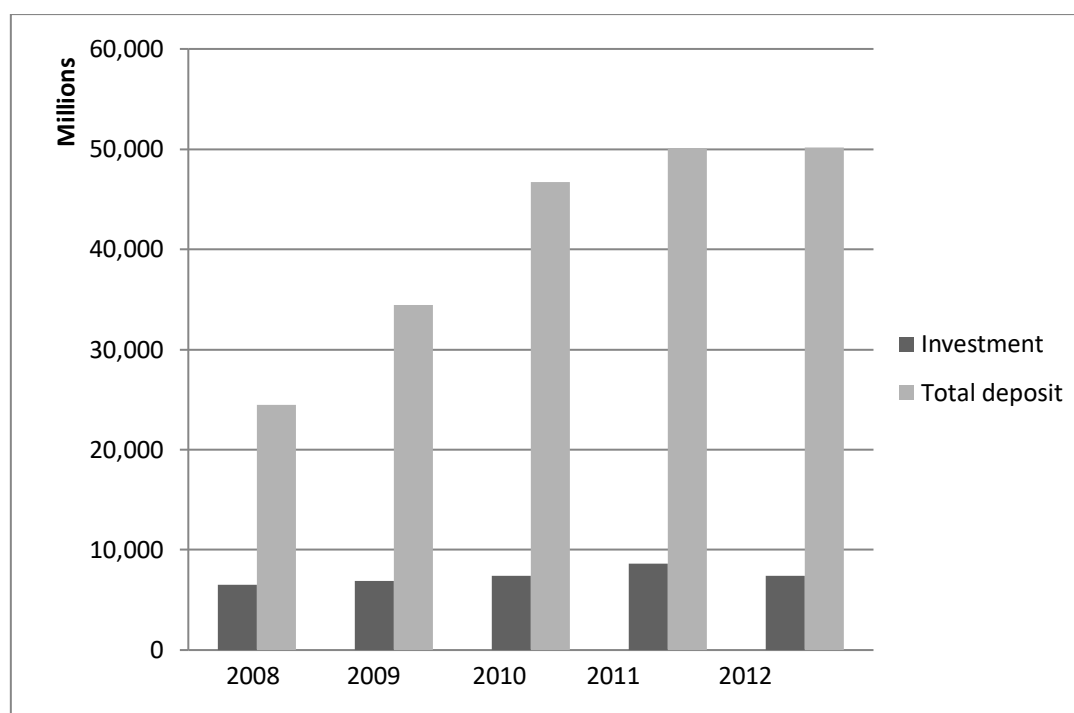


Figure No. 4.4

Investment to Total Deposit of NIBL



4.2.3 Investment on Deprived Sector to Total Deposit Ratio

The banks are operated not only for profit motive but also for social welfare. An effort is made to find out how much of amount the selected banks have invested in the deprived sector. The higher ratio shows the higher social concern of the selected banks. The ratio is calculated as,

$$\text{Investment in deprived sector to Total Deposit Ratio} = \frac{\text{Investment in deprived sector}}{\text{Total Deposit}}$$

Table 4.5

Investment on Deprived Sector to Total Deposit Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	1.84	1.7	1.87	2.23	2	1.928	0.20	10.36
NIBL	2.1	1.96	1.78	2.66	1.83	2.066	0.35	17.16

(Source: Annexure A5)

With regards to direct lending to the deprived sector NRB has been changing the directives from time to time by issuing various circulars. As per the NRB directives,

commercial banks were required to direct 7 percent of total loan portfolio in the deprived sector for the year 2003/04, 6% for the year 2004/05, 4% for the year 2005/06, 3% for the year 2006/07, 3% for the year 2008/08. from the year 2009/09 onwards commercial banks are required to extend minimum 3% of total loan and advances (including bills purchased and discounted) to the deprived sector.

Due to the changes in NRB directives, the above comparative table reveals that the selected banks have fluctuating trend of investment in deprived sector. Nabil Bank has the highest ratio of 2.23 in F/Y 2011 and the lowest ratio of 1.70 in F/Y 2009. Similarly, the ratio is not found consistent in any year of study period. NIBL has highest ratio of 2.66 in F/Y 2011 and the lowest ratio of 1.78 in F/Y 2010.

Comparing the mean ratio of investment on deprived sector of total deposit Nepa; Investment Bank has mobilized higher ratio of deposits in deprived sector than that of Nabil Bank. Nepal investment Bank has mean ratio of 2.066 and that of Nabil Bank has 1.982. C.V of Nepal Investment Bank is 17.16% and Nabil Bank has 10.36%. The lower percentage of C.V of Nabil Bank shows consistency and uniformity in investment purposes than that of NIBL.

Higher mean ratio of Nepal investment Bank shows that it has accepted the risk and ignored the profit and also given priority to social welfare.

The outstanding of deprived sector of commercial banks in the Mid-July 2012 by the end of Mid-July 2012 reached to Rs. 19,387 Millions. The ratio of deprived sector credit to total outstanding of product wise loans and advances stood at 3.67 percent in the current year 2012. Last year it was 3.56 percent.

4.2.4 Investment on Priority Sector to Total Deposit Ratio

Commercial banks have various options to mobilize their funds. Credit to priority sector is one of them. But from view point of profit commercial banks avoids to extent loan on this sector. However, they make certain portion of their investment in this sector.

The ratio is calculated as,

$$\text{Investment in Priority Sector to Total Deposit Ratio} = \frac{\text{Investment in Priority Sector}}{\text{Total Deposit}}$$

Table 4.6

Investment on Priority Sector to Total Deposit Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	Mean	S.D	C.V%
NABIL	1.56	1.52	1.65	1.8	2.24	1.75	0.29	13.04
NIBL	1.98	2.14	1.99	4.83	4.05	3	1.35	44.91

(Source: Annexure A6)

As per the NRB directives, commercial banks were required to direct 2 percent of total loan portfolio in the priority sector for the year- 2008/08 compulsory. Effective from 2009/09, investment in priority sector shall not be compulsory for the commercial banks.

The above comparative table reveals that Nabil Bank has the highest ratio of 2.24 in F/Y 2012 and the lowest ratio of 1.52 in F/Y 2009. NIBL has highest ratio of 4.83 in F/Y 2011 and the lowest ratio of 1.98 in F/Y 2008.

Comparing the mean ratio of investment on priority sector of total deposit, Nepal Investment Bank has mobilized higher ratio of deposits in priority sector than that of Nabil Bank. Nepal Investment Bank has mean ratio of 3 and that of NABIL has 1.75. C.V of Nabil Bank is 11.67% which is less than that of NIBL i.e. 44.91%. The lower percentage of C.V of Nabil Bank shows higher consistency and uniformity in investment purposes than that of NIBL.

It is clear from the above table that Nepal Investment Bank is socially concerned as it has ignored the profit and accepted risk by lending higher amount to the priority sector than that of NABIL.

4.2.5 Investment on Financial Institution to Total Deposit Ratio

The ratio reveals that the banks are successful in mobilizing their total deposits on different types of financial institutions to maximize the income. High ratio indicates the better mobilization of fund as investment on financial institution.

The ratio is calculated as,

$$\text{Investment on Financial Institution to Total Deposit Ratio} = \frac{\text{Investment on Financial Institution}}{\text{Total Deposit}}$$

Table 4.7

Investment in Financial Institution to Total deposit Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	Mean	S.D	C.V %
NABIL	1.7	1.87	2.09	1.35	1.38	1.678	0.3176	18.927
NIBL	2.02	1.63	2.03	3.12	4.47	2.654	1.157	43.5959

(Source: Annexure A7)

The central bank has not made any strict rules to the CBs to make investment in financial institutions. Hence, loans to private sector always dominated on the overall outstanding figure of loans and advances. Of the total outstanding loan and advances of Rs. 522853.3 M, claim on private sector registered 96.27% followed by 2.56% to financial institutions and 1.18% to government organizations. The selected banks are free to make decision whether to make investment in financial institutions or not. That is why the investment pattern of the selected banks seem fluctuating.

The above comparative table reveals that Nabil Bank has fluctuating trend of investment in financial institution. The Highest portion it has invested in these sectors is 2.09 in F/Y 2010. Similarly the highest portion NBIL has invested in these sectors is 4.47 In F/Y 2012.

The average mean ratio of Nabil Bank is 1.678 and that of NIBL is 2.654. It shows that in an average mean ratio, NIBL has made higher investments in financial institutions than that of Nabil Bank. C.V of Nabil Bank is 18.93% and that of NIBL is 43.60%. The lower C.V of Nabil bank indicates that Nabil Bank is more consistent in investment policy than that of Nepal Investment Bank.

4.2.6 Investment on Shares, Debentures and Bonds to Total Deposit Ratio

Investment on shares, debentures and bonds to total deposit reflects the extent to which the selected banks are successful to mobilize their total deposit on purchase of shares and debentures of other companies to generate income and to utilize the excess fund. Higher ratio indicates more portion of investment on shares and debentures out of total deposit.

The ratio is calculated as,

$$\text{Investment on Shares, Debentures and Bonds to Total Deposit Ratio} = \frac{\text{Investment on Shares, Debentures and Bonds}}{\text{Total Deposit}}$$

Table 4.8

Investment on Shares, Debentures and Bonds to Total Deposit Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	1.21	1.01	0.95	2.04	1.88	1.418	0.45	31.99
NIBL	0.144	0.16	0.131	0.126	0.14	0.142	0.01114	7.95

(Source: Annexure A8)

The above comparative table shows fluctuating trend of ratios of selected banks. Nabil Bank has highest ratio of 2.04 in F/Y 2011 and the lowest ratio of 0.95 in F/Y 2010. The average mean ratio of Nabil Bank is 1.418, S.D is 0.45 and C.V is 31.99%.

NIBL has the highest ratio of 0.16 in F/Y 2009 and the lowest ratio of 0.126 in F/Y 2011. The average mean ratio of the bank is 0.142, S.D of NIBL is 0.01114 and C.V is 7.95%.

The above comparative table shows that the mean ratio of Nabil Bank is higher than that of NIBL. It has higher ratio of C.V of 31.99% than that of NIBL. The Lower C.V of NIBL shows more consistency of investment procedure of the bank than that of Nabil Bank.

The selected banks have made more investment only on government securities during the 5 years of study period. They have zero investment of government bond, government non-financial institution and other non-financial institutions. The major portion of investment of selected banks includes the risk free assets like government securities, treasury bills and some investments in foreign banks, local banks and mutual funds. Investment on shares, debentures and bond of other companies is not satisfactory due to high risk factor and some regulations of NRB. Like NRB has prohibited banks from investing in shares and securities not listed in stock exchange. Further, banks are prohibited from investing in shares and securities of other banks and financial institutions licensed by NRB.

4.2.7 Loan Loss Ratio

When the debtors are unable to pay the loan, the loss of loan occurred. It occurs not only because of debtors' failure but also because of failure of recovery of loan by bank. If higher loss is expected then greater loan loss provision is made. Higher ratio leads to low profit and indicates low efficiency of the bank.

The ratio is calculated as;

$$\text{Loan Loss Ratio} = \frac{\text{Loan Loss Provision}}{\text{Loan and Advances}}$$

Table 4.9
Loan Loss Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	2.29	1.89	1.48	2.33	2.47	2.092	0.362	17.289
NIBL	2.56	1.99	1.61	1.56	1.5	1.844	0.397	21.525

(Source: Annexure A9)

NRB has directed all the commercial bank to classify loan into four different categories on the basis of loan overdue period and as per the present norms of NRB. Commercial banks need to maintain loan loss provision of 1% for pass loan, 25% for sub-standard, 50% for doubtful and 100% for loss on the basis classification of loan. The table shows that Nabil Bank has an average mean ratio of 2.092%. The ratios are in fluctuating trend throughout the years. The highest loan loss ratio of the Nabil bank is 2.47% in the year-2012, S.D of the bank is 0.362 and C.V is 17.289%.

NIBL has an average mean ratio of 1.844%. The ratios are in increasing trend throughout the five years. It has highest loan loss ratio of 2.56% in the year 2008 and lower loan loss ratio is 1.5% in 2012, S.D of the bank is 0.397 and C.V is 21.525%.

It is clear from the above comparative table that Nabil Bank has higher mean ratio than that of NIBL. It means Nabil Bank can earn more profit than NIBL.

4.3 Risk Ratio

Risk ratio measures the level of risk. Risk always sticks with return. Higher the risk, higher will be the return. Bank has to take high risk if it expects high return on its investment. Hence, bank has to accept and manage high risk so as to achieve high return.

4.3.1 Interest Rate Risk Ratio

The possibility of loss due to change in interest rate is known as interest rate risk. There exists higher degree of risk related with interest rate. This ratio is calculated as; Interest rate risk ratio = interest sensitive assets/Interest sensitive liabilities.

Table 4.10

Interest rate Risk Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	79.38	81.58	87.95	85.39	87.96	84.452	3.4466	4.0811
NIBL	78.78	87.92	85.85	89.02	90.45	86.404	4.0974	4.7422

(Source: Annexure A10)

The bank has removed the provision of maintaining average interest rate spread below 5 percent since 2003/04. In the context of the beginning of institutional reform programme of the government owned commercial banks, the provision of interest rate spread was phased out in order to let the market forces determine it competitively. However, the spread rate has not come down as expected despite the competition among the commercial banks.

The above table shows that the mean ratio of Nabil Bank is 84.452% .It has fluctuating trend of interest risk ratio, S.D and C.V of the bank is 3.4466 and 4.081% respectively.

The average mean ratio of NIBL is 86.404%. The trend of ratio of the banks is fluctuating trend. NIBL has S.D of 4.0974 and C.V of 4.7422%.

The average ratio of Investment Bank is little higher than that of Nabil bank as well as S.D and C.V ratio, it indicates that Investment bank has little higher degree of interest rate risk in comparison. Nabil bank has moderate level of interest rate risk.

4.3.2 Credit risk ratio

The risk behind making investment or granting loan is measured by credit risk ratio. Actually credit risk ratio shows the proportion of non-performing assets in total loan and advances of a bank. But due to unavailability of related data, the ratio is calculated with the help of loan and advances and total assets.

The ratio is calculated as;

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

Table 4.11

Credit Risk Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	57.04	57.54	62.91	61.88	65.42	60.958	3.213	5.270
NIBL	62.65	69.45	68.37	70.36	70.42	68.25	2.897	4.245

(Source: Annexure A11)

The above table shows the mean ratio of Nabil is 60.958% and the Investment bank is 68.25%. Comparatively, NABIL BANK has lower risk ratio than that of NIBL In each year during 5 years of period. It indicates that NABIL BANK has low possibility of loss than that of NIBL.

4.4 Profitability Ratio

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

4.4.1 Return on Total Working Fund

Return on total working fund measures the relationship between the working fund and the profit of the bank. Working fund includes the total deposit of the banks and other borrowings which are taken by banks to give loan to the customer.

The ratio is calculated as;

$$\text{Return on Total Working Fund} = \frac{\text{Net Profit}}{\text{Working Fund}}$$

Table 4.12

Return on Total Working Fund

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	2.78	2.24	2.64	2.45	2.61	2.544	0.185	7.259
NIBL	2.05	2.02	1.93	2.53	2.33	2.172	0.223	10.288

(Source: Annexure A12)

The above table shows that Nabil Bank has higher profit earning capacity than that of NIBL. The mean ratio of Nabil Bank is 2.544% and the same of NIBL is 2.172%. It indicates that Nabil Bank has strong reputation in the market than that of NIBL. The trend of ratio of both banks is in fluctuating trend. Nabil Bank has the highest ratio of

2.78% in the year 2009 and that of NIBL is only 2.33% in the year 2012. It is clear that Nabil Bank has strong earning capacity than NIBL.

4.4.2 Return on Total Loan and Advances

Net profit of commercial banks depends on loan and advances. So, calculation of Return on total loan and advances is very important to find out the financial condition of the banks.

The ratio is calculated as;

$$\text{Return on Total Loan and Advances} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

Table 4.13

Return on Total Loan and Advances

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	4.34	3.49	3.74	3.54	3.52	3.726	0.319	8.571
NIBL	2.9	2.58	2.49	3.14	2.86	2.794	0.234	8.371

(Source: Annexure A13)

From the above table it is clear that Nabil bank is in good condition in comparison to Investment bank as it has higher mean ratio of 3.726 than that of Investment bank of 2.794 mean ratios. It shows that Nabil bank is good in investment policy than Investment bank.

4.4.3 Return on Equity Ratio

The bank can earn more profit if they mobilize the equity capital properly. The return on equity capital measures the extent to which a bank is successful to mobilize its capital.

The ratio is calculated as;

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

Table 4.14

Return on Equity Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	137.1	108.3	106.8	56.24	65.91	94.86	29.781	31.395
NIBL	62.57	57.87	37.42	52.55	48.84	51.85	8.590	16.567

(Source: Annexure A14)

The above table shows that Nabil Bank has an average mean ratio of 94.86% and the same of NIBL is only 51.85%. It indicates that Nabil Bank is more successful in mobilizing its capital fund than that of NIBL. It is clear that Nabil Bank has more earning power than that of NIBL. Nabil Bank has maximum return on earning which is pleasing to the shareholders and in the case of NIBL it is just acceptable.

4.4.4 Total Interest Earned to Total Outside Assets Ratio

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

The ratio is calculated as;

$$\text{Total Interest Earned to Total Outside Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

Table 4.15

Total Interest Earned to Total Outside Assets Ratio

Year (Mid-July)	2008	2009	2010	2011	2012	mean	S.D	C.V%
NABIL	6.48	6.32	7.28	8.81	10.29	7.836	1.511	19.284
NIBL	6.66	6.48	7.49	9.51	11.96	8.42	2.071	24.597

(Source: Annexure A15)

The above table shows that the mean ratio of Nabil Bank is 7.836% and of NIBL is 8.42%. In an average NIBL has Higher earning power than that of Nabil Bank. Both banks have increasing trend of ratios from FY 2009 to 2012 except FY 2008. The

highest ratio of NIBL is 11.29% in the 2012 and that of Nabil bank is 10.29% in same year.

4.5 Comparison of Financial Performance of Nabil Bank and NIBL

Ratio	Nabil Bank	NIBL
1.Liquidity Ratio	Nabil bank has given more priority to oil Investment than to maintain higher liquidity. It has lower average mean ratio of liquidity.	NIBL has maintained higher liquidity than Nabil Bank. It has given priority to both liquidity maintenance and Investment procedure.
2. Activity Ratio	It is seen that Nabil Bank has lower average mean ratio of loan and advances to total deposit and higher mean ratio of Investment to total deposit, from this we can conclude that Nabil Bank has given more emphasis on Investment than to grant loan and advances.	NIBL seems more successful in granting loan and advances. It has not grabbed more investment opportunities as it has lower average mean ratio of investment to total deposit.
3. Risk Ratio	Both Interest rate risk and credit risk ratio of Nabil bank is lower.	Loan and advances of NIBL is higher hence it has higher credit risk ratio as well as it has higher Interest risk ratio.
4. Profitability Ratio	Return on loan and advances of Nabil Bank is higher although it has lower ratio of Loan and Advances. It is clear" that Nabil Bank has adpoted sound investment policy.	Despite of higher ratio of Loan and Advances NIBL has lower ratio of return on Loan and Advances.

In overall NIBL seems strong in financial performance than Nabil Bank. But profit earning capacity of Nabil Bank is higher. It shows that investment policy of Nabil Bank is more efficient than that of NIBL.

Table 4.16

4.6 Comparison of Investment Policy of the Selected Bank

(Rs. in millions)

Bank	Nabil					NIBL				
Sector/Year	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Deprived	430	542	697	1,034	994	515	674	833	1,335	917
Priority	365	486	615	835	1,115	486	737	929	2,419	2,028
Financial institution	398	596	779	627	684	493	562	949	1,563	2,240
Shares, bonds & debentures	287	323	355	946	936	35	55	61	63	71
Profit	674	746	1,031	1,141	1,338	501	697	901	1,266	1,177

Deprived Sector

NRB has decreased minimum percentage requirement of deprived sector lending to 3%. But, it is seen that there is increasing trend of investment of the selected banks. Investment policy of Nepal Investment Bank has given more priority to invest in deprived sector as it has invested higher amount in this sector than Nabil Bank during 5 years of the study period

Priority Sector

Although NRB has phased out priority sector lending the selected banks have continued investing in this sector. But the ratio of investment in this field of Nepal Investment Bank is higher than that of Nabil bank. It shows that Nepal Investment Bank's investment policy is highly concerned toward social and economic development of the country.

Financial Institution

Investment in financial institution of the Nabil bank is in fluctuating trend but in case of Nepal Investment Bank is in increasing trend. It shows that investment policy of the

Nepal Investment bank has given more emphasis to make investment in this sector than that of Nabil Bank.

Shares, Debentures and Bonds

Nabil Bank has given more emphasis on investing in this sector than Nepal Investment Bank during the 5 years of the study periods.

Profit Impact

Investment in Deprived sector, Priority Sector and Financial Institution of Nepal Investment Bank during 5 years of the study period is higher than Nabil Bank But investment in Shares; Debentures and Bonds of Nabil Bank is higher than NBIL. Profit of the Nabil Bank is comparatively higher in each year except F/Y 2011 during 5 years of the study period than that of NIBL. From this we can conclude that investment policy adopted by Nabil Bank is more efficient and favorable from profit point of view.

4.6.1 Sector-wise Loan and Advances of Nabil Bank and NIBL

From the above table it is clear that Nabil Bank has decreasing trend of granting loan and advances to the agriculture sector but on the contrary NIBL has increasing trend of granting loan. This concludes that NIBL has adopted liberal lending policy to develop the agricultural sector so as to contribute to develop national economy.

NRB has phased out priority sector lending requirement but Nabil Bank has still continued to grant loan and advances to mining but on the contrary NIBL has not shown interest to lend to this sector. It shows that Nabil Bank is socially concerned to develop priority sector and enhancing national economic development.

It is seen from the above table that both banks have given more priority to production and service industries as they have granted highest amount as loan and advance to these sectors during five years of study period. From this we can conclude that the selected banks have given emphasis to earn more profit by lending more amounts on less risky sectors. Their motive is to earn profit than to develop backward communities and to push priority sector.

The investment policy of the selected bank gives more emphasis to make more investment on productive sector and to earn more profit from their investment including public welfare.

4.7 Statistical Analysis

Under this topic following statistical tools are calculated

1. Correlation coefficient between different ratios
2. Trend analysis of deposit, loan and advances, investments and net profit

4.7.1 Correlation Coefficient

Karl Pearson's coefficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, outside assets and net profit. The coefficient of correlation is directly calculated in the "Microsoft Excel" and Probable Error (P.Er) is calculated using Standard Error (S.E). The probable error is used to measure the reliability and test of significance of correlation coefficient. It is calculated as under

$$S.E = \frac{1 - r^2}{\sqrt{2}}$$

$$P.Er = 0.6745 \times S.E. (r)$$

$$6P.Er = 6 \times P. Er$$

4.7.1.1 Coefficient of Correlation between Deposit and Loan and Advances

Deposits and loan and advances are the life blood of any commercial banks. The existence of die commercial banks depends upon the total deposit collected and the total amount granted as loan and advances. The relationship between deposit and loan and advances should be optimum to gain profit. Correlation coefficient measures the degree of relationship between to variables i.e. deposit and loan and advances. In this analysis deposit is independent variable (X) and loan and advances is dependent variable (Y). The main reason of finding out of correlation (r) between these two variables is to justify whether deposits are significantly used as loan and advances or not. The table below shows the value of 'r', 'r ²', Probable Error (P.Er) and 6 P.Er between deposit and loan and advances of Nabil Bank and NIBL.

Table 4.17

Bank	r	r ²	P.Er	6 P.Er
Nabil Bank	0.989400335	0.978913023	0.009951	0.059704
NIBL	0.997470969	0.994948334	0.002403	0.014460

The above table shows that the correlation coefficient of NIBL is 0.997470969 and it shows positive relationship between deposit and loan and advances. There is significant relationship between these two variables. The coefficient of determination (r²) is .0994948334 which depicts that the dependent variable (loan and advances) is explained by the independent variable (deposits) about 99.49%. Similarly, the probable error (P.Er) of NIBL is 0.002403. Since, the obtained value of $r > P.Er$ the value of 'r' is significant and the value of $r > 6 P.Er$ shows that it is definitely significant.

In the case of Nabil Bank the correlation coefficient is 0.989400335 and it shows positive relationship between deposit and loan and advances. There is significant relationship between these two variables. The coefficient of determination (r²) is 0.978913023 which depicts that the dependent variable (loan and advances) is explained by the independent variable (deposits) about 97.89%. Similarly, the probable error (P.Er) of Nabil Bank is 0.009951. Since, the obtained value of $r > P.Er$ the value of 'r' is significant and the value of $r > 6 P.Er$ shows it is definitely significant.

In conclusion, we can say that there is positive relationship between deposit and loan and advances of two banks. This means if deposit increases then loan and advances definitely increases.

4.7.1.2 Coefficient of Correlation between Deposit and Investments

Coefficient of correlation between deposit and investment measures the degree of relationship between these two variables. In this analysis deposit is independent variable (X) and investment is dependent variable (Y). The main reason of finding out of correlation (r) between these two variables is to justify whether deposits are significantly invested or not. The table below shows the value of 'r', 'r²', Probable Error (P.Er) and 6 P.Er between deposit and investments of Nabil Bank and NIBL.

Table 4.18

Bank	r	r ²	P.Er	6 P.Er
Nabil Bank	0.912381342	0.955186549	0.019500769	0.117004616
NIBL	0.812280598	0.901266109	0.038250691	0.229504149

The above table shows that the correlation coefficient of NIBL is 0.812280598 and it shows positive relationship between deposit and investment. There is significant relationship between these two variables. The coefficient of determination (r^2) is 0.901266109 which depicts that the dependent variable (investment) is explained by the independent variable (deposits) about 90.13%. Similarly, the probable error (P.Er) of NIBL is 0.038250691. Since, the obtained value of $r > P.Er$ the value of 'r' is significant and the value of $r > 6 P.Er$ shows that it is definitely significant.

In the case of Nabil Bank the correlation coefficient is 0.912381342 and it shows positive relationship between deposit and investment. There is significant relationship between these two variables. The coefficient of determination (r^2) is 0.955186549 which depicts that the dependent variable (investment) is explained by the independent variable (deposits) about 95.52%. Similarly, the probable error (P.Er) of Nabil Bank is 0.019500769. Since, the obtained value of $r > P.Er$ the value of V is significant and the value of $r > 6 P.Er$ shows it is definitely significant.

In conclusion, we can say that there is positive relationship between deposit and investment of two banks. This means if deposit increases then investment of the bank also increases. It is clear from the table that correlation of coefficient and coefficient of determinant of NIBL is higher than that of Nabil Bank. This shows that NIBL has made greater investment out of deposit than that of Nabil Bank.

4.7.1.3 Coefficient of Correlation between Outside Assets and Net Profit

Coefficient of correlation between outside assets and net profit measures the degree of relationship between these two variables. In this analysis outside assets is independent variable (X) and net profit is dependent variable (Y). The main reason of finding out of

correlation (r) between these two variables is to justify whether net profit is significantly correlated with respect to outside assets or not. The table below shows the value of ' r ', ' r^2 ' Probable Error (P.Er) and 6 P.Er between other side assets and net profit of Nabil Bank and NIBL.

Table 4.19

Bank	r	r^2	P.Er	6 P.Er
Nabil Bank	0.984340523	0.992139367	0.003690369	0.022142217
NIBL	0.965643457	0.982671592	0.007980727	0.04788436

The above table shows that the correlation coefficient of NIBL is 0.965643457 and it shows positive relationship between outside assets and net profit. There is significant relationship between these two variables. The coefficient of determination (r^2) is 0.982671592, which depicts that the dependent variable (net profit) is explained by the independent variable (outside assets) about 98.27%. Similarly, the probable error (P.Er) of NIBL is 0.006084. Since, the obtained value of $r > P.Er$ the value of ' r ' is significant and the value of $r > 6 P.Er$ shows that it is definitely significant.

In the case of Nabil Bank the correlation coefficient is 0.984340523 and it shows positive relationship between outside assets and net profit. There is significant relationship between these two variables. The coefficient of determination (r^2) is 0.992139367, which depicts that the dependent variable (net profit) is explained by the independent variable (other side assets) about 99.21%. Similarly, the probable error (P.Er) of Nabil Bank is 0.003690369. Since, the obtained value of $r > P.Er$ and $r > 6 P.Er$ the value of ' r ' is definitely significant.

In conclusion, we can say that both banks have positive relationship between these two variables X (net profit) and Y (outside assets).

4.7.2 Trend Analysis

4.7.2.1 Trend Analysis of Total Deposit

The trend value of total deposit of Nabil Bank and NIBL is calculated under this section. An effort has been made to forecast for next five years from Mid-July 2012 to

Mid-July 2017 on the basis of past data of total deposit of Nabil Bank and NIBL from Mid-July 2008 to Mid-July 2012.

Table 4.20
Estimation of the Deposit for the Year 2012 to 2017

Deposits (Rs. In millions)

Years	Nabil Bank	NIBL
2008	23,342	24,488
2009	31,915	34,451
2010	37,348	46,698
2011	46,410	50,094
2012	49,696	50,138
2013	57,904	61,256
2014	64,623	67,951
2015	71,343	74,645
2016	78,065	81,339
2017	84,786	88,033

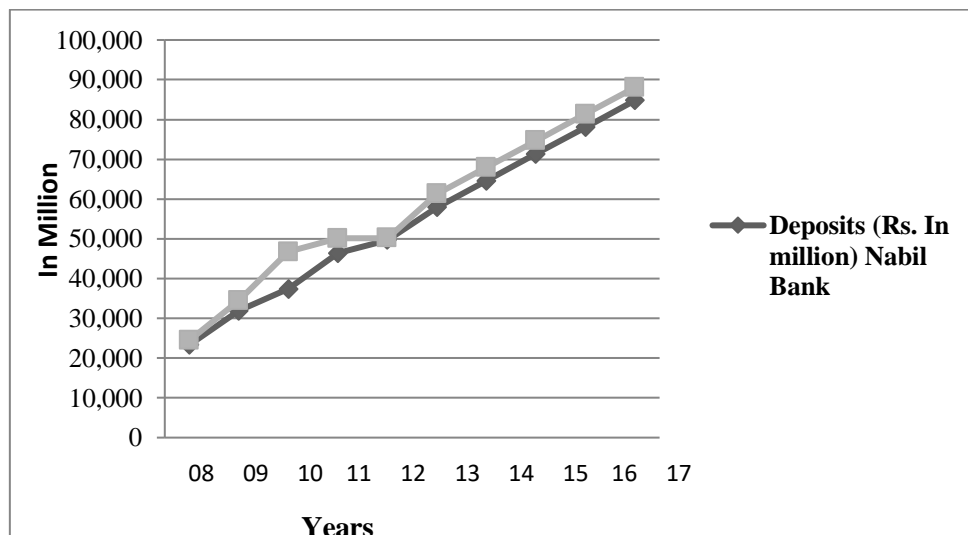
(Source: Annexure B1 and B1.1)

The above table shows the total deposit of the banks is in increasing trend. If other things remain constant the total deposit of Nabil Bank will be RS. 84,786 million in the FY 2017 and that of NIBL will be Rs. 88,099 million.

It is forecasted that NIBL will be more successful to collect more deposit from die market.

Figure No. 4.5

Estimation of the Deposit for the Year 2012 to 2017



4.7.2.2 Trend Analysis of Loan and Advances

An effort has been made to forecast the amount of loan and advances of Nabil Bank and NIBL for the next 5 years from Mid-July 2012 to Mid-July 2017.

Table 4.21**Estimation of the Loan and Advances for the Year 2012 to 2017**

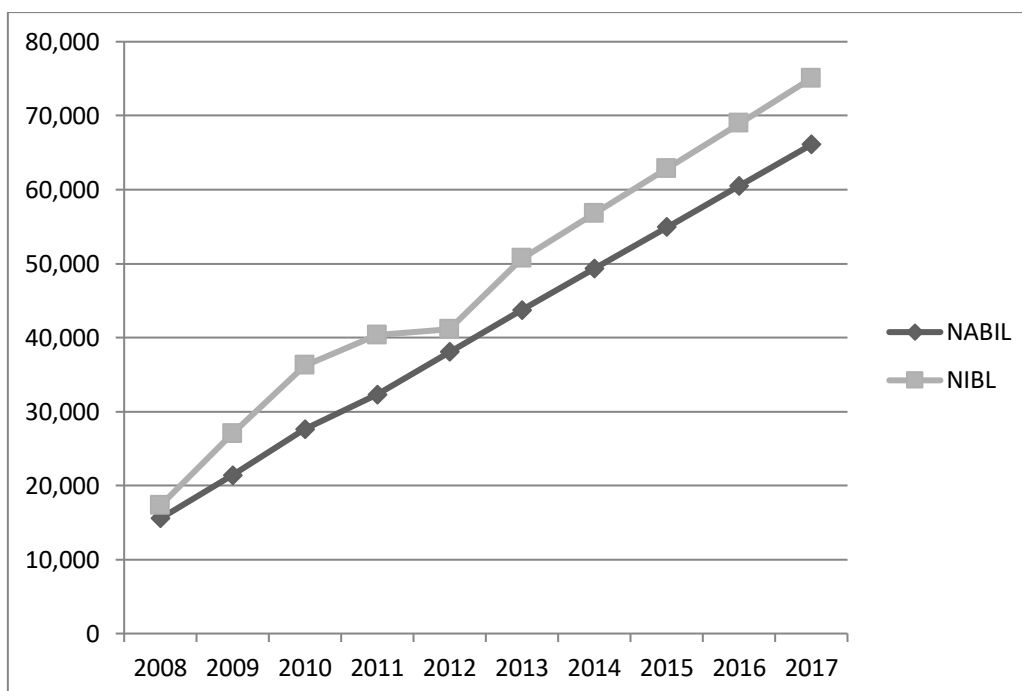
Years	Loan and Advances (Rs. In millions)	
	Nabil Bank	NIBL
2008	15,545	17,286
2009	21,365	26,996
2010	27,598	36,241
2011	32,268	40,318
2012	38,034	41,095
2013	43,726	50,669
2014	49,314	56,763
2015	54,902	62,857
2016	60,490	68,951
2017	66,078	75,045

(Source: Annexure B2 and B2.1) (Source: Annual Reports)

The above table shows that Nabil Bank has increasing trend of loan and advances and same of NIBL is in fluctuating trend. It is forecasted that both of banks will have increasing trend of loan and advances. The possible capacity of granting loan and advances of NIBL seems higher than that of Nabil Bank. NIBL seems to be more successful in the future to earn more profit than that of Nabil Bank because the expected future value of loan and advances of NIBL in the year 2017 is Rs. 75,045 million and the same of Nabil Bank is only Rs. 66,078 million.

Figure No. 4.6

Estimation of the Total Loan and Advances for the Year 2012 to 2017



4.7.2.3 Trend Analysis of Total Investment

Under This topic, the trend values of total investment for 5 years from Mid-July 2008 to Mid-July 2012 is calculated and forecasted for next five years from Mid-July 2012 to Mid-July 2017.

Table 4.22
Estimation of Investment for the Year 2012 to 2017

Years	Deposits (Rs. In millions)	
	Nabil Bank	NIBL
2008	8,945.00	6,505.00
2009	9,939.00	6,874.00
2010	10,826.00	7,399.00
2011	10,874.00	8,635.00
2012	13,003.00	7,423.00
2013	13,432.00	8,446.00
2014	14,337.00	8,806.00
2015	15,242.00	9,166.00
2016	16,148.00	9,525.00
2017	17,053.00	9,885.00

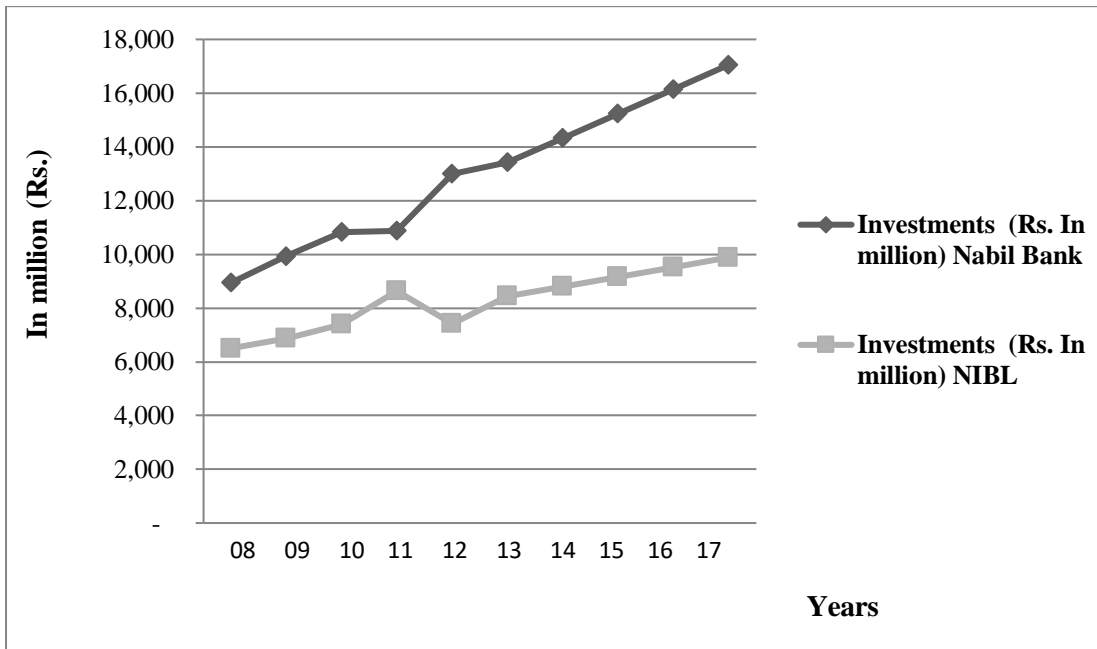
(Source: Annual Reports) (Source: Annexure B3 and B3.1)

The above table shows that investment capacity of both Banks is in increasing trend. It is forecasted that both bank will have increasing trend of investments but the investment

capacity of Nabil bank is far higher than that of Investment bank from past to forecasted years it seems to be that Nabil bank is more capable to mobilizes it funds through investment than Investment bank in case of investments.

Figure No. 4.7

Estimation of the Total Investments for the Year 2012 to 2017



4.7.2.4 Trend Analysis of Net Profit

Under This topic, the trend values of net profit for 5 years from Mid-July 2004 to Mid-July 2009 is calculated and forecasted for next five years from Mid- July 2010 to Mid - July 2014.

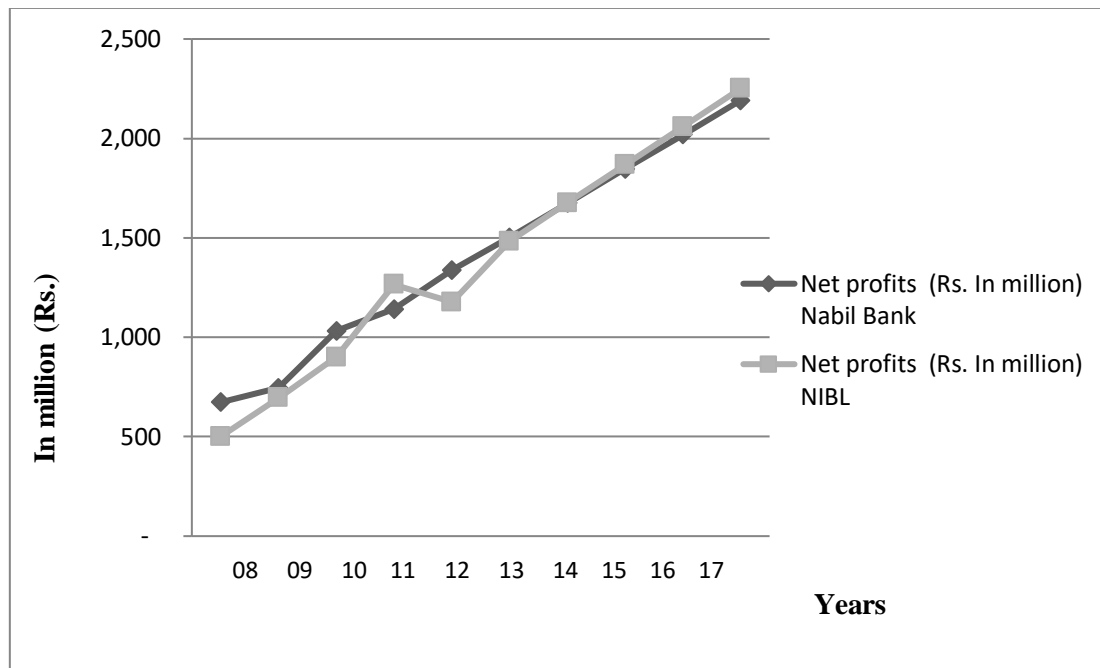
Table 4.23**Estimation of Net Profit for the Year 2012 to 2017**

Years	Net profits (Rs. In millions)	
	Nabil Bank	NIBL
2008	673	501
2009	746	696
2010	1,031	900
2011	1,141	1,265
2012	1,337	1,176
2013	1,503	1,483
2014	1,675	1,675
2015	1,847	1,867
2016	2,019	2,059
2017	2,192	2,251

(Source Annual reports) (Source annexureB4 andB4.1)

It is clear from the above table that both banks have increasing trend of net profit. But in the case of Investment Bank it has fluctuating trend of net profit. It has earned Rs. 1,265 million in the year 2011 but in the year 2012 is slightly decreased to Rs. 1,176 Million. It is forecasted that both bank will have increasing trend of net profit but it seems that possible capacity of Nepal investment bank to earn more profit than Nabil bank in future because of NBIL's better deposit collection and granting loan and advances.

Figure No. 4.8
Estimation of Net Profit for the year 2012 to 2017



4.8 Major Findings of the Study

- It is found from the study that the amount of total deposit collected by Nepal Investment Bank in each year during 5 years of the study period is higher than that of Nabil Bank. But, Investment to total deposit ratio and the amount of total Investment made by Nabil Bank for the same period is higher than NIBL. Except investment made by Nabil Bank, total deposit collected and loan and advances of NIBL is higher than Nabil Bank but Nabil Bank has succeeded to earn more profit in each year of 5 years Study periods except 2011 where investment bank earn slightly more than Nabil Bank. It is clear that Investment policy adopted by Nabil Bank is sound from profit point of view.
- Nabil Bank has given more priority on investment and Nepal Investment Bank has given more priority on loan and advances than that of Nabil Bank. Nabil Bank has maintained lower liquidity than NIBL. Nabil Bank has accepted higher level of interest rate risk rather than credit risk. Overall profitability ratio of Nabil Bank shows that it has earned higher profit than NIBL. It is clear that Nabil Bank has given more emphasis on profit but NIBL has given priority both on liquidity and profit as well.

- The study has found that total deposit and loan and advances and investment of the selected bank will be in increasing trend if other things remain constant. But it is also found that Net profit of the Nepal Investment Bank will be in decreasing trend from 2012 onward.
- There is positive relationship between deposit and loan and advances and deposit and investment of the selected bank. The study also found that increase in net profit of Nabil Bank is caused by the increase in outside assets as it has positive relationship between outside assets and net profit but in the case of NIBL increase in net profit depends slightly more upon increase in outside assets.

Findings from the Liquidity Ratio

- NRB has directed all the commercial banks to keep minimum 5% of total deposit in the NRB balance so as to maintain the liquidity position. Nabil Bank has an average mean ratio of 3.99% and the same of NIBL is 6.05%.
- The mean ratio of liquid fund to total deposit ratio of both banks suggests that they are sound in this regard.
- The overall analysis of liquidity ratio has found that Investment bank is more consistent to maintain liquidity position than that of Nabil Bank. Nabil Bank and NIBL both have given more priority to increase investment than to maintain liquidity.

Finding from the Activity Ratio

- Loan and advances to total deposit ratio of NIBL is higher than that of Nabil Bank. An average mean ratio of NIBL is 77.80% and that of Nabil Bank is 70.7%. It shows that NIBL is more successful in advancing loans.
- Investment to total deposit ratio of both banks is in increasing trend. An average mean ratio of Nabil Bank is 29.61%, which is higher than that of NIBL i.e.18.88%.
- Investment on deprived sector to total deposit ratio of the selected bank is in fluctuating trend. The average mean ratio of Nepal Investment Bank is link bit higher than Nabil Bank and Nabil Bank seem more consistent to make investment in

deprived sector than that of NIBL.

- Investment on priority sector to total deposit ratio of both bank is in fluctuating trend. The average mean ratio of Nepal investment bank is higher than Nabil Bank but Nabil bank is more consistent to make investment in priority sector because it has lower C.V than that of NBIL.
- Investment on financial institution to total deposit ratio of the selected bank is fluctuating drastically. An average mean ratio of NIBL is higher than that of Nabil Bank.
- The loan loss ratio shows that NIBL has managed loan and advances soundly as it has lower ratio than that of Nabil Bank.

The overall study of this ratio reveals that NIBL is in better position to grant loan and advances but in terms of investment purposed Nabil Bank is more capable to make investment out of total deposit. It shows that NIBL is ready to bear more risk than that of Nabil Bank.

Finding from the Risk Ratio

- Nepal Investment Bank has higher interest rate risk than that of Nabil Bank and also has higher variability ratio.
- Credit risk ratio measures the risk behind making investment or granting loan. NIBL seems risk seeker since its credit risk ratio is higher than that of Nabil Bank.

Finding from the Profitability Ratio

- Return on total working fund of NIBL is less than Nabil Bank although it has accepted higher level of risk. Average mean Ratio of Nabil Bank is higher than that of NIBL. It is clear that Nabil Bank is in better position to earn higher profit out of its working fund.
- Return on Loan and advance of Nabil Bank is higher than that of NIBL. That means Nabil Bank has achieved the net profit from loan and advances better more than that of NIBL.
- Return on equity of Nabil Bank is more than that of NIBL. Hence, Nabil bank is earning more profit from the equity capital.

In overall, we can conclude that Nabil Bank has Higher earning capacity than that of NIBL. Hence, Nabil Bank is performing well to achieve the higher percentage of profit.

Finding from the Correlation Coefficient

The calculation of correlation reveals that

- Correlation of coefficient between deposit and loan and advances found that there is positive relationship between deposit and the loan and advances of the bank. It indicates that the increase in deposit tends to increase in loan and advances. The study also suggests that the dependent variable i.e. loan and advances of both bank is highly dependent upon the total deposit.
- Correlation of coefficient of deposit and investment of both banks is positive. It is found from the study that the dependent variable (i.e. investment) of NIBL is Highly dependent upon independent variable (i.e. deposit) where as in the case of Nabil Bank it is dependent not only on deposit but also on other variables as well.
- Correlation coefficient between outside assets and net profit of both bank is positive. It indicates that increase in net profit of both Bank is depends upon increase in outside assets and vice versa.

Finding from the Trend analysis

- The trend analysis of total deposit of both banks show that the deposit of Nabil Bank in next 5 year will be Rs. 84,786 M and that of NIBL will be Rs. 88,033 M. Deposit

collection on NIBL will be higher than that of Nabil Bank.

- It is forecasted that both of banks will have increasing trend of loan and advances. The possible capacity of granting loan and advances of NIBL seems higher than that of Nabil Bank. Total loan and advances of Nabil bank in next 5 year is forecasted to be Rs. 66,078 M and that of NIBL is Rs. 75,045 M.

The total investment of Nabil Bank In FY 2017 is forecasted to be Rs. 17,053 M and that of NIBL is Rs.9,885 M. Nabil Bank will be more capable to increase investment in the future than that of NIBL. It is forecasted that net profit of Nabil Bank will be decreased but same of NIBL will be increased. The trend of net profit of Nabil Bank is in decreasing trend and the same of NIBL is in increasing trend. The net profit of Nabil Bank in FY 2017 is expected to be Rs. 2,192 M and that of NIBL is expected to be Rs. 2,251 M.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

Investment simply means an assets or item that is purchased with the hope that it will generate income or appreciate in the future. In general sense, investment means to pay out money to get more. It involves the commitment of resources that have been saved or put away from current consumption to the future. Investment policy comprises the set of guidelines and procedures that direct the long-term management of the investor's assets. This research study has been conducted to find out the impact of NRB directives in Investment policy of CB. NRB being central bank of Nepal directs, supervise, controls and guides CB to move. Although the investments policies are formulated by the concerned banks how far the rules and regulations of investment policy of CB are affected by NRB directives is the main focus of this research work. All the CBs need to comply with the NRB directives and the violation or non compliance of directives may lead to fine or penalty to the bank. In F/Y 2006/07 NIBL has been penalized Rs. 22132.50M for non compliance of direct lending to the priority sector. Hence, NRB guidelines are obligatory to all the banking and financial institutions operating in the country.

A CB need to keep optimum relation between deposit collection procedure and loan policy. The idle money collected by the commercial banks as deposits should be properly utilized either by granting loan to the needy parties or by making investment in the productive sector to earn more profit. CB should have sound investment policy for mobilization of the available fund. A deposit is that liabilities of CB which is returnable in demand at any time. So, sound investment policy has appeared to be very necessary to CB. A CB mainly focuses on its two functions i.e. collection of deposit through various scheme and granting those amount as loan to the customers by providing various facilities.

Different new clause and acts are added in directives and some old regulations are also amended in different phase of time to uplift banking system in Nepal and to cope with

the international standard. To reduce the cost of fund and enhance investment and credit exposure NRB has decreased the CRR to 5%. In order to safeguard the bank from being bankruptcy NRB has directed CBs to make provision of single borrower credit limit of 25% on fund based and 50% on non fund based.

Now a day, there is strong competition among the CB. To attract more customers depends upon the facilities and services provided by the banks. In this research NIBL seems performing well enough to attract its customer. It has collected Rs. 50,138 as total deposit and extended Rs.41, 095 M as loan and advances. It has invested Rs. 7,423 M and earns total profit of Rs. 1,176 M during the year 2012. In the case of Nabil Bank, it has collected total deposit Rs. 49,696 M, extended loan and advances Rs. 38,084 M, out of total deposit it has invested Rs. 13,003M and made total profit of Rs. 1,337M in the year 2012. It is clear- that Investment bank has higher amount of deposit collection and loan and advances than that of Nabil Bank. But Nabil Bank is more capable to grab the investment opportunities and it has invested Higher amount than that of NIBL. Although the amount of deposit and loan and advances of NIBL is higher than that of Nabil Bank the profit of Nabil Bank is more. Hence, investment policy of the concerned bank plays vital role to survive in the market with dignity and image.

5.2 Conclusion

Under this research study, different financial and statistical tools are used to measure the Investment policy of the selected banks. It is found that both selected banks have strong financial performance but comparatively Nabil Bank is in better position. In spite of social contribution Nabil Bank has higher profit earnings. It is concluded that Nabil Bank has adopted better investment policy than that of NIBL.

In conclusion, it can be said that central banks are required to direct the commercial banks. C.B. should move as per the direction given by the central bank. Banks should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial bank to live in the industry. Higher the deposit Higher will be the chance of mobilization of working fund and profit thereto. Banks should not invest their' fund haphazardly. It should be careful while advancing loan because loan is the blood of

the C.B. for survival. If C.B. does not apply sound investment policy it will be in great trouble in future to collect it in time, hence the possibility of bankruptcy thereto. Banks should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations there is a high chance of default risk. Diversification is needed to all the business houses but it has seen immense importance to C.B. Hence, the C.B. should implement the investment policy considering the directives issued by NRB. CBs should not cross the boundary level set by central bank to make investment policy. In overall, it can be concluded that the role of NRB in investment policy of commercial bank has both positive and negative impacts.

5.3. Recommendations

- Diversification of investment is highly suggested to the selected bank as they have given priority to invest in government securities only. Both of the banks seem risk avoider as they have invested highest amount in risk free securities. Higher the risk higher will be the profit. Hence, Nabil Bank and NIBL are recommended to diversify their investment in NRB bond, govt. non financial institution, other non-financial institution etc.
- To be a successful banker a bank must utilize depositors' money as loan and advances. Loan and advances is the largest item of the bank in the asset side of balance sheet which is risky and more profitable too. Loan and advances of Nabil Bank is lower than NIBL. It has given more priority on the private sector lending. Loan and advances to the government sector and other financial institutions is too low. Hence, Nabil Bank and NIBL are recommended to follow the liberal lending policy to increase their total loan and advances in order to earn more profit.
- Total investment made by the selected bank is in fluctuating trend. So both bank must seek new places or sectors for investment, with potentiality of high return and low risk and should make rational investment.
- There is slight growth in priority and deprived sector investment of both banks during the study period of 5 years. Although NRB has lessened the criteria to 2% for priority and deprived sector credit, both bank should continue to extend priority

and deprived sector lending to access banking service to the poor and backward communities.

- The Highest portion of bank's earning is contributed by interest income gained from loan and advances. So, for better income, the bank must properly utilize depositor's money in the form of loan and advances. From the study it has been found that Nabil Bank has utilized an average of 70% of total deposit on loan and advances in five years of period while NIBL has used almost 77% of total deposit for lending. But an average mean ratio of return on loan and advances of Nabil Bank is higher than that of NIBL (i.e $3.726 > 2.794$). Hence, Investment bank is highly recommended to follow the liberal lending policy so as to enjoy the more interest income.
- Profit is the life blood of any organization. Profit maximization is the main objectives of any banking industries. The growth ratio of net profit of Nabil Bank is too low in comparison to NIBL. So, Nabil Bank is recommended to diversify its investment on more profitable sector and adopt sound investment policy.
- Liquidity and profitability are like two wheels of the same cart and both are very inter-related and have converse relation; one can be achieved only at the cost of the others. Highly liquid bank may have less profitability as it has to hold more assets in the form of cash. However, the bank has to maintain sufficient fund in the form of cash and liquid assets to meet various commitments like depositors claim, personnel expenses, interest payments, to exploit unforeseen opportunities etc. Since, NIBL has held more liquidity its profitability ratios are lower than Nabil Bank. So, NIBL is highly recommended to maintain reasonable liquidity so as to increase profitability of the bank.