

Investment Policies of Commercial Banks

(A Comparative study of NABIL Bank Ltd and Bank of Kathmandu Ltd)

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DECLARATION

I hereby declare that the work reported in the thesis entitled, “Investment Policies of Commercial Banks- A Comparative Study of NABIL Bank Ltd and Bank of Kathmandu Ltd”, submitted to Central Department of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements of Masters Degree in Business Studies (M.B.S.) under the supervision of Prof. Dr. Bal Krishna Shrestha.

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List of Abbreviation

&	And
6.P.Er	Six times of Probable Error
B.S.	Bikram Sambat (Nepalese Year)
C.V.	Coefficient of Variation
HMG	His Majesty's Government
BOK	Bank of Kathmandu Limited
i.e.	That is
JVBs	Joint Venture Banks
Ltd	Limited
NRB	Nepal Rastra Bank
P.E.	Probable Error
r	Correlation Coefficient
r	Coefficient of Determinant
Rs.	Rupees
S.D.	Standard Deviation
CA	Current Assets
CL	Current Assets
CBB	Cash and Bank Balance
TD	Total Deposit
IGS	Investment on Government Securities
L/A	Loan and Advances
TWF	Total Working Fund
TI	Total Investment
IGS	Investment in Government Securities
ISD	Investment in Share and Debenture
Int.	Interest
TA	Total Assets

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Investment is a present sacrifice for the sake of future benefits. Present decision about selecting the best investment alternative should always take the future risks into consideration.

Investment policy includes how an investor makes decision about what securities to invest in, how extensive the investments should be, and when they should be made. The investment policy also includes the identification of the potential categories of financial assets for consideration in the ultimate portfolio. The identification of assets depends upon many things, such as investment objectives, investable wealth, tax consideration etc.

The investment policy of financial institutions, especially banks have long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice-versa.

Investment is a very risky job for a purposeful, safe and profitable investment. Bank must follow sound investment policy. Investment policy should ensure the maximum amount of investment to all sectors with proper utilization. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum risk, which ultimately leads the bank to the path of success to achieve its organizational objectives of shareholder wealth maximization.

Investment operation of commercial banks is very risky; for this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good

investment policy attracts both borrowers and lenders which help to increase the volume and quality of deposits, loans and investment.

1.1.1 Origin and Growth of Bank

The origin of commercial banking can be traceable in the early times of human history. As early as 2000 B.C., certain people have developed a system of bank in Babylonia. In ancient Greece and Rome, the practice of granting credit was widely prevalent. At the same time, some rich people used to practice storing of precious metal and coins at safe places and loaning out money for public and private purposes on interest.

The word 'Bank' is used in the sense of a commercial bank. The word 'Bank' is itself derived from the French word 'Banque' and Italian word 'Banca'. It referred to a bench. At that time, there were some moneylenders sitting in the bench for keeping, lending and exchanging of money in the market place. That was the origin of commercial bank in the banking history. According to Crowther, modern banking has three ancestors. They are

- i. Merchant,
- ii. Goldsmith and
- iii. Moneylenders.

i) The Merchant

The merchants or traders are entitled as the ancestors of bank. Trading activities require remittance of money from one place to another. This is one of the important functions of a bank. There is a possibility of theft of metallic money during transportation. So the traders with high and widespread reputation started issuing documents which were taken as title of money. This gave rise to the institution of 'hundi'. Hundi is the letter of transfer of money. It included the direction from one banker to another to pay the bearer of hundi the specified amount of money and debit the amount against the drawer. Thus, merchant banker forms the earliest stage in the evolution of modern banking.

ii)The Goldsmith

Since goldsmith dealt with precious metals, they necessarily provided secure safe to protect them. In a period, when money consisted of gold and silver, people largely, because of the danger of theft, started leaving their precious money in the custody of goldsmiths. As the practice of safeguarding others' money became widespread, the goldsmith became in-charge for the safekeeping service.

Performing the safekeeping duty, goldsmith issued the receipt for deposits to the customer. Later such receipt for deposits with the goldsmiths began to be used as a means of payment. Then people started keeping gold, silver and coins with goldsmiths in exchange for receipts, which is called goldsmith note. It is the writer claims against the deposits. These receipts became a good medium of exchange and a means of payment.

iii)The Moneylenders

The next stage in the development of banking arose, when the goldsmith became a moneylender. This development was based on the goldsmiths' discovery that it was not necessary to hold hundred percent of the coins deposited with them. The goldsmith soon realized that, on average, daily withdrawals were equal to daily deposits and only a contingency reserve was required for the period when withdrawals exceeded deposits.

After keeping the contingency reserve, the goldsmiths loaned out the remaining deposits on interest. In this way, the system of fractional reserve banking was born. Thus, goldsmith became a banker. He started to perform the two major functions of a bank:

- i) Receiving deposits,
- ii) Advancing loans.

1.1.2 Commercial Banks and investment policy

Commercial Bank is an entity, which accepts deposits and makes short-term loans to business enterprises, regardless of the scope of its other services (American Institution

of Banking, 1972; 345-346).

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy. Commercial banks render numerous services to their customer in view of facilitation their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus, commercial banks have become the heart of financial system.

Commercial bank deals with people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets that are not easily realizable. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity.

Commercial banks must mobilize its deposits and other funds to profitable, secured, stable and marketable sector. Then only it can earn more profit as well as it should be secured and can be converted into cash whenever needed. But, commercial banks have to pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one facet of the overall spectrum of policies that guides bank's investment operations. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits loan and investment. Commercial bank should be careful while performing the credit creation function. The banks should never invest its funds in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once who may earn millions in a minute.

Commercial banks must follow the rules and regulations as well as different directions issued by the central bank, ministry of finance, ministry of law and other regulatory bodies while mobilizing its funds. So, the bank should invest its funds in legal securities only. Dina McNaughton in her research paper 'Banking Institutions in Developing Market's states that investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities (McNaughton; 1994: 19). Thus, commercial banks should incorporate several elements while making investment policy. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment decision.

1.1.3 Introduction of Sample Banks

i. NABIL Bank Limited

NABIL Bank Limited is newly named of pervious Arab Bank Limited NABIL, the first joint venture bank of Nepal was established in 1984 A.D. under the company Act, 1964 A.D. It is joint venture with the Dubai Bank Limited owned 50% equity partner which was transferred to Emirates Bank International Limited Dubai (EBIL). Later in EBIL sold its entire stock to National Bank Limited Bangladesh (NBL).

The current structure of equity is divided among with the four parties. The National Bank Limited, Bangladesh is having 50% of share, Nepal industrial development corporation (NIDC) is the holder of 10% share, Rastrya Beema Sansthan as 9.66%, Nepal stock exchange (NEPSE) as 0.34% and General Public shares of 30% being a largest equity holder National Bank Limited, Bangladesh(NBLB) is managing the bank in accordance with the technical service agreement signed between NBLB and the NABIL Bank on June 1995 A.D. the bank expanded its banking service towards the different regional and parts of the country by expanding its branches.

ii. Bank of Kathmandu Ltd.

Bank of Kathmandu Limited (BOK) was in corporate in 1993 after the restoration of

democracy in 1990 under the company act 1964. SIAM commercial bank of Thailand was the joint venture partner of BOK. Nepalese managers from the very beginning till the date are managing this Bank. In very competitive and small market of Nepalese commercial bank, BOK is struggling for the betterment. The SIAM commercial Bank Limited is holdings to the Nepalese citizens in 1998 after the Nepalese public hold 97.72% of the equity share of BOK is regarded as the bank of Nepalese.

1.2 Statement of Problem

Mushrooming of private sector banks is the present situation of Nepalese financial sector. The fast growth of such organization has contributed the prorated increment in collection deposits and their investment. They collect adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Only few commercial banks are getting regular profits. Most of them are unable to satisfy their shareholders and customers in earning profit and ensuring their safe deposit. Some banks are incurring clients or adequate deposits but they cannot find profitable sectors or opportunities to invest the deposit collections. They have always feared with high degree of risk and uncertainty.

There are various problems in resource mobilization by financial institution in Nepal. The most important problem is poor investment climate prevailing in Nepal due to heavy regulatory procedure, uncertain government policy, NRB's stringent directives, unsecured social environment etc. Lack of sound investment policy is another reason for a commercial bank not to properly utilize its deposits that is making loan and advances or lending for a profitable project. This condition may lead the commercial bank to the position of liquidation.

Commercial banks invest their funds in limited areas to achieve highest amount of profit. They are found to be more interested in investment in less risky and highly liquid sectors like in T-Bills, development bonds and retail and consumer lending. There are obvious hesitations to invest on long term project and in venture capital investment. So, many of them follow conservative and un-efficiency investment policy. As with everything in Nepal, every commercial bank has an investment in the

same sectors. They are in consumer lending, tourism, garments and in trading sector. They are the major sector. But given the current situation of the country, it is not up to them to decide which sector they want to go into. The main factor for success of any organization is the security situation. Once the security situation stabilizes, then only commercial bank consider rationally as to where they should to invest and grow. So, security problem is the burning problem for every commercial bank to invest their fund in our any sector.

Many of Nepalese commercial banks have not formulated their investment policy in an organized manner. Majority of them mainly rely upon instruction and guideline of Nepal Rastra Bank. They don't have clear view towards investment policy. Furthermore, the implementation of policy formulation and absence of strong commitments towards its proper implementation has caused many problems to commercial banks.

Till 2012, there are 31 commercial banks. All these banks created cutthroat competition in financial sectors. The main focus of the study will be towards the investment matter of the banks. Investment policy is the main factor for the every banks and financial institutions. Thus the study will try to explain the following points specially related to the investment functions of the Nabil Bank and Bank of Kathmandu Ltd.

1. How is the utilization of the collected funds of Nabil Bank and Bank of Kathmandu Ltd?
2. What is the status of Non- Performing asset in relation to total loans and advances of the bank?
3. What is the proportion on the risk free and risky investment on total investment made by the bank?
4. What is the relationship of total deposits on total investment and total investment on total net profit of the bank?
5. What policies are these banks adopting pertinent to investment decisions?

6. What are the investment patterns in Nabil Bank Ltd and Bank of Kathmandu?

1.3 Objectives of the Study

The general objectives of the study are as follows:

- a) To highlight the investment policy of the sampled banks (Nabil bank and Bank of Kathmandu)
- b) To analyze the utilization of available fund of Nabil bank and Bank of Kathmandu.
- c) To evaluate the liquidity, profitability and risk position of Nabil bank and Bank of Kathmandu.
- d) To examine the relationship between deposit, loan and advances, investment, net profit and compare them between Nabil bank and Bank of Kathmandu.

1.4 Focus and Significance of the Study.

The main focus of the study is to highlight the investment policies of commercial banks expecting that the study can bridge the gap between deposit and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Further from the study, the shareholder would get information to make decision while making investment on shares of various banks.

Having completed the basis analysis required for the study, the researcher must point out the mistakes and errors and also correct them by giving suitable suggestion for further improvement. Since the researcher has the banking experience of about four years which has also includes working in the "Assets Liability Management Committee (ALCO)" of a commercial bank, the recommendations prescribe herewith will have more practical touch. Therefore, this summarizes and recommended tasks of the researcher of the study would be meaningful to the top management of the bank to initiate the action and achieve the desire result.

In the context of Nepal there is less availability of research work, journals and article

in investment policy of commercial banks as well as other financial institution. As it is a well known fact that the success and prosperity of the bank relies heavily upon the successful investment of collected resource to the important sector of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks.

There are various problems in effective investment of commercial banks of Nepal, which affect their performance to a greater extent. Performance of commercial banks does not seem so satisfactory in terms of utilizing its resource efficiently in productive sectors. Hence the main significance of this study of investment portfolio analysis of Nepalese commercial banks is to help how to minimize risk on investment and maximize return through portfolio analysis, portfolio management, credit management and effect on investment decision on earning will strive to disclose the internal weakness of the banks and furnish the ideas for improvement. Therefore, the researcher has undertaken this study to analyze the existing investment portfolio of Nepalese commercial banks with reference to NABIL Bank and Bank of Kathmandu Ltd; and point out the various weaknesses of defects inherent in it and provide package of suggestions for its improvement.

1.5 Limitations of the Study

This study is simply a partial study for the fulfillment of MBS degree, which has to be finished within limited period. Hence, this study is not far from several limitations of its own kind, which weaken the scope of the study to some extent.

Some of such limitations are as follows:

- a) The study is mainly based on secondary data collected from different sources.
- b) Out of the numerous affecting factors, this study concentrates only on those factors, which are related with investment policy, and available in the form required for analyzing the different issues.
- c) Due to wide range of data deficiencies only simple technique has been used for the analysis of the data.

d) The study deals with only two commercial banks and data related to other commercial banks have not been accounted.

1.6 Organization of the Study

The study contains following five chapters:-

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of data

Chapter 5: Summary, Conclusion and Recommendations

Chapter one deals with the introduction of the study consisting subject matter, objectives of the study, statement of the problem, focus & signification of the study, limitations of the study and chapter plan.

Chapter second deals with review of literature which includes review of books, review of journals and annual reports published by the banks and other authorities review or related articles and previous thesis as well.

Chapter third describes the research methodology of various sequential steps that have been followed in conduction this study and material used as each steps which included research design, population and sample, data analysis and tools, ratio analysis profitability ratio, risk ratio, growth ratio etc.

Forth chapter is analysis chapter, which deals with the presentation and analysis of data through a define course of research methodology. This chapter is to analysis different statistical tools and financial tools.

Chapter fifth is related to summary, conclusion and recommendation of the study. Finally, bibliography and appendices have been included at the end.

CHAPTER –II

REVIEW OF LITERATURE

In this chapter, focus has been made on the review of literature that is relevant to the investment policy of commercial banks. Review of literature is basically a stock taking of available literature in the field of research. Every possible effort has been made to gap knowledge and information that is available from libraries, document collection centers, other information magazine bureaus and concerned commercial banks. This chapter helps to take adequate feed back to broaden the information bare and input to the study. The first section of the chapter implies the conceptual framework of the study and the second section implies the review of previous studies. Therefore this chapter has its own important in this study.

2.1 Conceptual Framework Review

A commercial bank is business organization that receives and holds deposit of fund from others, makes loan or extend credits transfer fund by written order of deposits (Grolier incorporate, 1984)

Commercial bank Act of Nepal (1974) has defined commercial banks in following way “commercial banks means a bank which operates currency, exchange transaction, accepts deposit, provided loan and perform dealing relating to commerce and other than those banks which have been specified for the co-operative, agriculture, and industry of likely other special objectives. The commercial banks are established under the commercial banks Act, 1974 in Nepal that has been amended regularly. It has been amended for six times till today. Now commercial bank Act 1992 is active.

The main function of commercial bank is the accumulation to the temporary idle money of general public for trade and commerce. It main functions are accept deposit and grants loan, exchange and purchase and discount bill for promissory notes

exchange foreign currency to provide loan, agency function .Overseas trading services and information and other services. Commercial banks earn profit by proper mobilization of their resources. Many commercial banks have been established to provide a suitable service according to their customers.

Jack C. Francis (1983), states “Investing involves making a current commitment of funds in order to obtain an uncertain future return. It is a risky business that demands information. To process information effectively and select the best investment requires goals that are clear-cut and realistic.”

Gitman, L.J & Joehnk (1990), “Investment is any vehicle into which funds can be placed with the expectation that will present or increase in value and generate positive returns.”

Charles P. Jones (1991), has defined that, “Investment as commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth. This is the sum of current income and present value of all income.”

Dr. Preeti Singh (1992), has defined investment in this way, “Investment is the employment of funds with the aim of achieving additional income or growth in value.”

2.1.1 Feature of the Sound Lending and Investment Policy

The income and profit of the banks depends upon its lending procedures, lending policy and investments of its funds in different securities. In many cases a sound lending and investment policy is not only pre-requisite for the promotion of commercial saving of backward country like Nepal.

Shakespeare Vaidya (1996), has highlighted about the need of the bank its origin the meaning of the bank mechanism controlling the bank operation loan management and capital management. Investment policy of commercial bank, Mr. Vaidya express that “Every bank board of directors generally formulates an investment policy statement in order to define the objectives of the bank’s liquidity management and investment portfolio”. It means that the bank must formulate the guideline to

invest its deposit and capital in various forms of earning assets. Allocation of deposit in different sector areas also known as portfolio management. In other words we can say that do not take risk by putting all eggs in one basket alone misguided policies can cause the bank to suffer to a lot. Therefore the bank must formulate sound investment policies to protect the public funds. Regarding the investment policies of commercial banks there are basically five basic principles the bank follows while providing the loans. They are as follows.

Liquidity

Liquidity is the ability of a firm to satisfy its short term obligations when they become due for payment. People deposit money at the bank in different accounts with confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind. While investing its excess funds in different securities, so that it can meet current or short term obligations when they become due for payment.

Profitability

A commercial bank can maximize its volume of wealth through maximization of return on their investment in lending. So, they must invest their funds where they can gain maximum profit. The profit of commercial banks depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

Safety and Security

The bank should never invest its funds in those securities which are too volatile i.e. which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businesses who may be bankrupt at once and who may earn millions in a minute also. Security means adequate collateral having good value which can be easily sold off if required at any point of time. The bank should accept that type of securities, which are commercial, durable and marketable having fair market value for this purpose 'MAST' should be applied while reaching an investment decision where MAST stands for

M= Marketability.

A= Ascertain ability.

S= Stability.

T= Transferability.

Bank deals with customer is money so it must take care the belonging of public the risk and return involved must be analysis thoroughly so that depositors money is advance safety where the risk of followed while we arrive in decision regarding the advances of fund. The three 'C' stand for

Character

Capacity

Capital

Suitability

Banks should always know that why a customers need loan because if the borrower misuse the loan granted by bank he will never be able to repay loan. In order to avoid such circumstance advances should be allowed to select the suitable borrowers and it should demand all the essential detailed information about the scheme of the project in which the bank is lending for. Bank must keep in mind the overall development plans of the nation and the credit policy of the concern authority i.e. central bank.

Purpose of Loan

From the view print of security a banker should always be known that why a customer is in need of loan. If a borrower misuses the loan granted by the bank it can never repay and bank will process heavy bad debts. Therefore in order to avoid this situation each and every bank should demand examine all the essential detailed activities, before lending.

Diversification

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

National Interest

In addition to its own profitability the bank should also consider the national interest. Even though the bank cannot get maximum return from such investment it should carry out its obligation towards the society and the country. The bank is required to invest on such sectors as per the government and Nepal Rastra Bank's instruction. Investment on government bonds, priority and deprived sector lending are the examples of such investments.

Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directives issued by the central bank (Nepal Rastra Bank), Ministry of finance, Ministry of law and other relevant authorities while mobilizing its funds.

2.1.2. Invest Management Functions

Every investment is not risk free so the investment must be made in such a way so that the risk is diversified. According to this book the investment can be made on securities such as treasury bills long term bond common stocks. The focuses of supply and demand inter act to determine a security market price. A security market is a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. The investment decision has go through the following process. (Sharpe, Alexander & Bailey,1999).

a. Set Investment Process

Setting the investment policy involves determine the investors objective and amount of wealth tax consideration etc because there is a positive relationship between risk and return for deniable investment.

b. Portfolio Construction

Portfolio construction involves identifying those specific assets in which to invest and what proportion the investors wealth portfolio construction involves the diversification which minimizes the risk.

c. Portfolio Revision

The revision of portfolio is done from time to time. Due to changing partner of risk

the portfolio revision are done to minimize the risk.

d. Security Analysis

Security analysis involves examines the number of securities. The purpose of analysis is to check whether the securities are missing priced. Technical analysis, the analysis conducted on the basis of past history to predict future trend and fundamental analysis that calculates the intrinsic values of share are conducted. Fundamental analysis, tries to identify the real or true value of financial assets.

e. Portfolio Performance Evaluation

It determines performance of portfolio periodically regarding the return earned and risk experienced by the investor. The performance should be evaluated not only in the terms if the returns but also the risks experienced. To evaluate the performance appropriate measures and standards are needed.

2.1.3 An overview on NRB Rules Regarding Investment of a Commercial Bank.

Nepal Rastra Bank established in 2013 B.S. is the central bank of Nepal. It's determining role in economic plans and implementation in the country is major. The main objective of the Nepal Rastra bank is to manage the economic financial transaction over the country. Systematically allocation management and implementation of economic factors over the state is governed by Nepal Rastra Bank, as a central bank. All the economic plans programs policy strategies, implementation evaluation made by government are performed under the direction of NRB. So, NRs is bank of government works for the welfare of nation, similarly NRB directs the banks and other financial institutions too. Plans police, directions rules regulations form NRB are major subject to run the commercial banks. Every step of the commercial banks is always observed by NRB, as a represential of the Nepalese government. To allocate and mobilized the deposit collected by commercial banks in different sectors of the different areas of the nation, the NRB as a central bank, formulates fundamental rules regulations, directives polices etc. in fact, NRB controls the over the overall activities made by the commercial banks as well as establishment or operation or dissolution of banks. For so NRB has formulated commercial banks act 2031 for the establishment and operation of commercial banks. Hence, the directions rules

regulations directed by NRB terms of investment by commercial banks are briefly mentioned below (NRB rules 2061).

i) Establishment of New Commercial Bank

NRB has enhanced liberal policy of establishment new commercial banks in Nepal. For such objectives NRB has regulated the following directions

-) A minimum of Rs 2000 million of paid up capital is required for opening a new bank inside the Kathmandu valley.
-) Similarly as per direction by NRB, Rs 120 million necessary for starting bank business out of Kathmandu.
-) In the same way Rs 50 million paid up capital are necessary for opening centre office of bank out of Kathmandu.
-) Commonly for establishing the commercial bank in rural areas, NRB has directed Rs 30 million as compulsory paid up capital.
-) The investors can invest his/her fund up to 10% of the paid up capital of each and 15% of paid up capital of all banks in average.
-) Basically the commercial bank can be invested maximum up to 70% of total paid up capital if the bank is promoted by domestic investors and 30% of paid up capital should be as liquidity margin for repayment for certain deposit.
-) Individually, firm or company or groups or company can invest up to 110% of paid up capital.
-) For joint venture bank foreign investors 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.
-) Applications for the establishment of new banks are to be adopted within the stipulated time fixed by NRB.

ii) Investment on Priority Sectors

NRB has pointed priority sectors as agriculture sector, cottage and small industry sectors service oriented sector co-operative sector etc, in which the commercial bank must invest 12% of their total deposits. This provision is

totally based on the objective for up lifting life style of people in remote and village area.

iii) Investment in Co-Operative sector (Deprived sectors)

The co-operative institutions, rural development banks, etc which are licensed by NRB are also to be compulsory investment by commercial banks in certain ratio. As directed by NRB, the commercial banks have to lend 3.5% of their loans to deprived sector.

iv) Direction for Raising Fund

The commercial banks are directed to raise the capital fund at minimum level of 500 million for this commercial banks can include paid up capital and reserve deduction net loss for meeting such requirement.

v) Directive for single Borrower Credit

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

vi) Credit for shareholders

The individual or group who holds more than 1% of shares of the commercial bank can't borrow from some bank under the directions from NRB-2062 B.S.

vii) Fluctuation in interest

The agreement can be made between bank and customers for making change in bank loan interest rate up to 0.50% is now cancelled by NRB, to be effective from 2062/63 B.S.

viii) Regulation for expansion of commercial banks

) For opening of a branch with in the area of Kathmandu Bhaktapur, Lalitpur, Pokhara, Birgunj, Biratnagar, Butwal Nepalgunj and Narayanghat, join venture banks need to open firstly at least two branches in adjoining semi urban area and secondary at least one branched in rural area not adjoining to any municipalities.

) Banks are not required to open their new branch in semi urban or rural

areas if they open new branch outside the seven municipalities given in (a).

ix) Direction for extension counter of joint venture banks

-) Commercial banks can't open extension in metropolitan and semi metropolitan area except during trade, fairs festivals ceremonies celebration etc as a directed by NRB such extensions must be converted as a branch within two years otherwise must be closed.
-) The extension opened can accept deposit and make payment as well as exchange of foreign currencies after the reemission from NRB.
-) If the extension is opened in the areas of Royal place hospitals, foreign diplomatic offices industries those extensions are not allowed to operate as a branch as mentioned in (11)

2.2 Review of Related Studies

Baidya, Shakespeare (1967), has given his view on sound investment policy. He has said that “A sound investment policy of a bank is such that its funds are distributed of different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and bank on the other hand, moreover risk in banking sectors trends to be concentrated in the loan portfolio when a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectable due mismanagement illegal manipulation of loan misguided lending policy or unexpected economic down turn. So the bank investment policy must be such that it is sound & prudent in order to protect public funds”

2.2.1 Review of Books

Singh, S .P. and Singh (1983), the investment policy of banks are conditioned to great extent by the national policy frame works every bankers has to apply his own judgment for arriving at a credit decision, keeping of course, his banker's credit policy

also in hand”.

They further state,” The field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accomplished greater risk. Particularly during recent years, the credit function has become more complex.”

Shrestha, Dr. Sunity (1995), explain in her book called “Portfolio behavior of commercial banks in Nepal.” said that the commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sector. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of the country.

Frank K. Reilly(1999), defines, “An investment may be define as the current commitment of funds for a period of time to derived future flows that will compensate the investing unit for time of funds are committed, for the expected rate of inflection and also for the uncertainty involve in the future flow of the funds.”

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

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

2.2.2 Review of Articles

Shrestha Dr. Sunity (2055) in her article, “Lending operation of commercial banks of Nepal and its impact on GDP” has presented with the objectives to make an analysis of contributions of commercial banks lending to the gross domestic product (GDP) of

Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending viz. Agriculture industrial commercial, service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service lending have positive impact on GDP. In conclusion she has accepted the hypothesis i.e. there has been positive impact by the kindling of commercial bank in various sector economy, except service sector investment, like wise Sunity Shrestha has analyzed in her "financial performance of commercial banks using both descriptive and diagnostic approach," in her studies, she has concluded the following points.

- a) The structure of commercial banks shows that bank invest on the average 75% of their total deposit on the government securities and the resources.
- b) The analysis of resources position of commercial banks showed quit high percentage of deposit as cash revenue.
- c) The debt equity ratio of commercial banks is more than 100% in the most of the time period under study period. It leads to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.
- d) Income of analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Thus comparing all the banks through the time period financial condition and performance are better in joint venture banks those local banks.

Pradhan, K. (1999), has pointed out of some major issue on local commercial banks in comparison of recently established joint venture banks through his article, "Nepal Banijya Bank, Upalabdi Tatha Chunauti." The study deals with the whole CBS system of Nepal in respect of their performance and profitability. Some of his finding relevant to his study is summarized below.

- a) The deposit collection rate of local banks is very poor in comparison to joint venture banks.

b) The patterns of deposit are also different between these banks. The rate of current deposit in local banks is 9.34% only whereas in the same joint venture banks is 52.6% but fixed deposit ratio is very high in local banks.

Bista, Bhagat (2001), in his article, "Issue in banking reform" write that "the banks are main vehicle in transferring currency from one country to another commercial bank deal heavily in foreign exchange transactions."

Moriss, F. (1980), in his discussion paper, "Latin America's banking system has concluded that the most of the bank concentrate on compliance with central bank rules on reserve requirements credit allocation and interest rate. While analyzing loan portfolio quality, operating efficiency and soundness investment management has largely been overload.

He further adds that mismanagement financial institution has inadequate and overoptimistic loan appraisal tax loan recovery, high risk diversification of lending and investment high risk concentration, connected and insider lending loan mismatching. This has led many banks of developing countries to the failure in 1980's.

2.2.3 Review of Dissertations

Many researchers have published their research article about the investment policy in Nepal. There are many there that have been conducted by students regarding the various in order to achieve aspect of commercial bank and financial institution in order to achieves their goal effectively some of there as supposed to be relevant for the study are presented below

Pradhan, N.M. (1980), in his study entitled "A study on investment of Nepal Bank Ltd" Has emphasized that there is a greater relationship between loans and advances. He concluded that though loan advance as well as deposits are increasing trend, increases in loan advances due to the increase in the interest .His recommendation was to grant loans and advances without its length process. He has suggested enhancing banking transition up to rural sector of the kingdom.

Silwal, U.B. (1980), has conducted a study on "Lending policy of commercial bank in Nepal" with the objective of

- a) To analyze the role of commercial bank in its historical prospective.
- b) To identify to major weakness of lending policy of the commercial banks.
- c) To show the relationship between deposits, loans and advances.

The research was conducted mainly on the basis of secondary data. The research findings of the study summarized as follows.

- a) By paying higher interest rate the banks are increasing deposits, which in run create saving habits of the general people. Then the banks will be able to utilize their idle funds in productive channels. This type of business of commercial banks is relay a necessary one in an agriculture country like Nepal, where public investment has limited capacity.
- b) Effectiveness of lending policy is directly based upon a sounding banking system. But to geographical variation, transportation and other regional disparities, it is very difficult to expand braches in different rural area. So it can be said that commercial banks in Nepal are not plying an active role to utilize their sources collected from different sectors

Joshi, Jit Bahadur. (1982), in his study entitled “lending policy of commercial banks in Nepal” concluded that commercial banks have collected many resources from people but they are far behind in their utilization. Commercial bank in Nepal are still lazy to play in active role to utilize their resources collected from different sector in accordance with the need of the economy.

Pokhrel, I. (1983), conducted a study on “investment patron and policy of Rastriya Banijya bank” with the objectives of:

- a) To review the present investment policy of “Rastriya Banijya bank”.
- b) To examine whether the bank has been fully utilize the deposit mobilized or not.
- c) To established the relationship between deposit loan and advances and the effect on them by the change of interest rate.
- d) To recommend for the investment in the investment policy.

The research was conducted mainly on the basis of secondary data interview technique has also been use to collect information on the investment policy of the bank. The research findings of the study are concluded as.

- a) From the study of investment pattern of “Rastriya Banijya bank” it is obverse that the investment is mainly towards the security of gold and silver.
- b) From the study it has been revealed that there has never been clear and specific investment policy. In fact the bank is running its business without have any definite direction except follow the directives used by the Rastra bank from time to time in some specific matters.
- c) The effect of change in interest rate has neither contributed to raise deposit nor has been favorable in investment extension.
- d) The deposit raised by the bank is not properly utilized. This also reflected the lack of definite policy of the “Rastriya Banijya bank.”

Bohara, Bhoj Raj. (1992), in his study entitled “A comparative study on the financial performance of Nepal Arab bank ltd and Nepal Indosuez banks ltd” had made 'endeavor to examine the comparative finance performance of NABIL and NIBL in form of their liquidity activity profitability along with other parameters. He has concluded that bank performance cannot be judged solely in term of profit as it may have earned profit by maintaining adequate liquidity and safety position. But it also be evaluated on the ground of the contribution it has made to the community Government and national economy of on the social and national priority discharged by banks .This means the bank should come forward with national priority tasks i.e. more deposit collection resources mobilization. The tasks are possible when they expand branches more employment opportunities services to more customers developing skills and expertise in local satisfaction on profit earning and exchange of autonomy provide by them. The accountability can be discharge by following their rules regulations directives and priorities.

Tuladhar, Upendra. (1999), has conducted his study entitled, "A study on investment policy of Nepal Grindlays bank ltd. In comparison to other joint venture banks (NABIL and HBL)." the researchers main objective of study was to fund mobilization

and investment policy with respect to fee based off balance sheet transaction and fund based on balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

Through his research Mr. Tuladhar has found that NGBL has successful to maintain the best way both liquidity position and their consistency, among three banks i.e. NGBL, NABIL and HBL. HBL has successfully managed assets to generate income. Income from loan and advances and total investment is the main income sources of NGBL and it can affect the banks net profit. the researcher had conducted that joint venture banks of Nepal are not effectively informative to their clients and joint venture banks have given first priority stricken and deprived sectors are given second priority. The reason behind not providing banking facilities to the rural area is these banks are profit oriented only.

Khadka, Raja Ram. (2000), “A study on investment policy of NABIL in comparison to other joint venture banks of Nepal,” had found that liquidity position of NABIL was worse than that of NGBL and NIBL had more portion current assets as loan and advances but loss portion as investment on government securities. NABIL was comparatively less successful in on balance sheet operations as well as off balance sheet operation than that of other JVBS profitability position of NABIL was comparatively not better than that of other banks. NABIL was more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL. He had suggested the JVBS to be careful in increasing profit in real sense to maintain the confidence of shareholders depositors and customer. He had strongly recommended NABIL to utilize its risks assets and shareholders fund to gain highest profit margin and reduce its expenses and collect cheaper fund for more profitability. He had recommended investing its fund in different sector of investment and administering various deposits schemes to collect fund such as cumulative deposit scheme, price bond scheme, gift cheque scheme, house building deposit scheme etc. He had recommended following liberal lending policy and investment more percentage of total deposit as loan and advances.

Laudari, Shiba Raj. (2001), has conducted his study entitled, “A study on investment policy of Nepal Indosuez Bank Ltd, in comparison of Nepal state bank of India bank ltd.” The researcher main objective of study was to examine the liquidity assets management and profitability position and investment policy of NIBL in comparison to NSBI to study the growth ratios of loan and advances and investment to total deposits and net profit of NIBL in comparison to NSBI.

Through his research Mr. Laudari has found that the both banks current assets have exceeded the current liabilities therefore the ratio consider satisfactory but there cash reserve ratios have fluctuated in high degree. However NIBL has maintained both current ratio and cash reserve ratio better than that of NSBI. As per Mr. Laudari the assets management ratios shows that deposit utilization of NIBL is less effective than NSBI. He has stated that NIBL has invested lesser amount on government securities and share and debenture than that of NABIL, not only did NIBL a better performance in:

- a) Return on total assets and loan and advances.
- b) Invest earning but it paid lower interest amount to working fund.
- c) The growth ratio of total deposit loan and advances.
- d) The growth ratio of total deposit loan and advances total investment and net profit of NIBL are less than that of SBI.

Pant, Uttam Raj. (2003), in his thesis paper, a study of commercial bank deposit and its utilization, 40 had made as attempt to highlight the discrepancy between resources collection and resources utilization. He concluded that commercial banks failure in resource utilization is due to their lending confined to short terms only. So, he recommended the commercial banks to give emphasis also on long and medium term lending for better utilization of the deposits.

Deuja, Sundar. (2004), has conducted his study entitled. “A comparative study of the finance performance between Nepal State Bank of India Bank Ltd and Nepal Bangladesh Bank.” The researcher’s main objective of study was to evaluate the trend of deposits and loan and advances of NSBI and NBBL and to evaluate the liquidity, Profitability capital structure turn over and capital adequacy position of NSBI and

NBBL.

Through his research Mr. Deuja has found that the cash and bank balance to current deposit to NABIL are higher while fixed deposit to total deposit, loan and advances to current assets of NBBL are higher and NBBL has better turnover than NABIL in terms of loan and advances to total deposits ratio and loan and advances to fixed deposit ratio where as the loan and advances ratio is better than NBBL. Further NBBL has better utilization of resources in income generating activity than NSBI. Through return on total assets and return on total deposit is better of NSBI than NBBL they are on decreasing trend while interest earned to total assets and return on net worth of NBBL is better than NSBI. As per Mr. Deuja both banks are highly leveraged.

2.3 Research Gap

Investment in different sectors is made on the basis of the directives and circulars of Nepal Rastra Bank as well as the investment guidelines and policy of the concerned commercial bank. The directives of NRB change over time. NRB makes necessary amendments in prevailing directives and circular and communicates to commercial banks. Commercial banks should follow their directives and circular furthermost their own investment guidelines and policies should be in line with NRB directives and circulars. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data NRB circulars and guidelines than that of studies previously conducted.

The optimum diversification of loan and advances reduced the default risk of credit. It is the major concern of stake holders to know the portfolio behavior of the bank. This study puts its effort to find out the proportion to total loan and advances of the bank disbursed to different sectors of economy and analyses the diversification of its investment.

No case study has yet been conducted about the investment policy of NSBI some comparative studies are previously done but in dept study about the bank is not found. Investment function is the major function of the commercial bank. NSBI is one of a

leading joint venture commercial bank. NSBI is one of a leading joint venture commercial bank of the country having huge market share its investment activities has significant impact on the national economy. Hence, this study full fills the prevailing research gap about the in depth analysis of the investment policy pursued by the organization, which is the major concern of public shareholders and other stock holders.

So, this study will be fruit full to those interested persons, parties, scholars, teachers, businessman, civil society and government for academically as well as policy perspectives.

CHAPTER-III

RESEARCH METHODOLOGY

The chapter is related to the research methodology. Research methodology describes the method and process applied in the entire aspect of the study. It is preferable to call this study an in depth analysis of the investor policy. This study basically helps to conclude the real position of NABIL Bank and Bank of Kathmandu. This chapter includes research design, Population and sample, nature and sources of data, analysis of data etc.

3.1 Research Design

The primary objective of the study is to analyse the investment patterns of commercial banks. In order to achieve the objective the study is based on secondary data and information. The research designs employed in this study are descriptive as well as analytical. The financial statement reports of the company and the relevant subject will be included in the study.

3.2 Nature and Sources of Data

This study conducted on the basis of secondary data relating to “Investment” e.g. deposit, loan and advanced and profit/loss that have been directly obtained from the balance sheet and the P/L A/C of concerned banks annual reports, collected from number of institution and authorities like Nepal Rastra Bank budget speech, Nepal Rastra Bank publication, Bank bulletin, Newspaper, Previous studies, security exchange board, Nepal stock exchange Ltd. All the secondary data are observed, processed and tabulating in the time as per need and objectives. Various data and information are collected from the economic journal, periodicals, bulletins, magazine and other published and unpublished reports and documents from various sources.

3.3 Population and Sample

There are altogether 31 commercial banks (domestic commercial banks and joint

venture banks) functioning till to date and most of their stock and traded activity in the stock market. Among 31 banks, NABIL and BOK have been selected for the purpose of the study. Attempts have been made to compare the investment pattern of both banks in relation to their financial performance. Financial information of both banks for a period between 2004/05 and 2010/11 have been gathered.

3.4 Analysis of Data

In this study various financial as well as statistical tools have been used to achieve the objective of the study. The analysis of data is done according to the pattern of available. The various tools applied in this study are presented as follows.

3.4.1 Financial Tools

Financial analysis is the process of identifying financial strength and weaknesses of the firm by properly establishing relationship between the items of balance sheet. Financial tools are used to examine the financial strength and weaknesses of the bank. In this study financial tool like ratio analysis has been used.

3.4.1.1 Ratio Analysis

Ratio analysis is a tool of scanning the financial statement of the firm. "Ratio means the numerical or quantitative relationship between two items or variable. It can be expressed as percentage, Fraction or a stated comparison between numbers." (I.M. Panday, 1992; 104). Ratio analysis is the relationship between two accounting figures expressed mathematically. It is computed by dividing one item of relationship with the other. Management itself can use these parameters to improve the organization's performance in future by knowing the strengths and weakness for exploiting maximum benefits and to repair the weakness to meet the challenges.

Even though there are many ratios, only those financial ratios are calculated and analyzed which are related in this study. They are as follows:

3.4.1.1.1 Liquidity Ratios:

Liquidity ratios measure the firm's ability to meet its current obligations. It is the measurement of time within which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. A bank should ensure that it does not suffer from lack of liquidity and also it does not have excess liquidity. Both

conditions of liquidity are not in favor of the bank.

The following ratios are evaluated under liquidity ratios

i. Current Ratio

A ratio between assets and current liabilities is known as current ratio. It shows the relationship between current assets and current liabilities. Current assets are those assets, which can be converted into cash within short period of time, normally not exceeding one year. Current liabilities are those obligations which are payable within a short period normally not exceeding one year.

Mathematically it is represented as:

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

Higher the current ratio better is the liquidity position. The traditional standard of current ratio is 2:1 but accurate standard depends in circumstances in case of seasonal business.

This ratio measures the bank's short-term solvency i.e. its ability to meet short-term obligations. As a measure of creditors versus current assets it indicates each rupee of current assets available for each rupee of current liability.

ii. Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. Mathematically it is expressed as,

$$\text{CRR} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Hence, cash and bank balance includes cash at vault (including local and foreign currencies). Balance with other banks at Nostro Account is including current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

iii. Cash and Bank Balance to Current Assets Ratio

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

demand for cash.

This ratio is calculated by dividing cash and bank balance by current assets.

Mathematically it is expressed as.

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

iv. Investment on Government Securities to Current Assets Ratio

Investment on government securities includes treasury bills and development bonds etc. This ratio is calculated to find out the percentage of current assets invested in government securities.

This ratio is calculated by dividing investment made on government made on government securities by current assets.

Mathematically it is expressed as,

Investment on government securities to current assets ratio

$$= \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

3.4.1.1.2 Assets Management Ratio (Activity Ratios)

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with assets are being converted into sales. Assets management ratio measures how efficiently the bank manages the resources at its command.

The following ratios are used under this asset management ratio.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out that which banks are able to utilizing their total deposits on loan and advances for profit generation purpose. This ratio can be obtained by dividing loan and advances by total deposits; this can be stated as below:

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

ii) Total Investment to Total Deposit Ratio

This ratio implies the utilization of firm's deposit on investment in government

securities and share/debentures of other companies and banks.

This ratio can be calculated by dividing total investment by total deposit. This can be stated as.

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

Hence, total investment consists of investment on government securities, treasury bills, investment on debenture and bonds, share in subsidiary companies and other investment.

iii) Loan and Advances to Working Fund Ratio

Loan and advance indicates the ability of any banks to canalize its deposits in the form of loan and advances to earn high return. This ratio is computed by dividing loan and advances by total working fund; this can be stated as,

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

Where,

Total working fund consists of current assets, net fixed assets, loan to development banks and other miscellaneous assets.

iv) Investment on Government Securities to Total Working Fund Ratio

This ratio shows that banks investment on government on government securities in comparison to the total working fund.

This ratio is calculated by dividing investment on government securities by total working fund, this can be stated as,

Investment on Government Securities to Total Working Fund Ratio

$$= \frac{\text{Intrest on Govt Securities}}{\text{Working Fund}}$$

Hence, Investment on government securities includes treasury bills and development bonds etc.

v) Investment of Share and Debentures to Total Working Fund Ratio

This ratio shows the banks investment in share and debenture of the subsidiary and other companies.

This ratio can be computed by dividing investment on shares and debentures by total

working fund; this can be started as

Investment of Share and Debentures to Total Working Fund Ratio

$$= \frac{\text{Investment on Share and Debentures}}{\text{Working Fund}}$$

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

3.4.1.1.3 Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and grow over a long period of time, and it will have no future if it fails to make sufficient profits in longer run. Therefore, the finance manager should continuously evaluate the efficiency of its company in terms of profits. The profitable ratios are calculated to measure the operating efficiency of a company. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa.

The following ratios are taken into account under this heading.

i) Return on Total Working Fund Ratio

This ratio measures the overall profitability of all working funds i.e. total assets. A firm has to earn satisfactory return on assets or working fund for its survival. This ratio is calculated by dividing net profit by total working fund.

This can be expressed as below:

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

ii) Return on Loans & Advance Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loans and advances. This ratio is computed by dividing net profit by loan & advances.

This can be expressed as below:

Net Profit

Return on Loans & Advance Ratio = $\frac{\text{Net Profit}}{\text{Loan and Advance}}$

iii) Total Interest Earned to Total Working Fund Ratio

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

This can be expressed as,

Total Interest Earned

Total interest Earned to Total working Fund Ratio = $\frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$

Where, total interest earned includes interest on loan, advances and overdrafts, government securities, investment in debentures and other interbank placements.

iv) Total Interest Paid to Total Working Fund Ratio

This ratio is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. This ratio is calculated by dividing total interest paid by total working fund.

It can be expressed as,

Total Interest Paid

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

Where, total interest paid includes total expenses on deposits, borrowings and interbank takings.

3.4.1.1.4 Risk Ratios

Risk taking is the prime business of bank's investment management. The proper risk management increase effectiveness and profitability of the bank. These ratios inductee the amount of risk associated with the various banking operations, which ultimately influences the bank's investment policy.

The following ratios are taken into account under this heading.

i) Liquidity Risk Ratio

The liquidity risk ratio measure the level of risk associated with the liquid assets i.e.

cash, bank balance that are kept in the bank for the purpose of satisfying the depositors demand for cash. Higher the ratio, lower is the liquidity risk. This ratio is computed by dividing cash & bank by total deposits.

This can be mentioned as

$$\text{Liquidity Risk Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total deposit}}$$

ii) Total Credit to Deposit Ratio

Bank utilizes its collected funds in providing credit to different sectors while making investment. It is essential for a bank sector while making investment. It is essential for a bank to examine the credit risk involved in the project.

$$\text{Total Credit to Deposit Ratio} = \text{Total Credit/Deposit}$$

iii) Capital Risk Ratio

The capital risk ratio of a bank indicates how much asset values may decline before the position of depositors and other creditors is jeopardized. The capital risk is directly related to the return on equity (ROE). Higher the ratio, lower is the capital risk. The ratio is computed by dividing capital (Paid up Capital + Reserves) by risk-weighted assets as computed under the Basel I committee's formula.

This can be mentioned as,

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

3.4.1.2 Growth Ratios

Growth ratios measure how well the firm is maintaining its economic position in its industry. It is directly related to the fund mobilization and investment management of a commercial bank.

The following growth ratios are calculated in this study.

i. Growth ratio of total deposit

- ii. Growth ratio of loan & advances
- iii. Growth ratio of total investment
- iv. Growth ratio of net profit.

3.4.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, Statistical tools such as trend analysis of important variables, coefficient of correlation between different variables have been used which are as follows:

3.4.2.1 Trend Analysis

This topic analyzes the trend of loan and advance to total deposit ratio and trend of total investment to total deposit ratio of NABIL and Nepal Investment Bank Ltd from 2003/04 to 2008/09 and makes the forecast for the next six years. Under this topic following sub-topic has been presented.

- i) Trend analysis of total deposits.
- ii) Trend analysis of loan and advances.
- ii) Trend analysis of total investment.
- iii) Trend analysis of net profit.

3.4.2.2 Co-efficient of Correlation Analysis

The correlation co-efficient determines the relationship between the two or more variable. The case of highly correlated variable, the effect on the variable may have effect on other correlated variable when two elements have zero correlation with each other they are unrelated in any way and have zero variance positive correlation implies positive covariance.

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

3.4.2.3 Arithmetic mean

Arithmetic mean is the some of all the observations divided by the number of Observations. Arithmetic mean is calculated to find the mean of financial ratio. The arithmetic mean can be commuted as:

$$A. m = \frac{f}{n}$$

3.4.2.4 Standard Deviation

The Measurement of the scatteries about an average is known as dispersion. The S.D. means a high degree of uniformity of the observations as well as homogeneity of the serried a large S.D means a high degree of uniformity of the observations as well as homogeneity of the serried a large S.D of different ratios are calculated. It is computed as:-

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

3.4.2.5 Co-efficient of Variation (C.V)

The co-efficient of variation is the relative measure of dispersion comparable across distribution which is defies to the mean expresses in percent. It is

Calculated as:

$$C.V = \frac{S.D}{Mean} \times 100$$

3.4.2.6 Regression Analysis

Regression analysis is used to estimate the likely value of one variable from the known value of the other variable i.e. in regression analysis we established a kind of average irreversible functional relationship between the two variables. The cause and effect relationship clearly indicated through regression analysis is a mathematical measure of the average relationship between two or non variables in terms of original units of data. There are two types of variable i.e. dependent variable and independent variable. The variable whose value is influenced or is to be predicated is called dependent variable where the variable which influences the value or is used for predication is called independent variable. Thus regression analysis studies the statistical relationship between the variables. The main objective of regression analysis is to predict or estimate the value of dependent variable corresponding to a given value of independent variables while regression analysis has been developed to

study and measure the statistical relationship between two variables only then the process is known as the simple regression analysis. Regression lines expresses in terms of mathematical relationship are known as regression equations. It is the line which gives the best estimates for the value of Y for any specified value of x.

Regression equation of Y on x is given by

$$Y = a + b \bar{x}$$

Where,

Y= Dependent Variable

X= Independent Variable

a= Intercept of the line

b= Slope of the line

the value of the constants 'a' and 'b' can be determined by solving two normal equations (applying principle of method of least squares).

$$y = na + b \sum x \dots\dots\dots ii$$

$$xy = a \sum x + b \sum x^2 \dots\dots\dots iii$$

Research methodology and the various financial and statistical tools discussed above have been used in the next chapter to analyze and interpret the data regarding the NABIL and Bank of Kathmandu Ltd for the study period from fiscal year 2004/05 to 2010/11.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter implies the presentation and analysis of data collected from various secondary sources. The chapter has been divided into two main sections. The first section of the chapter includes the presentation and analysis of data while the second section includes major findings of the study.

4.1 Financial Analysis of Commercial Banks

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet. Here relevant ratio is calculated and appropriate interpretations are made. Analysis of financial ratio reflects the performance of the concern banks.

4.1.1 Liquidity Ratio:

Commercial Banks must maintain its satisfactory liquidity position to satisfy the credit needs of the Commercial to meet demands for deposit, withdrawals, Pay nation by obligation in time and convert non-cash assets into cash to fulfill immediate needs without loss of bank and consequent impact on long run profit.

i) Current Ratio:

It is the relationship of current assets and current liabilities. Current assets can be converted into cash with in short period of time normally not exceeding one year. Current liabilities are those obligation which are payable with in short period. Current assets consist of each and banks balance money at call or short terms notice, loan and advances investment in government securities and other interest receivable and other miscellaneous current assets. Current liabilities consist of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1 Current Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	0.97	2.08	1.2	0.82	0.85	0.8	0.87	0.96	0.46	47.91
BOK	1.02	1.21	1.06	0.89	0.95	0.96	0.94	0.87	0.11	12.22

Sources: Appendix No.1

In the table 4.1 Current Ratio of commercial banks are analyzed. The table shows that the current assets of sampled commercial banks have exceeded the current liabilities during the Five years period. In general, it can be said that sample bank have sound ability to meet their short term obligations in other words banks are capable of discharging the current obligations.

Both NABIL and BOK have fluctuating trend ratio. In the case, NABIL has maintained higher current ratio, which states that liquidity position of NABIL is not fair. The value of coefficient of variation of NABIL is 47.91% which is comparatively higher than BOK i.e. $47.91\% > 12.22\%$, Thus it can be said that current ratio of NABIL is less consistence than BOK.

i) Cash and bank balance to total deposit Ratio

Cash and bank balance are assets that constituted banks first line of defense and consist of cash and hand foreign cash on hand cheques and other cash items balance with demotes banks and balance aboard. This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of bank. Higher ratio reflects the bank ability to meet demand for cash. The table 4.2 reflects cash and bank balance to total deposit ratio of NABIL and Bank of Kathmandu from the FY 2004/05 to 20010/11.

Table 4.2 Cash and Bank Balance to Total Deposit Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	3.83	3.26	8.57	8.37	9.03	3.02	4.9	5.15	2.69	52.28
BOK	8.28	6.95	10.62	9.1	12.07	8.85	7.99	7.98	1.72	21.53

Sources: Appendix No:2

In the table 4.2 reflects the percentage of cash and bank balance total deposit ratio position of NABIL and BOK. The mean, standard deviation and coefficient of variation of cash and bank balance to total deposit ratios of sampled banks are better. The above table shows BOK has fluctuating trend. It has maintained highest ratio in the FY 2008/09 ,12.07% and lowest ratio in the FY 2005/06 i.e. 6.95% similarly NABIL has maintained fluctuating trend . In average BOK has higher cash and bank balance to total deposit ratio than NABIL. It states that the liquidity position of BOK is better in this regard.

The above analysis helps to conclude that, the cash and bank balance position of NABIL with respect to deposits is not better against the readiness to serve its customers deposits than that of the BOK so NABIL may invest in more productive sectors like short-term marketable securities treasury bills etc ensuring enough liquidity which will help the bank to improve its profitability.

iii.) Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and bank balance among the total current assets of bank. Higher ratio indicates the bank's ability to meet the daily cash requirement of their customer's deposit. Bank has to balance the cash and bank balance to adequate cash for the customers demand against deposit

when required and less interest is required to be paid against the cash deposit.

The table below reflects the cash and bank balance to current asset ratio of NABIL and BOK from the FY 2004/05 to 20010/11.

Table 4.3 Cash and Bank Balance to Current Assets Ratio

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	20010/11			
NABIL	3.74	4.55	7.32	10.04	10.41	3.71	5.52	5.68	2.85	50.12
BOK	7.95	8.17	9.28	10.2	12.62	9.16	8.41	8.20	1.62	19.72

Sources: Appendix no: 3

This table 4.3 reflects the mean, standard deviation and coefficient of variation of cash and bank balance to current assets ratio of two banks which are in fluctuating trend during the study period. They show the ability to manage the deposit withdraw from the customers. NABIL has maintained a highest ratio of 10.41% in the year 2008/09, siimilarly BOK has a highest ratio of 12.62% in the same year. The mean value of BOK is highest in comparisons to NABIL Bank. The coefficient of variation of NABIL is 50.12 % which is higher than BOK it reflects that the current ratio is less heterogeneous of NABIL than BOK.

Lastly, the analysis reflects that NABIL is better position during the study period as the bank shows the ability to manage the deposit with draws from the customers though having the fluctuating trend.

iv) Investment on Government Securities to current Assets Ratio

The ratio examines Share of a commercial banks current assets which invested in different government securities i.e. treasury bills and government bonds. Commercial banks are interested to invest their collected fund on different securities issued by government to utilize their excess fund. Even governments securities are not so liquid as cash and bank balance of commercial bank they can easily be sold in the market or it can also be converted into cash in other ways. The ratio is computed as:

Table 4.4 Investment on Government Securities to current Assets Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	20010/11			
NABIL	16.12	16.61	25.14	17.47	11.44	21.15	19.82	15.42	4.33	28.09
BOK	23.06	29.81	16.45	14.95	10.09	15.05	20.04	15.63	6.46	41.34

Sources: Appendix no: 4

The above table 4.4 reflects that investment in government securities to current assets ratio of NABIL is in fluctuating trend from fiscal year 2004/05 to 2010/11 and has the highest ratio i.e. 25.14% in the year 2006/07. Similarly BOK has also fluctuating trend and has the highest ratio i.e. 29.81 in the FY 2005/06 during the study period.

The mean ratio of NABIL is slightly lower than BOK it means that BOK has invested its as much as portion of its current assets on government securities than that of NABIL. The coefficient of variation of NABIL is lower in comparison to BOK bank.

Lastly it can be concluded that BOK has invested its more of portion assets as government securities than other banks and investment made is consistent of coefficient of variation reveals. But NABIL liquidity portion is slightly poor than BOK bank on view point of investment of government securities.

v) Loans and Advances to Current Assets Ratio

To make a high profit and for mobilizing its fund in the best way a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. In the present study loan and advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currency.

Table 4.5 Loan and Advances to Current Assets Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	70.71	93.25	81.28	80.34	85.21	85.59	86.2	70.91	6.92	9.76
BOK	63.51	81.4	66.31	88.2	84.69	84.87	87.48	67.00	10.23	15.28

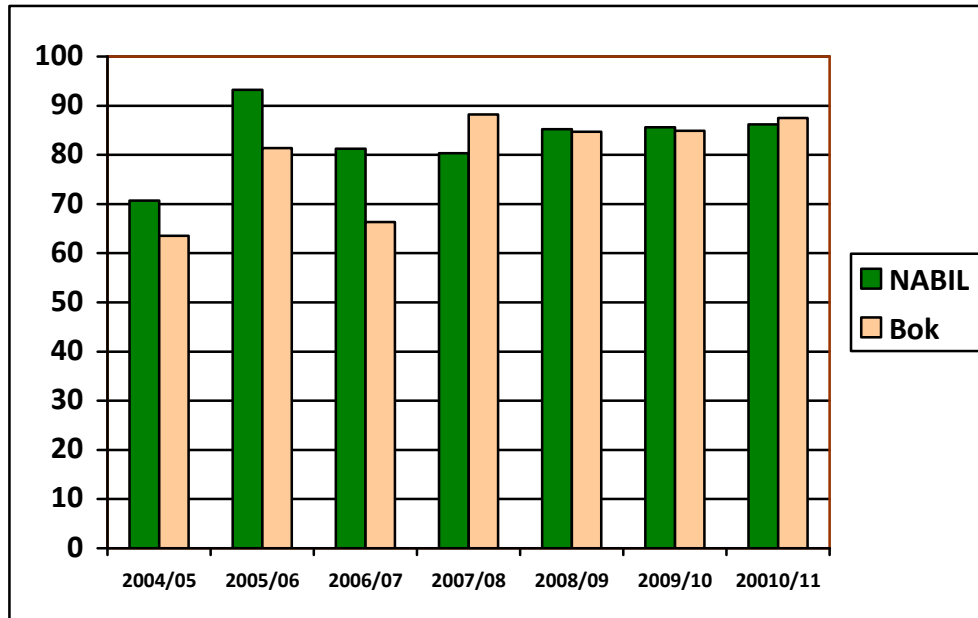
Sources: Appendix No: 5

The table 4.5 shows the percentage of loan and advances ratio to current assets ratio position of NABIL and BOK. The loan and advances to current assets ratio of both NABIL and BOK have fluctuating trend during the study period. The mean ratio of NABIL is slightly more than BOK. It shows that loan and advances to current asset ratios of the NABIL has maintained a higher ratio of 93.25% in the FY 2005/06. Similarly BOK has in 88.2% in the FY 2007/08.

The coefficient of variation among ratio is higher in case of BOK, which indicates formality of BOK in comparison to NABIL bank. So, it can be concluded that it is not better to mobilize BOK funds as loan and advances.

Figure 4.1 Loan and Advances to current Assets Ratio

Figure 1



4.1.2 Asset Management Ratio

Commercial Bank must manage its assets very well to satisfy its customers to earn high profit and for its own existence. It measures the efficiency of the bank.

i) Loan and Advance to Total Deposit Ratio

This ratio measures how successfully the banks are able to mobilize the total deposit on loan and advances for profit generating purpose higher the ratio indicates the better mobilization of total deposits, but too high is not be better from its liquidity point of view. This table 4.6 presents the percentage of loan and advances to total deposit ratios position of NABIL and BOK.

Table 4.6 Loan and Advances to Total Deposit Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	72.57	66.79	66.6	66.94	73.87	69.53	76.53	59.47	3.97	6.67
BOK	66.12	69.24	75.87	78.71	80.99	82.03	83.11	64.71	6.58	10.18

Source: Appendix No.6

The ratio of NABIL is in fluctuating trend where as BOK ratio is in increasing trend during the study period. In the case of NABIL has maintained higher loan and advances to total deposit i.e. 76.53% in a year 2010/11, likewise BOK has maintained higher ratio i.e. 83.11% in the same year. The mean value of NABIL i.e. 59.47 is less than BOK i.e. 64.71% and C.V of BOK is higher than that of the NABIL Bank which indicate that loan and advances of it is stable and consistent.

Lastly it can be concluded that NABIL is in strong position or in better position regarding the mobilization of total deposits on loan and advances and acquiring higher profit in comparison with BOK. Higher ratio is not good from the view point of liquidity as the loan and advance are not a liquid as cash and bank balance.

ii) Total Investment to Total Deposit Ratio

The commercial banks must mobilize its deposit fund by investing in different securities issued by government and other financial non financial sectors. This ratio measures the extent to which the banks are capable to mobilize their deposits on investment in various *securities*. This ratio is computed by dividing total investment by total deposit. Table 4.7 reflects the total investment to total deposit ratio of the banks NABIL and BOK

.Table 4.7 Total Investment to Total Deposit Ratio

Unit in Percentage

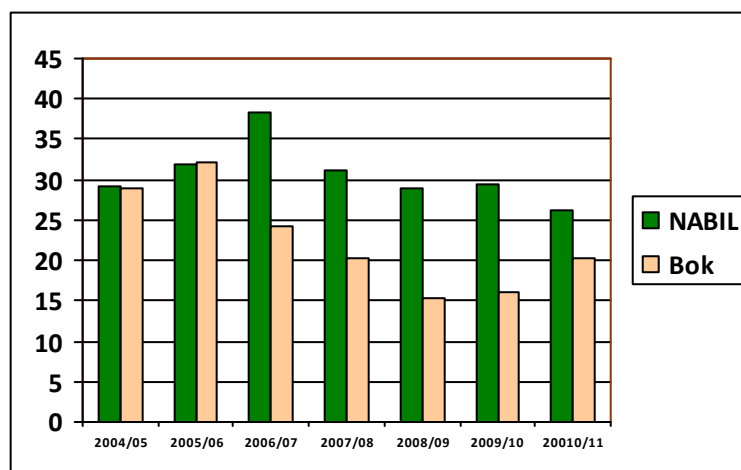
Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	29.25	31.93	38.32	31.15	28.99	29.53	26.32	27.02	3.77	13.95
BOK	29.05	32.22	24.18	20.23	15.39	16.09	20.39	19.59	6.34	32.37

Source: Appendix no: 7

From the table 4.7 it is found that, total investment to total deposit ratio of NABIL and BOK banks are in fluctuating trend during study period 2004/05 to 2010/12. The total investment to total deposit ratio of NABIL has highest ratio of 38.32% in FY 2006/07 and lowest ratio 26.32% in FY 2010/11. Similarly BOK has highest and lowest ratio of 32.22% and 15.39% in FY 2005/06 and 2008/09 respectively.

In comparison with mean value, NABIL has higher than BOK i.e. $27.02 > 19.59$. Likewise the value of coefficient of variation on NABIL is lower than BOK. After analysis it is clear that the investment policy of NABIL is in better position in comparison to BOK bank. The total investment to total deposit ratio of NABIL is more homogeneous because it has low coefficient of variation.

Figure 4.2 Total Investment to Total Deposit Ratio



iii) Loan and Advances to Total Working Fund Ratio

Loan and advances is the major components of the total working fund, which indicate the ability of banks to utilize in deposit in the form of loan and advances to earn high return. It is an appropriate level to generate profit the ratio shows the extent to which the commercial banks are able to utilizing their assets loan and advances for the purpose of profit generation.

Total working fund is the total assets. It is composed up of current assets fixed assets miscellaneous assets and investment loan and advances and interest receivable.

The table 4.8 reflects the loan and advance to total working fund ratio of NABIL and BOK.

Table 4.8 Loan and Advances to Total Working Fund Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	20010/11			
NABIL	61.6	57.87	57.04	57.54	62.89	61.87	65.42	51.26	3.18	6.20
BOK	59.98	59.13	64.51	70.33	71.46	71.23	70.55	56.66	5.45	9.62

Sources: Appendix no.8

In the table 4.8 reflects that loan and advance to working fund ratio of BOK is in increasing trend till 2009/10 but it started decline in Fy 2010/11. Similarly NABIL is in fluctuating trend during the study period. NABIL has the highest ratio 65.42% in the FY 2010/11.

The mean value of BOK has maintained average loan and advances to total working fund ratio than that of NABIL. This regard NABIL is in better position among BOK bank i.e. 6.20% < 9.62% respectively, which clear that loan and advances to total working fund ratio is less variable than NABIL Bank.

iv) Investment on Government Securities to Total Working Fund Ratio.

The commercial banks should never use all the total deposits resources as loan and advances and other credit from security and liquidity point of view. So, to some extent commercial banks seem to be interested to utilize their resources by purchasing government securities. This ratio reflects the relationship between the banks investment securities in comparison to the total working funds.

The table 4.9 shows the investment on Government securities to total working fund ratio of NABIL and BOK.

Table :4.9 Investment on Government Securities to Total Working Fund Ratio.

Unit in Percentage

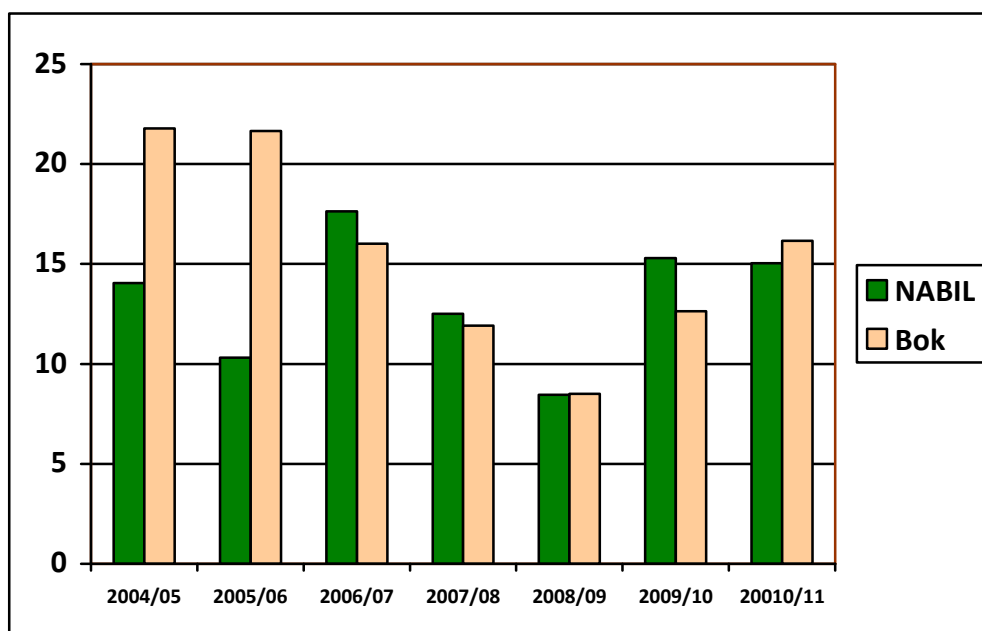
Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	14.05	10.31	17.64	12.51	8.45	15.29	15.04	11.18	3.15	28.16
BOK	21.78	21.65	16.01	11.92	8.51	12.63	16.16	13.21	4.96	37.57

Source: Appendix No.9

From the table 4.9 it is found that investment on government securities to total working fund ratio of NABIL Bank is in fluctuating trend and BOK is in decreasing trend till 2008/09 but after it started inclining. The investment on government securities to total working fund ratio NABIL has highest ratio of 17.64% in FY 2006/07 and lowest ratio 8.45% in FY 2008/09. Similarly BOK has highest and lowest ratio of 21.78% and 8.51% in FY 2004/05 and 2008/09 respectively.

In companion with mean value, NABIL has lower than that of BOK. Likewise the value of coefficient of variation on NABIL is also lower than that of BOK. After analysis it is clear that the investment policy of NABIL is in better position in comparison to BOK. This means NABIL has invested its more portion of working fund on government securities as than BOK bank.

Figure 4.3 Investment on Government Securities to Total Working Fund Ratio



v) Investment on Shares and Debentures to Total Working Fund Ratio

This ratio reflects the banks investment in shares and debentures of subsidiary and other companies. Nowadays commercial banks are interested to invest its fund not on government securities rather they are interested to invest in shares and debenture of different types of companies and also most of commercial banks in Nepal have purchased shares of regional development banks and some of them have purchased the shares of other companies as well.

This ratio shows the extent on which the banks are able to mobilize their assets on purchase of shares and debenture of other companies to generate income and utilize their excess fund. A highest ratio indicated more portion of investment on shares and debenture out of total working fund. The table 4.10 shows the investment on shares and debenture to total working fund ratio of NABIL and BOK from the FY 2004/05 to 2010/11.

Table 4.10 Investment on Share and Debentures to Total Working

Fund Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	0.16	0.12	0.1	0.87	0.81	1.81	1.61	0.55	0.71	128.77
BOK	0.23	0.19	0.16	0.64	0.6	0.17	0.16	0.28	0.22	75.76

Sources: Appendix No. 10

In the table 4.10 shows that of NABIL has maintained decreasing trend to investment of shares and debenture to working fund ratio while BOK has maintained fluctuating trend.

In companion with mean value, NABIL has lower than that of BOK. Likewise the value of coefficient of variation on BOK is lower than that of NABIL.

4.1.3 Profitability Ratio

Profitability ratios are useful to measure the efficiency of operation of a firm in term of profit. Profit is the indicator of the financial performance of any firm. Commercial banks acquire profit by providing different kinds higher the profitability ratio shows the efficiency of the management. The following profitability ratios are related to study under this heading.

i) Return on Total Working Fund Ratio

It also known as return on assets. This ratio measures the profit earning by mobilizing available resources (Total assets). The bank has to earn satisfactory return on assets or working funds are well manage and are efficiently utilized maximizing taxes within the legal options available will also improve the available will also improve the return or return will be higher. Net profit includes the profit that is left to the internal equities after all charge and expenses cost. The table below shows the return on assets of NABIL and BOK.

Table 4.11 Return on Total Working Fund Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	3.02	2.85	2.47	2.01	2.35	2.19	2.3	2.13	0.36	16.94
BOK	1.42	1.65	1.8	2.04	2.25	2.18	2.44	1.62	0.36	22.29

Source: Appendix No: 11

The table 4.11 shows the mean, S.D and C.V of NABIL and BOK banks from FY 2004/05 to 2010/11. NABIL has fluctuating position. Similarly BOK has the increasing trend during the study period.

NABIL has highest profit ratio is 3.02% in the FY 2004/05 and minimum profit ratio is 2.01% in the FY 2007/08. Similarly BOK has highest and lowest profit ratio is 2.44% and 1.42% in the FY 2010/11 and 2004/05 respectively. In average, NABIL and BOK banks have able to maintain net profit during the study period.

If the mean values are observed, NABIL is higher than BOK. The coefficient of variation of NABIL is lower than of BOK, it indicates the return on total working fund ratio of NABIL is stable and consistent in comparisons to BOK. The analysis clear the profitability ratio with respect to financial resources investment of NABIL is better as well as stable.

ii) Return on Loans and Advances Ratio

Return on loan and advances ratio measure the earning capacity of banks on its total deposit mobilized on loan and advances mostly loan and advances included loan, cash credit, overdraft, bills purchased and discount. In order words return on loan and advances ratio indicates how efficiently the banks have employed its resources in the form of loan and advances.

Table 4.12 Return on Loan and Advances Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	4.9	4.92	4.34	3.49	3.74	3.54	3.52	3.56	0.65	18.17
BOK	2.36	2.79	2.79	2.9	3.15	3.05	3.46	2.43	0.34	14.12

Sources: Appendix No:12

The table 4.12 reflects that NABIL return on loan and advances ratio has fluctuating trend in. Similarly BOK has maintained increasing trend in the seven years period.

The mean of NABIL is higher than BOK i.e. $3.56 > 2.43$ respectively. The standard deviation of NABIL is higher than BOK. Similarly the coefficient of variation of NABIL is also higher than BOK i.e. $18.17 < 14.12$. Thus it can be concluded that BOK is in average position in earning loan and advances in comparison to NABIL.

iii) Total interest Earned to Total Working Fund Ratio

This ratio is calculated to find out the percentages of interest earned total assets. It reflects the extent to which the banks are success in mobilizing there to total assets to gain higher income as interest. Higher ratio indicates higher earning power of the banks of its total working fund.

The table below shows the interest earned to total working fund ratio of NABIL and BOK.

Table 4.13

Total Interest Earned to Total Working Fund Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	6.22	5.87	5.83	5.33	6.38	7.76	9.04	5.34	1.31	24.44
BOK	6.16	5.85	5.62	5.83	6.58	7.99	9.64	5.43	1.48	27.28

Sources: Appendix No.13

The table 4.13 reflects that the ratio of NABIL is in decreasing trend, where the ratio has increased from the fifth year. BOK also is in decreasing trend but started to increase from the FY 2007/08. On the other hand, the mean value of NABIL has slightly lower than that of BOK i.e. $5.34 < 5.43$. Similarly the coefficient of variation of BOK is higher than NABIL i.e. $27.28 > 24.44\%$.

BOK has higher coefficient of variation than that of NABIL. That means it is not successful in earning interest income because high ratio is an indicator of higher earning power of the bank of its total working fund and vice versa.

iv) Total Interest Paid to Total Working Fund Ratio

This ratio is calculated to find out the proportion of interest paid against the total working fund. Higher ratio indicated the higher interest expenses on total working fund and Vice-versa.

The table below shows the mean, S.D and C.V of total interest paid to total working fund ratio.

Table 4.14 Total Interest Paid to Total Working Fund Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	1.42	1.6	2.04	2.04	2.63	3.76	5.08	1.93	1.32	68.63
BOK	2.45	2.51	2.33	2.36	2.75	3.86	4.92	2.32	0.99	42.64

Sources: AppendixNo.14

The table 4.14 total interest paid to working fund ratio of the NABIL Bank is in increasing trend during the study period. BOK has variable trend from 2.45% to 2.33% in the FY 2004/05 to 2006/07 after that it started increase from the FY2007/08.

In comparison to the mean value of NABIL with BOK , it reflects that mean value of NABIL is lower than BOK i.e. $1.93 < 2.32$. It means NABIL has paid minimum interest. Similarly the coefficient of variance of it has higher than BOK which indicates that total interest and to total working fund ratio is consistent than BOK.

4.1.4 Risk Ratio

Risk taking is the prime business of bank investment management which increase effectiveness and profitability of the bank. Bank has to take risk to get return on investment risk taken is compensated by the increase in profit. So a bank has to take higher risk if it expects higher return on its investment.

Through these ratios, focus has been made to measure the level of risk inherent in the NABIL in comparison to BOK.

i) Liquidity Risk Ratio

The liquidity risk of the bank defines it liquidity need for deposit. A higher liquidity indicates less risk and less profitable bank and vice-versa. The ratio of cash and bank balance to total deposits is the indicator of the bank liquidity needed. The cash and bank balance are the most liquid assets and they are considered as bank liquidity sources and deposits as the liquidity needs.

Table 4.15 Liquidity Risk Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	3.83	3.26	8.57	8.37	9.03	3.02	4.9	5.15	2.69	52.28
BOK	8.28	6.95	10.62	9.1	12.07	8.85	7.99	7.98	1.72	21.53

Sources: Appendix No.15

In the table 4.15 shows the percentage of liquidity risk ratio of NABIL and BOK. This table reflects the liquidity risk ratio of NABIL liquidity risk ratio has fluctuating trend.

It has the minimum ratio is 3.02 % in the FY 2009/10 and maximum ratio is 9.03 in FY 2008/09. Similarly BOK is fluctuating trend i.e. it has maintained a maximum ratio of 12.07% in the FY 2008/09 and the minimum ratio of 6.95% in the FY 2005/06.

While comparing the mean of two banks, NABIL has lower mean value than that of BOK which indicates that NABIL liquidity risk is maximum in compare to BOK. The coefficient of variation of banks is 52.28% and 21.53% respectively. BOK has less C.V which indicates that it has consistent liquidity risk ratio.

ii) Total Credit to Deposit Ratio

Bank utilized its collected funds in providing credit to different sector while making investment. It is essential for a bank sector while making investment.. This ratio shows the proportion of Total Credit on Total Deposit.

Table 4.16 Total Credit to Deposit Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	75.05	68.63	68.13	68.18	73.87	71.17	78.29	60.72	3.96	6.52
BOK	68.87	71.42	78.25	80.51	82.65	83.9	85.43	66.51	6.34	9.53

Sources: Appendix No 16

In above table 4.16 reflects the percentage of total credit to deposit ratio of NABIL and BOK. The credit risk ratio of NABIL is in fluctuating trend, maintaining the maximum ratio 78.29% in FY 2010/11 and minimum ratio 68.13% in the FY 2006/07. Similarly BOK credit risk ratio is increasing trend it has maintained maximum ratio of 85.43% in the FY 2010/11.

The mean of NABIL is lower than BOK which means NABIL has minimum credit in comparison to BOK. The coefficient of variation of NABIL has lower than BOK. Among these banks, NABIL has less C.V, it indicates that its credit policy is consistent than BOK.

iii) Capital Risk Ratio

The capital risk ratio indicates how much assets value may decline by bank before the position deposition and other creditors is jeopardized. So a bank needs to maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities. This ratio measures ability of bank it attract deposit and inter-bank can earn if a bank choose to take high capital risk.

Table 4.17 Capital Risk Ratio

Unit in Percentage

Banks	Fiscal Year							Mean	SD	CV
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	20010/11			
NABIL	11.68	10.74	10.4	7.81	9.37	9.4	9.71	8.49	1.23	14.48
BOK	10.41	9.5	6.87	9.16	10.51	9.41	10.38	7.98	1.27	15.90

Sources: Appendix No.17

From the table 4.17 it is clearly seen that the percentage of capital risk ratio of NABIL is decreasing trend but it increased from the fifth year, during the study period i.e. it has maintained maximum ratio of 11.68% in the FY 2004/05 and it has minimum ratio of 7.81% in the year 2007/08. Similarly BOK is in fluctuating trend and has maximum ratio of 10.51% in the FY 2008/09 and minimum ratio of 6.87% in the FY 2006/07. The mean value of NABIL has highest capital risk ratio in comparison to BOK bank.

It can be concluded that NABIL is stable and heterogeneous than BOK because BOK has maintained more C.V among two banks.

4.1.5 Growth Raito

It represents how well the commercial banks those growth ratios are maintaining their economic and financial position. Here those growth ratios are analyzed and interpreted, which are related to the fund mobilization and investment management of a bank. In the topic, there are four types of growth ratio of total deposit, total investment, loan and advances and net project calculated.

i) Growth Ratio of Total Deposit

The comparative table 4.18 reflects that the growth ratio of NABIL deposit is higher than that of BOK. NABIL has maintained ratio of 22.67% where as BOK has maintained 15.31%. This means the performance of NABIL is better to collect greater deposit compared to BOK.

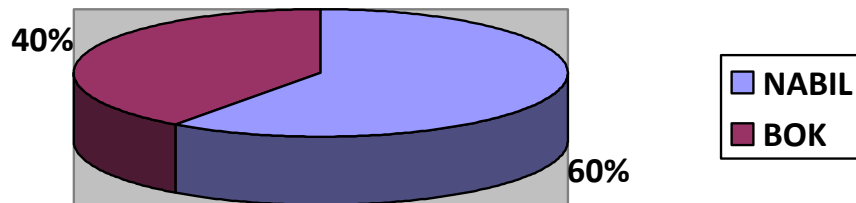
Table 4.18 Growth Ratio of Total Deposit

Unit in Percentage

Banks	Fiscal Year							Growth Ratio (%)
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	20010/11	
NABIL	14586.66	19347.4	23342.29	31915	37348	46410	49696	22.67
BOK	8942.75	10485	12388.93	15834	18084	20316	21018	15.31

Sources: Appendix No.18

Figure 4.4 Growth Ratio of Total Deposit



ii) Growth Ratio of Loan and Advances

The comparative table 4.19 shows that the growth ratio of NABIL loan and advances is higher than that of BOK. NABIL has able to maintain of 23.76% where as BOK is able to maintain 19.79% respectively. The performance of NABIL to grant loan and advance is better in comparison to BOK.

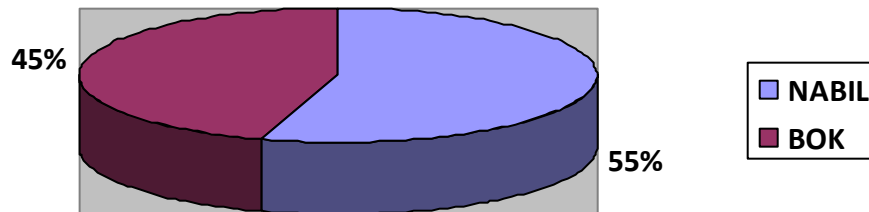
Table 4.19 Growth Ratio of Loan and Advances

Unit in Percentage

Banks	Fiscal Year							Growth Ratio (%)
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	20010/11	
NABIL	10586.17	12922.5	15545.78	21365	27590	32268	38034	23.76
BOK	5912.58	7259.68	9399.33	12463	14647	16665	17468	19.79

Sources: Appendix No.18

Figure 4.5 Growth Ratio of Loan and Advances



iii) Growth Ratio of Total Investment

The comparative table 4.20 reflects that the growth ratio of BOK of total investment is lower than NAIBL. The total investment of BOK has very less position in comparison to NABIL.

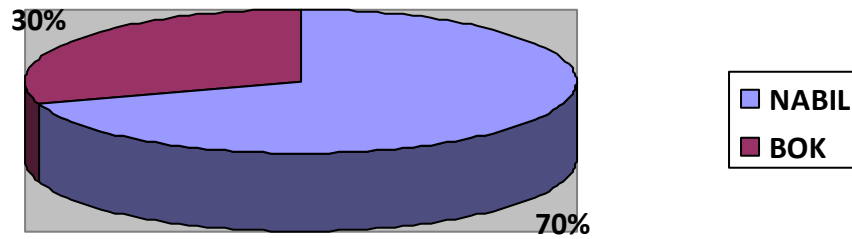
Table 4.20 Growth Ratio of Total Investment

Unit in Percentage

Banks	Fiscal Year							Growth Ratio (%)
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	4267.23	6178.53	8945.31	9940	10826	13703	13081	20.53
BOK	2598.25	3378.13	2995.19	3204	2784	3269	4286	8.70

Sources: Appendix No.18

Figure 4.6 Growth Ratio of Total Investment



iv) Growth Ratio of Total Net Profit

The comparative table 4.21 reflects that the growth ratio of BOK total net profit is higher than NABIL bank. Net profit of NABIL is poor in comparison than BOK. So it clear that BOK has high growth rate in comparison to NABIL.

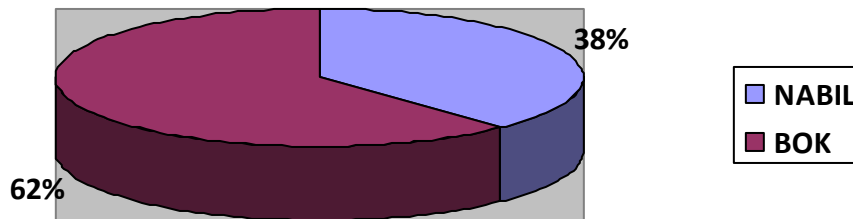
Table 4.21 Growth Ratio of Total Net Profit

Unit in Percentage

Banks	Fiscal Year							Growth Ratio (%)
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	20010/11	
NABIL	518.64	635.3	673.96	746.48	1031.06	1141	1337	17.10
BOK	139.52	202.44	262.39	361.5	461.73	509	605	27.71

Sources: Appendix No.18

Figure 4.7 Growth Ratio of Total Net Profit



From the above analysis of all tables it can be concluded that NABIL performance regarding the collection of deposit, loan and advance and total investment is comparatively better. However regarding Net Profit, BOK is better than NABIL.

4.2 Statistical Tools

4.2.1 Trend Analysis

i) Trend Analysis of Total Deposit

Under this topic an efforts has been made to calculate the trend values of deposits of NABIL and BOK for five years from mid July **2004/05 to 2010/11** and forecast for next five years from the mid July **2011/12 to2015/16**.

Table 4.22 Trend Value of Total Deposit of NABIL and BOK

(Rs In Millions)

Fiscal Year	Trend value of NABIL	Trend value of BOK
2004/05	13221.59	8697.356
2005/06	19416.56	10896.75

2006/07	25611.52	13096.14
2007/08	31806.48	15295.53
2008/09	38001.44	17494.92
2009/10	44196.40	19694.31
2010/11	50391.37	21893.7
2011/12	56586.33	24093.09
2012/13	62781.29	26292.48
2013/14	68976.25	28491.87
2014/15	75171.21	30691.26
2015/16	81366.18	32890.65

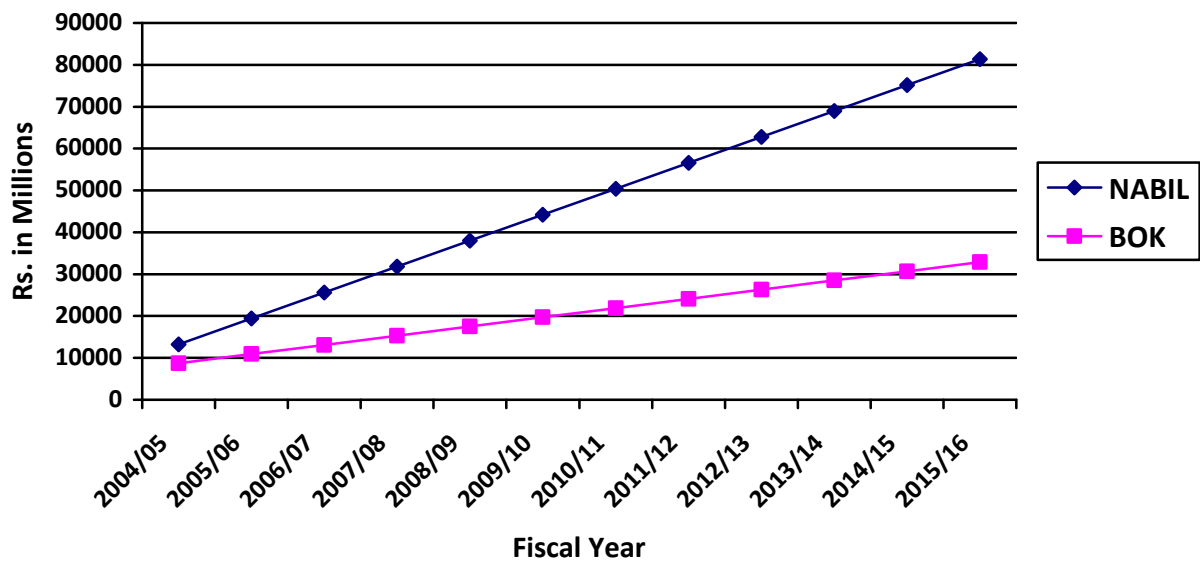
Sources: Appendix No.19

The table 4.22 reflects the trend value of total deposit from 2011/12 to 2015/16 of two banks.

The total deposits of NABIL and BOK have in the increasing trend. If all other things remain the same the total deposits of the NABIL will be highest deposit among the two banks under the study period.

By analyzing the above trend value it is found that the total deposit position collection of NABIL is better in comparison to BOK. The deposit position NABIL and BOK are increasing in the same proportion.

Figure 4.8 Trend value of Total Deposit of NABIL and BOK.



Trend Analysis of Loan and Advances

Here the trend values of loan and advances of NABIL and BOK level been calculated for seven years from mid July 2004/05 to 2010/11. The forecast for next five years up to 2016 have been done.

The table 4.23 reflects that the trend value of loan and advances of the two banks have been in increasing trend. If other things remain same, total loan and advances of NABIL will be 60638.4 million by 2016. Similarly the total loan and advances of BOK will be 28752.87 million. Total loan and advances of NABIL is the highest among the study period.

Table 4.23 Trend values of Loan and Advances of NABIL and BOK

(Rs In Millions)

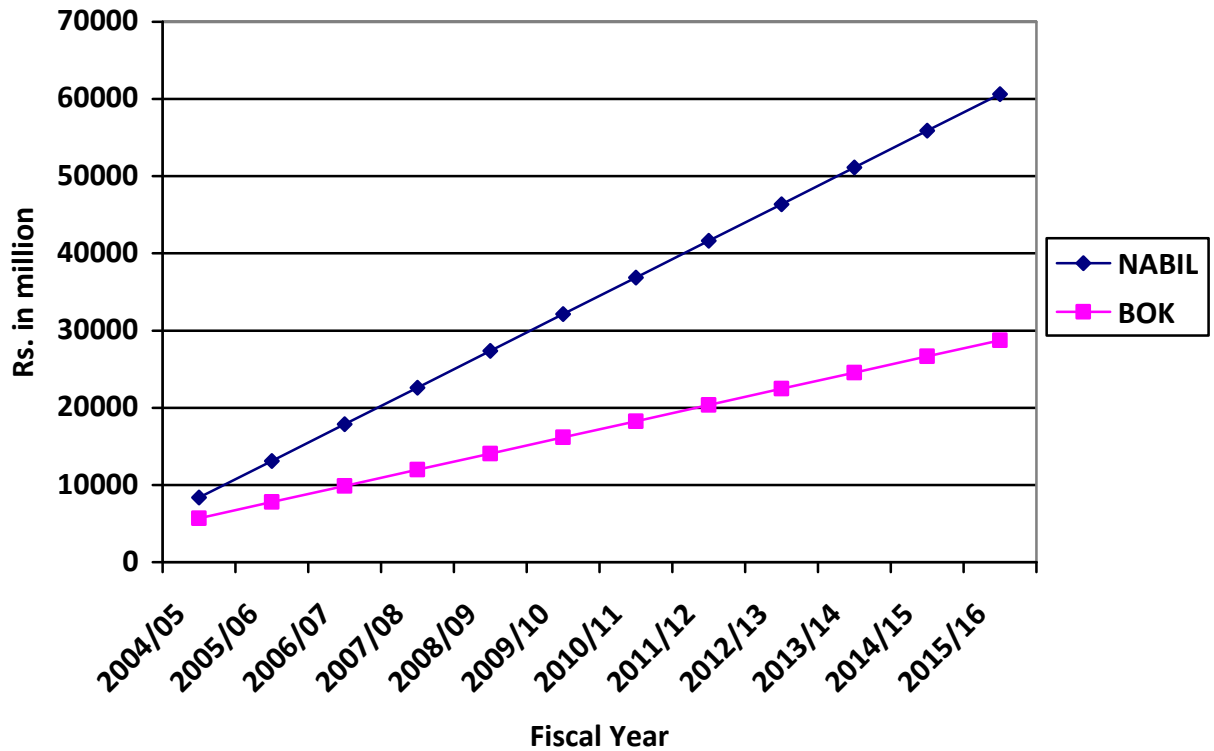
Fiscal Year	Trend value of NABIL	Trend value of BOK
2004/05	8357.49	5681.58
2005/06	13110.3	7778.89
2006/07	17863.11	9876.2
2007/08	22615.92	11973.51

2008/09	27368.73	14070.82
2009/10	32121.54	16168.13
2010/11	36874.35	18265.44
2011/12	41627.16	20363.19
2012/13	46379.97	22460.61
2013/14	51132.78	24558.03
2014/15	55885.59	26655.45
2015/16	60638.4	28752.87

Sources: Appendix No.20

From the above analysis it is found the loan and advances position of NABIL is higher than BOK . BOK may use the skill for the other option of secured loans that is quite appreciable. NABIL is tilted towards the secured loan because of less risk due to the sufficient collateral of its clients.

Figure 4.9 Trend values of Loan and Advances of NABIL and BOK



iii) Trend Analysis of Total Investment

In this aspects, an effort has been made to calculate the trend values of total investment from the mid July 2004/05 to 2010/11 have been calculated and forecasted from July 20011/12 to 2015/16. The table 4.24 shows the trend values of total investment from mid July 2004/05 to 2015/16 of the NABIL and BOK.

Table 4.24 Trend values of Total Investment of NABIL and BOK

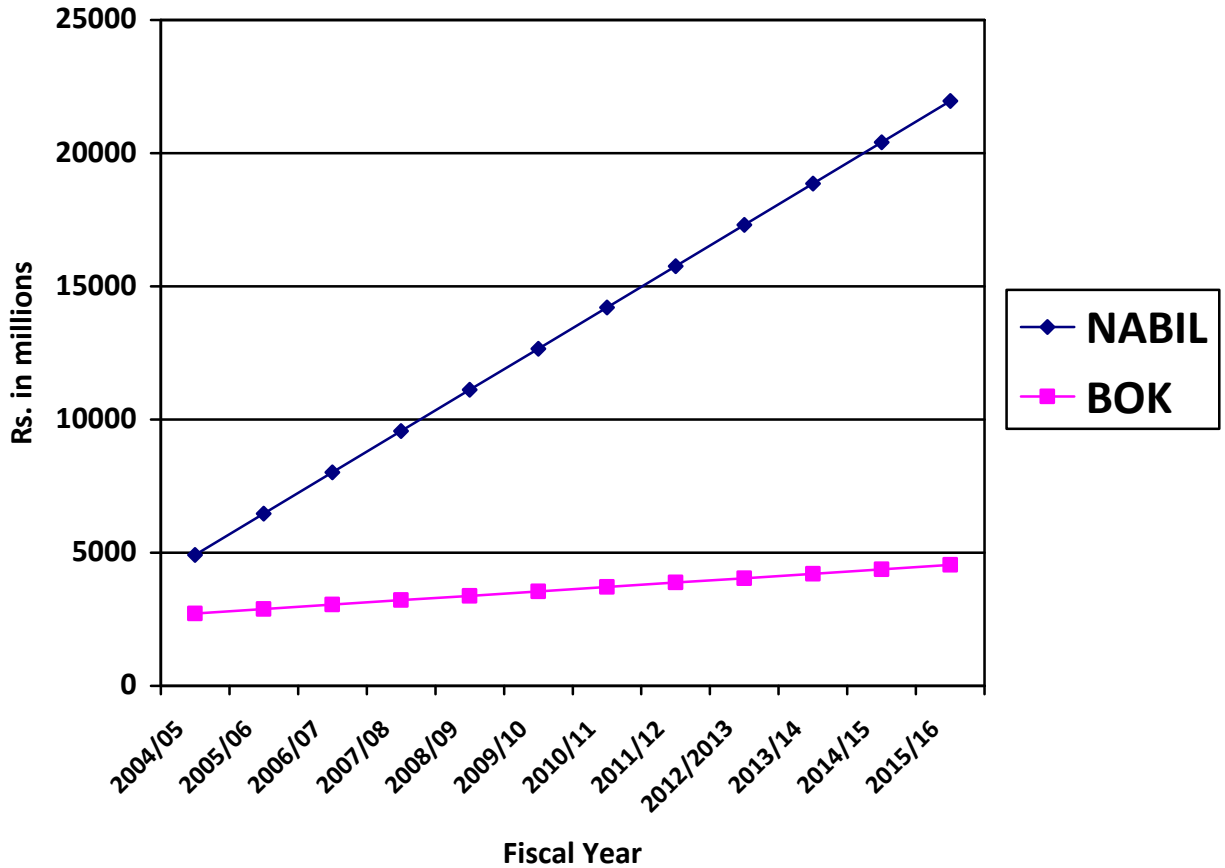
(Rs In Millions)

Fiscal Year	Trend value of NABIL	Trend value of BOK
2004/05	91916.13	2719.9
2005/06	93465.09	2885.39
2006/07	95014.05	3050.88
2007/08	96563.01	3216.37
2008/09	98111.97	3381.86
2009/10	99660.93	3547.35
2010/11	101209.9	3712.84
2011/12	15758.85	3878.33
2012/13	17307.81	4043.82
2013/14	18856.77	4209.31
2014/15	20405.73	4374.8
1015/16	21954.69	4540.29

Sources: Appendix No.21

Total investment of NABIL and BOK has the increasing trend value but the increasing ratio of NABIL is very high comparing to the increasing ratio of BOK. The total investment of NABIL will be 21954.69 million in the mid July 2016. The total investment trend of NABIL is satisfactory among BOK bank from the above analysis it can be concluded that BOK has not maintained well investment but in case of NABIL it is predicted to be good total investment trend up to the 2015/16 years.

Figure 4.10 Trend values of Investment of NABIL and BOK



iv) Trend Analysis of Net Profit

Under this topic, an effort had been made to analysis net profit of NABIL and BOK from the mid July 2004/05 to 2010/11 and forecasted up to the fiscal year2015/16. The table 4.25 reflects the trend values of net profit for twelve years from mid July 2004/05 to 2015/16 of NABIL and BOK.

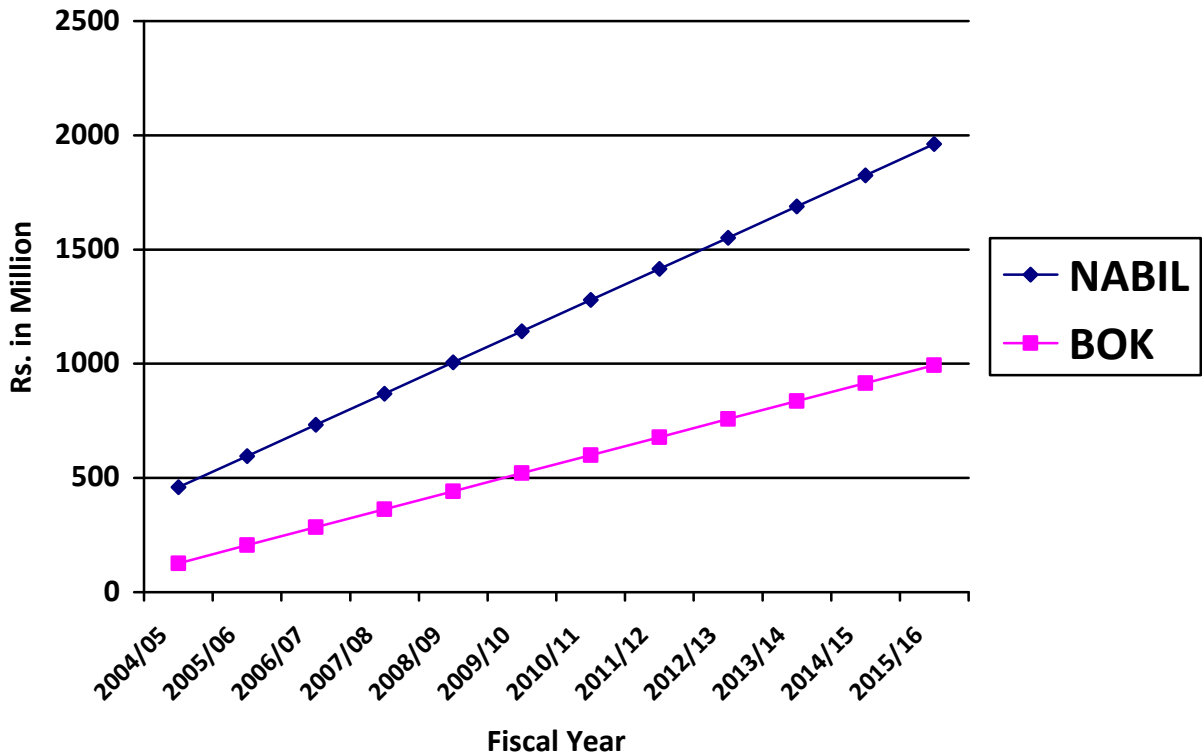
Table 4.25 Trend Analysis of Net Profit of NABIL and BOK**(Rs In Millions)**

Fiscal Year	Trend value of NABIL	Trend value of BOK
2004/05	459.38	126.41
2005/06	595.94	205.3
2006/07	732.5	284.19
2007/08	869.06	363.08
2008/09	1005.62	441.97
2009/10	1142.18	520.86
2010/11	1278.74	599.75
2011/12	1415.3	678.64
2012/13	1551.86	757.53
2013/14	1688.42	836.42
2014/15	1824.98	915.31
2015/16	1961.54	994.2

Source: Appendix No. 22

The above table 4.25 shows the net profit of two banks have the increasing trend value. The net profit of NABIL will be 1961.54 million in the mid July 2016. Similarly net profit of BOK will be 994.2 million in the mid July of 2016. From this trend analysis it can be said that the net profit of NABIL in the highest among the BOK bank which shows i.e. $1961.54 > 994.2$ million in the year 2016. The above calculated trend values of banks are fitted in the trend line.

Figure 4.11 Trend Value of Net Profit of NABIL and BOK



4.2.2 Coefficient of Correlation Analysis

In this heading, Karl Pearson coefficient of correlation (Direct Method) is used to find out the relationship between the variables.

i) Relationship Between Deposit and Loan and Advances

It measures the intensity or magnitudes or degree of relationship between the two variables. In the analysis deposit is independent variable(x) and loan and advances of computing coefficient of correlation(r) between the two variables are to justify whether deposit is significantly used as loan and advances or not. The table 4.26 reflects the value of 'R' r^2 , P.E r and 6.P. Er between deposit and loan and advances of NABIL in comparison to BOK.

Table 4.26 Correlation between deposit and Loan and Advances

Banks	Evaluation criterions			
	r	r ²	p. Er	6p.Er
NABIL	0.99	0.9860	0.0036	0.0214
BOK	0.999	0.9980	0.0005	0.0031

Source: Appendix No.23

Table 4.26 shows the value of 'r' r², P.Er, 6P.Er between deposit and loan and advances of NABIL comparison to BOK from the 2004/05 to 2010/11. In case of NABIL it is found that coefficient of correlation between deposit and loan and advances **0.99**, it shows the positive relationship between two variables. The value of coefficient of determination (r²) is **0.9860**, which mean 98.6% of the variation in the dependent variable (loans and advances), has explained by the independent variable (deposit). Similarly, BOK has coefficient of correlation between deposit and loan and advances **0.999**. It reflects the positive relationship between two variables. When we consider the value of coefficient of determination (r²), it indicates mean 99.8% of the variation in the dependent variable (loans and advances), has explained by the independent variable (deposit).

After analyzing the conclusion it can be drawn that in NABIL and BOK there is significant relationship between deposit and loan and advances because 'r' is greater than 6P.Er. And also BOK has higher correlation between deposit and loan and advances as well as higher value of (r²) than NABIL. It can conclude that it is successful to grant loan and advances to mobilize the collected deposits in a proper way.

ii) Relationship between Deposit and Total Investment.

Coefficient of correlation between deposit and total investment measure the degree of relationship between other two variables. Deposit is independent variable (X) and total

investment is dependent variable (y). The purpose of computing it is to find out whether deposit is significantly used is investment or not. The table 4.27 shows the value of 'r', r^2 , p.Er, 6p.Er between deposit and total investment of NABIL and BOK for the study period 2004/05 to 2010/11. The purpose of computing it is to find out whether deposit is significantly used as investment or not.

Table 4.27 Coefficient of Correlation Deposit and Total Investment.

Banks	Evaluation criterions			
	r	r²	p. Er	6p.Er
NABIL	0.967	0.9351	0.0165	0.099
BOK	0.570	0.3249	0.172	1.033

Sources: Appendix No.24

From table, it is found that coefficient of correlation between deposit and total investment of NABIL is 0.967. It shows the positive relationship between two variables. Moreover, when we consider the value of coefficient of determination (r^2) it is 0.9351 and it means 93.51% of the variation in the dependent variable is explained by the independent variable. Similarly considering the value of 'r' and comparing with 6p.Er, it is greater than 6p.Er so we can say that there is significant relationship between total deposit and total investment.

On the other hand, in case of BOK has positive correlation between deposit and total investment. By considering the probable error since the value of 'r' i.e.0.570 is less than 6p.Er i.e. 1.033, so it indicates that there is not significant relationship between total deposits and total Investment. Likewise by the application of coefficient determination i.e. r^2 which indicates BOK to be 32.49% of the variation in the dependent variable has been explained by the independent variables.

The above analysis clears that in case of NABIL there is significant relation between total deposit and total investment because 'r' is less than 6p Er. That means NABIL is

able to follow the policy of maximizing the investment of their deposits. It has certain investment policy of invest their deposit where as BOK there is not significant relationship between deposit and total investment. Lastly we can say that NABIL has followed the policy of maximizing the investment of their deposit or NABIL is successful in maximizing the investment of their deposit.

iii) Coefficient of correlation between Deposit and Net Profit

It measures the degree of relationship between two variables. Here deposits; (x) and net profit are independent variable(y). The objectives of computing coefficient of correlation between deposits and net profit is to find out whether net profit is significantly correlated with respect to deposits or not the table 4.28 shows the value of 'r', r^2 , p.Er 6p.Er between deposits and net profit of NABIL and BOK.

Table 4.28 Coefficient of Correlation between Deposit and Net Profit

Banks	Evaluation criteria			
	r	r^2	p.Er	6p.Er
NABIL	0.974	0.949	0.0130	0.0780
BOK	0.991	0.9821	0.0046	0.0276

Source: Appendix No.25

The table 4.28 shows the value of r, r^2 , P.Er, 6p. Er between deposit and net profit of NABIL in comparison to BOK for the study period 2004/05 to 2010/11. From this table, it has been found that the coefficient of correlation between total deposit i.e. independent variable and net profit dependent variable is 0.974 in case of NABIL. It shows positive relationship between there variable. By considering the value of coefficient of determination (r^2), is 0.949 indicated that 94.9% of the variation in the dependent variable has been explained by the independent variable. And considering the value of r is greater than the value of 6P.Er, which reflects NABIL is capable to earn net profit by mobilizing in total deposit. Similarly the coefficient of correlation between total deposit and net profit in the case of BOK is 0.991. Again when we

consider the value of coefficient determination (r^2) i.e.0.9821, it means 98.21% in the dependent variable has been explained by the independent variable. On the basis of comparison between the value of 'r' and $6p.Er$, there is significant correlation between two variables because the value of 'r' i.e. 0.991 is greater than that of the value $6P.Er$ i.e. 0.0276. Hence both banks have significant correlation between mobilization of funds and returns

iv) Coefficient of Correlation between Deposit and Interest Earned.

The coefficient of correlation between deposits and interest earned measure the relationship between these two variables. Deposits are independent variable (x) and interest earned is dependent variable(y). The objectives of calculating r between two variables are to justify whether deposit is significantly used to earn interest or not. The table 4.29 shows the value of 'r', r^2 . P. Er and $6P.Er$ of NABIL and BOK during the study period.

Table 4.29 Coefficient of Correlation between Deposit and Interest Earned

Banks	Evaluation criteria			
	r	r^2	P. Er	$6p.Er$
NABIL	0.9578	0.9174	0.0211	0.1264
BOK	0.9303	0.8655	0.0343	0.2058

Sources: Appendix No. 26

The coefficient of correlation 'r' between two variables in case of NABIL and BOK are 0.9578 and 0.9303 which indicates that 91.74% and 86.55% of the variation of dependent variable has been explained by independent variables. The values of 'r' in case of both banks have higher than that of $6p.Er$. This states that there is a significant relationship between deposit and interest earned.

After above analysis it can be concluded that the relationship between deposit and interest earned in case of NABIL is highly significant with showing higher dependency. It has effectively mobilization of deposits which had a major role to play

in its earning.

v) Coefficient of Correlation between Loan and Advances and Interest Paid.

It measures the relationship between these variables. Here, loan and advances is independent variables(x) and interest paid in dependent variable (y). The purpose of calculating 'r' between these variables is to established whether increase in loan and advances has play any role in decreasing in interest expenses.

The table 4.31 shows the values of 'r', r^2 , P.Er, and 6P.Er of NABIL and BOK during the study period.

Table 4.30 Coefficient of correlation between loan and advances and Interest Paid

Banks	Evaluation criterions			
	r	r^2	P. Er	6p.Er
NABIL	0.9573	0.9164	0.0212	0.127
BOK	0.8931	0.7976	0.0516	0.3096

Source: Appendix No.27

The coefficient correlation between loan and advances and interest paid in the case of NABIL and BOK are 0.9573 and 0.8931. They show the positive relationship between these variable. The value of coefficient of determination (r^2) are 0.9164 and 0.7976 it means 91.64% and 79.76% of the variation in the dependent variable is explained by the in depend variable. Again considering the value of r and comparing with 6P.Er in both case it is higher than 6P.Er this reveals that the value is significant relationship between two variables

In conclusion, it can be clear that the relationship between loan and advances and interest in case of both banks are great significant. The both banks are successful to utilize the loan and advances.

vi) Coefficient of Correlation between Total working fund and Net Profit.

It measures the relationship between the total working fund and net profit. Here total

working fund is taken as independent variable (x) and net profit is taken as dependent variable(y). The main purpose of calculating 'r' is to justify where total working fund is significantly used to generate earnings or in other words whether there variables are significantly correlated or not.

The table 4.31 shows the value of 'r', r^2 , P.Er, 6P. Er between their two variable of NABIL and BOK.

Table 4.31 Coefficient of Correlation between total Working Fund and Net Profit.

Banks	Evaluation criterions			
	r	r^2	P. Er	6p.Er
NABIL	0.9779	0.9563	0.0111	0.0668
BOK	0.9947	0.9894	0.0027	0.0162

Sources: Appendix No.28

The coefficient of correlation 'r' between total working fund and net profit in case of both banks are 0.9779 and 0.9947 which indicates positive relationship between these variables .The coefficient of determination r^2 in case of NABIL and BOK are 0.9563 and 0.9894 which shows that 95.63% and 98.94% of the variation of the dependent variables have been explained by independent variables. The value 'r'of is higher than 6P.Er in case of both banks, so there are significant relationship between there variables and able to generate earnings.

4.2.3 Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and so make estimate of one variable on the basis of the other variable regression is the line which gives the best estimate of one variable for any given value of the other variable. The regression line of Y on X. estimate the most probable values of Y for given values of X.

X is independent Variable

Y is dependent variable

The regression equation of y on x expressed as

$$y = a + b x$$

Where a and b are parameters of the line.

To find out the exact relationship between different variable simple regressions analysis has been done and result of the analysis has been table.

i)Regression Equation between Net Profits on Total Working Fund.

Table 4.32 Calculation of Regression Equation between Net Profits on Total Working Fund.

Banks	Regression Equation	Value (a) Constant	Regression Coefficient(b)
NABIL	$y= 161.30+0.019x$	a= 161.30	b=0.019
BOK	$y=0.030x-167.47$	a= -167.47	b=0.030

Sources: Appendix No: 29

The table reflects the regression equation of net profit and net working fund in NABIL and BOK. According to the table regression equation of net profit on net working fund $y= 161.30+0.019x$ in NABIL is positive and the regression coefficient is also positive i.e. 0.019 which indicates the positive relationship between net and net working fund. In other hand, one million increase in net working funds leads to average about 0.019 million increase in net profit. The value of constant (a) is relatively high. So, from analysis it shows that the net profit will be increase and net working fund also increase.

On the other hand, regression coefficient of (b) is positive in case of BOK which indicates that one million increase in net working fund lead to an average about Rs.0.030 increase in Net Profit. But, according to the above table regression equation of Net Profit on net working fund is negative which shows the negative relationship between net and working fund.

ii) Regression Equation between Net Profits on Total Deposit

**Table 4.33 Calculation of Regression Equation between
Net Profits on Total Deposit**

Banks	Regression Equation	Value (a) Constant	Regression Coefficient(b)
NABIL	$y= 172.19+0.22x$	$a= 172.19$	$b=0.22$
BOK	$y=0.035x-177.59$	$a=-177.59$	$b=0.035$

Source: Appendix No: 30

The above table is the collection of major output of simple regression analysis of net profit on total deposit. The regression equation of net profit (y) dependent variable on total deposit(x) independent variable $y= 177.19+0.22x$ in NABIL is positive and the regression coefficient is also positive i.e. 0.22 which indicates the positive relationship exists between net profit and total deposit or it can be said that one million increase in total deposit leads to Average 0.22 million increase in net profit. The value of constant (a) is relatively higher than BOK. The value of coefficient (a) indicates that net profit can be increase and total deposit also increase.

Similarly in case of BOK the regression coefficient is positive or in other words one million increases in total deposit leads to average about 0.035 million increase in net profit. But, according to the above table, regression equation of Net Profit on total deposit is negative which shows the negative relationship between net and working fund.

4.3 Major Findings of the Study

1) The current ratio of NABIL and BOK has fluctuating trend ratio. In the case, BOK has maintained higher current ratio, which states that liquidity position of BOK is not fair. The value of coefficient of variation of NABIL is 47.91% which is comparatively higher than BOK i.e. $47.91\% > 12.22\%$, Thus it can be said that current ratio of NABIL is less consistence than BOK. In general, the current ratio

analysis of banks over the seven years period indicates that it has been able to meet its short-term obligation and has satisfactory liquidity position.

- 2) The cash and bank balance to total deposit ratio of NABIL and BOK have fluctuating trends. But the cash and bank balance position of NABIL with respect to deposits is not better against the readiness to serve its customers deposits than that of the BOK so NABIL may invest in more productive sectors like short-term marketable securities treasury bills etc ensuring enough liquidity which will helps the bank to improve its profitability.
- 3) The mean ratio of cash and bank balance to current assets NABIL is lower than BOK. It states that liquidity position of NABIL is not better in this regarded. The CV of NABIL is higher than BOK i.e. 50.12%, on the basis of C.V the ratios are seemed to be variable. NABIL is better position in maintaining its cash and bank balance to meet its daily requirement to make the payments on customers deposit withdrawal in comparison to BOK.
- 4) The mean ratio of investment on government securities to current assets of BOK is higher compared to NABIL, which states that investment on government securities of BOK is highly rich than that of NABIL. On the basis of C.V the ratio of NABIL are more volatile and in consistent.
- 5) The loan and advances to current assets ratio of both NABIL and BOK have fluctuating trend during the study period. The mean ratio of NABIL is slightly more than BOK. It shows that loan and advances to current asset ratios of the NABIL has maintained a higher ratio. The coefficient of variation among ratio is higher in case of BOK, which indicates formality of BOK in comparison to NABIL bank. So, it can be concluded that it is not better to mobilize BOK funds as loan and advances.
- 6) The loan and advances to total deposit ratio of NABIL is in fluctuating trend where as BOK ratio is in increasing trend during the study period. NABIL is in strong position or in better position regarding the mobilization of total deposits on loan

and advances and acquiring higher profit in comparison with BOK. Higher ratio is not good from the view point of liquidity as the loan and advance are not a liquid as cash and bank balance.

- 7) Investment to total deposit of banks has in fluctuating trend during the study period. The mean ratio of total investment to total deposit of NABIL is higher than BOK, so the ratio is more consistent and less variable its overall figure suggest that the banks have mobilized significant amount of fund on the government securities and shares and debenture of other companies.
- 8) The mean ratio of loans and advances to total working fund of NABIL is slightly lower than BOK, and its C.V is also lower than that of BOK. Loan and advances is the most risky and most productive assets of the bank from the study shows two third of the assets taken optimum risk towards the mobilization of its fund to risky assets.
- 9) In case of investment on government securities to total working fund mean ratio and cv of NABIL is lower than that if BOK indicating that its ratio is variable and consistent over the study period.
- 10) The investment on shares and debentures to total working fund ratios of both NABIL and BOK has maintained fluctuating trend to investment of shares and debenture to working fund ratio.
- 11) Return on Total working fund ratios of NABIL has decreasing position up to 2007/08 than it has started increase in FY 2008/09. Similarly BOK has the increasing trend during the study period. The coefficient of variation of NABIL is lower than of BOK, it indicates the return on total working fund ratio of NABIL is stable and consistent in comparisons to BOK. The analysis clear the profitability ratio with respect to financial resources investment of NABIL is better as well as stable.
- 12) The mean ratio of return on loans and advances ratio of NABIL is higher than BOK i.e.3.56>2.43 respectively. The standard deviation of NABIL is higher than

BOK. Similarly the coefficient of variation of NABIL is also higher than BOK i.e. $18.17 > 14.12$. Thus it can be concluded that BOK is in average position in earning loan and advances in comparison to NABIL.

- 13) The mean ratio of total interest earned to total working fund of NABIL is slightly lower than BOK. The total interest earned to total working fund ratio of the NABIL is less variable in comparison to BOK. Its lowest C.V indicates that the ratios are satisfactory consistent during the study period.
- 14) The total interest paid to working fund ratios has increasing trend during the study period. The mean ratio of total interest paid to total working fund of NABIL is lower than BOK, which mean it has paid low interest than BOK. The total interests paid to working fund ratios are lesser than to total interest earned to total fund ratio. This indicates that the bank is in profitability position as it is earning higher return than its interest cost.
- 15) Liquidity risk ratios of the banks are fluctuating trend. The mean liquidity risk ratio of NABIL is lower than BOK and C.V of its also highest in comparison to BOK. So, the ratio of NABIL is more variable than BOK.
- 16) Total credit to deposit ratios of NABIL bank is in fluctuating trend and BOK has increasing trend. The mean of the ratios of NABIL is 60.72% which are lower than BOK. Similarly its C.V is 6.52% which is less in compared to BOK. It indicates that its credit policy is consistent than BOK.
- 17) The mean capital risk ratio of NABIL is higher than BOK. The ratio of NABIL is more variable which indicates that the capital risk ratio is inconsistent.
- 18) The growth ratio of NABIL deposit is higher than that of BOK. NABIL has maintained ratio of 22.67% where as BOK has only 15.31%. This means the performance of NABIL to collect greater deposit compared to BOK.
- 19) Similarly loans and advances of the banks are increasing trend. The growth rate of NABIL is higher than that of BOK. It has maintained growth rate of 23.76% where as BOK has 19.79% respectively. Hence the performance of NABIL to

grant loan and advances is better year by year comparing with BOK.

- 20) The total investments of studied banks are fluctuating trend during the study period. The growth ratio of NABIL total investment is higher than BOK. BOK has lowest growth ratio of 8.7% which is lower than NABIL i.e.20.53%. It shows that BOK has low successful in investing.
- 21) The total net profits of studied banks are also in increasing trends during the study periods. The growth ratio of net profit BOK is higher than NABIL. It has the rate of 27.71% where as NABIL has 17.10% respectively. It means the performance of BOK to earn profit is better year by year.
- 22) The trend analysis of total deposit of NABIL and BOK have increasing trend. From the trend analysis, it is forecasted that the total deposit of NABIL in 2015/16 will be Rs 81366.18 million. Similarly the total deposit of BOK will be Rs.32890.65 million in the third mid July of 2014 respectively. The deposit collection of NABIL is better than BOK.
- 23) From the trend analysis of total loan and advances, it has been seen that the total loan advances of banks have increasing trend. The total loan and advances of NABIL will be Rs. 60638.4 million in the mid July 2016, which is highest amount than BOK i.e.28752.87 million.
- 24) Total investment of NABIL and BOK has in increasing trend but the increasing ratio of NABIL is very high comparing to the increasing ratio of BOK. The total investment of NABIL will be 21954.69 million in the mid July 2016. Similarly the total investment of BOK will be Rs. 4540.29 million.
- 25) The net profits of two banks have the increasing trend. The net profit of NABIL by the year 2016 is projected to be 1961.54 million, which is the highest value under the study period. Similarly the total net profit of BOK will be Rs.994.2 million.
- 26) The coefficient of correlation (r) between deposits and loan and advances of the BOK is 0.999 which is highest than NABIL bank. The probable error multiplied

by six is found to be 0.02136 and 0.0031 of NABIL and BOK respectively. Since 'r' > 6P.Er and 'r' is positive which is near by 1 of both banks, there is very strong positive correlation between deposits and loans and advances during study period.

- 27) The correlation coefficient (r) between total deposit and total investment of BOK is 0.570 and probable error multiplied by six found to be 1.033 since 'r' < 6P.Er it has not significant relationship between these variables. Similarly the correlation coefficient of NABIL is 0.967 and 6P.Er is 0.099 since $r > 6P.Er$ there is significant relationship between total deposit and total investment during study period. It indicates that NABIL is successful in maximizing the investment during study period.
- 28) The correlation coefficient 'r' between total deposit and net profit of the NABIL is 0.974 and probable error multiplied by six is found to be 0.078, Since $r > 6P.Er$ the relation is significant. Similarly, r of BOK is greater than 6P.Er. This indicates that both banks are capable to earn net profit by mobilizing its total deposit.
- 29) The coefficient of correlation between deposits and interest earned of the NABIL is 0.9578 and probable error multiplied by six is found to be 0.1264. Since 'r' > 6P.Er it is positively and significantly relationship between there variables. The value of 'r' in case of BOk is also greater than the value 6P.Er indicating the relation significant. NABIL has effectively mobilized deposits which played the major role in its earnings.
- 30) The coefficient of correlation between loan and advances and interest paid of the NABIL and BOK are 0.9573 and 0.8931 respectively indicating the positive relationship between two variables. The probable error multiplied by six is found to be lower than value of 'r' in case of both banks have great significant relationship between the loan and advances and interest paid.
- 31) The coefficient of correlation 'r' between total working fund and net profit of

NABIL is 0.9779. It's probable error multiplied by six is found to be less than 'r'. There is positive correlation between total working fund and net profit during the study period. Similarly, in the case of BOK, 'r' is greater than its probable error multiplied by six, hence there is significant relationship between total working fund and net profit.

- 32) The regression of Net Profit on net working fund is positive in the case of NABIL and BOK. It indicates one million increases in net working fund leads to average 0.019 and 0.030 increase in net profit of NABIL and BOK.
- 33) Simple regression of net profit on total deposit is positive in the case of NABIL and BOK. It shows that one million increase on total deposit leads to average increase on total deposit leads to average of 0.22 and 0.035 increases on net profit in the case of NABIL and BOK.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Commercial banks are major financial institutions which occupy quite an important place in the framework of every economy because they provide capital for the development of industry trade and business and other resources deflect sectors investing the saving collected as deposit commercial banks by playing active role have changed the economic structure of the world. Commercial banks have its own role and contribution in the economic development it maintains economic confidence of various segments and extends credit to people. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and planned effort pushed forward the force of economic growth.

The income and profit of the bank depends upon its lending procedure lending policy and investment of its fund utilize in different securities. Commercial banks able to utilize its deposits properly i.e. providing loans and advances or lending for a profitable project the reason behind it is lack of sound investment policy. The objective of this study is to evaluate the investment policies adopted by NABIL and BOK. The study is totally based on secondary sources to data i.e. population sample. Financial tools, statistical tools etc. The required data has been collected from various financial and statistical tools, i.e. ratio asset management ratio, profitability ratio risk ratio, test of hypothesis and regression analysis etc.

Regarding the investment policies of commercial banks there are basically five basic principles of the bank follow while providing the loans i.e. liquidity profitability, security and suitability diversification. Various processes while making investment decision are applied in the study i.e. set investment process security analysis portfolio construction, revision, performance evaluation. The data obtained from annual reports of the concerned banks likewise the financial statement of seven year (from 2004/05 to 2010/11) were selected for the purpose of evaluation.

5.2 Conclusion

The liquidity position of NABIL is comparatively better than that of BOK. In spite of the current ratio is average among the BOK bank NABIL has maintained the cash and bank balance to meet the customers demand. Both banks have met the normal standard current assets ratio to meet the short term obligation of its customers. NABIL has invested lowest sectors like government securities than BOK. BOK had mobilized lots of its funds in order to gain the high profit.

From the analysis of assets management ratio it can be found that NABIL is in better position as compared to that of BOK. The loans and advances to total deposit ratio and loans and advances to total working fund ratio of NABIL are lowest than of BOK. BOK has invested the higher portion of total working fund on government securities as compared to BOK. Due to the more efficient loan policy, NABIL suffers less from loan loss provision. It takes low credit risk and has sufficient deposits of none bearing interest which can be used in a creation period. Anyhow BOK has also trying to best in loan loss provision. Investment on shares and debentures to total working fund ratio is higher in BOK. The interest earned to total outside assets and return on total working fund ratio of NABIL is lowest of BOK. But overall analysis of profitability ratios NABIL is profitable in comparison to next compare bank i.e. BOK. To make the profit BOK is taking highest risk by providing the higher portion of its deposit as a loan.

The return on loan and advances ratio and return on assets of BOK is lowest of all. The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory. The return on assets of the bank is good in average; it indicates the good earning capacity of the bank assets and good utilization of its assets.

The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So, it is profitable position as it is getting higher return that is interest cost.

The degree of risk is lowest of NABIL. The credit risk ratio is lower than the compared bank however the lowest C.V. of credit ratio and highest C.V of liquidity risk ratio and capital ratio over the study period provides for the assurance of consistency of the degree of risk. NABIL has showing its good performance by increasing the total deposit, loan and advances and investment in profitable sectors interested earnings by providing loan to clients. The trend of the total investment total deposit, loan and advances and net profit of NABIL shows better position than that of BOK.

5.3 Recommendations

On the basis of the findings of the study, following recommendations can be drawn:

- 1) In commercial bank the liquidity position affects external and internal factors such as saving for investment situations, central banks requirements, the leading policies management capacity etc. In this study it should try to lower the current liabilities to improve its liquidity position. Current liabilities to improve its liquidity position. Current ratio of both banks is not satisfactory. It is below its standard rate 2:1 so the banks are suggested to improve current assets the ratio of cash and bank balance to total deposit and current assets of BOK is higher than that of BOK. It means BOK has higher cash and bank balance which decrease profit of bank. So it is recommended to mobilize cash and bank balance in profitable as loan and advances.
- 2) From the study it is found that NABIL has invested funds in government securities than that of BOK bank. NABIL liquidity position shows that it has kept relatively funds as cash and bank balance which doesn't earn any return. This ultimately affects profitability of bank. Investment in government securities i.e. TBs development banks saving certificate are free of risk and highly in nature. So NABIL is recommended to invest its fund in government securities instead of keeping them idle "Something is better than nothing".

- 3) In practice joint ventured banks are urban based service quite a few elite, a fluent big customer are heavily dependent on free based activities. To overcome its situation they should be accessible to rural areas and possible loan and advances to its deposit. So the customers is enjoying by getting deposit borrowing and other services.
- 4) BOK has invested it's more of the funds that is total investment on total deposit ratio but the percentages of investment on shares and debenture is nominal. So it is suggested to investment more of its fund in share and debenture of different companies.
- 5) NABIL loan and advances to total deposit ratio is lowest in compared to BOK bank. To overcome from the situation it is recommended to follow liberal lending policy and invest more and more of total deposit in loan and advances and maintain stability on the investment policy.
- 6) Profitability ratios of banks are not satisfactory. If resources held idle banks have tolerated more cost and result would be lower profit margin. So portfolio condition of a bank should be regularly revised from time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. The bank should use its funds in more portfolio sectors. It should utilize its risky assets and share holders' funds and it should reduce its express and should try to collect cheaper fund being more profitable.
- 7) It is seen that NABIL has invested much of its fund in total outside assets but it has not achieved the desired result. So NABIL should play fact fully while investing its fund keeping in mind the interest rate.
- 8) NABIL has taken the low credit risk as NABIL is one of the largest commercial bank in Nepal. It must also invest as BOK. The risk taken by BOK from the angle of credit risk and capital risk are the highest but the consistencies of the same are highly volatile which may result higher loss. So it

should not test such risk on an experiment basis it should carefully study it so as to achieve higher return from the above risk.

9) In the light of growing competition in the banking sector the business of the bank is customer oriented. It should strengthen and active its marketing function as it is an effective tool of attracting and retaining customers. The bank should develop on “Innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.

10)The investment policy of NABIL is good in every aspect as studied above but the consistency in the above investment sectors is in equalities states. It is found that at time bank focuses much of its attention to one sector leaving other sector untouched, so it is recommended to touch all the sectors and balance it effectively as to have the optional performance of the bank.

To get success itself and to encourage financial and economic development of the country through industrialization and commercialization a commercial bank must mobilize its fund and debentures of other financial and non financial companies. And if other sectors go up positively then bank can utilize its fund more and more by providing them loan or getting sufficient dividend on their share or interest on their debentures. Commercial banks needed to strengthen its economic structure to achieve piped overall development. They have to resort to innovative approach of banking there by bringing professionalism in their business. If they follow those suggestions they can have better position to the modern innovative and competitive banking markets.

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**Appendix:1
Current Ratio**

Banks	NABIL			BOK		
	Fiscal Year	Current Assets	Current Liabilities	Ratio (Times)	Current Assets	Current Liabilities
2004/05	14971.8	15511.63	0.97	9310.27	9136.39	1.02
2005/06	13857.5	6661	2.08	8919.06	7399.33	1.21
2006/07	19127.3	15947.5	1.20	14174.3	13318.9	1.06
2007/08	26593	32590	0.82	14131	15919	0.89
2008/09	32380	38172	0.85	17295	18212	0.95
2009/10	37700	47270	0.80	19636	20529	0.96
2010/11	44125	50720	0.87	19969	21265	0.94

Sources: www.nabilbanklimited.com , www.bok.com.np

**Appendix:2
Cash and Bank Balance to Total Deposit Ratio**

(Rs in Millions)

Banks	NABIL			BOK		
	Fiscal Year	Cash & Bank Balance	Total Deposit	Ratio%	Cash & Bank Balance	Total Deposit
2004/05	559.38	14586.66	3.83	740.52	8942.75	8.28
2005/06	630.29	19347.4	3.26	728.7	10485	6.95
2006/07	1999.83	23342.29	8.57	1315.9	12388.9	10.62
2007/08	2670	31915	8.37	1441	15834	9.10
2008/09	3372	37348	9.03	2182	18084	12.07
2009/10	1400	46410	3.02	1798	20316	8.85
2010/11	2436	49696	4.90	1679	21018	7.99

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix:-3
Cash and Bank Balance to Current Assets Ratio

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Cash & Bank Balance	Current Assets	Ratio%	Cash & Bank Balance	Current Assets	Ratio %
	2004/05	559.38	14971.8	3.74	740.52	9310.27	7.95
	2005/06	630.29	13857.5	4.55	728.7	8919.06	8.17
	2006/07	1399.83	19127.3	7.32	1315.9	14174.3	9.28
	2007/08	2670	26593	10.04	1441	14131	10.20
	2008/09	3372	32380	10.41	2182	17295	12.62
	2009/10	1400	37700	3.71	1798	19636	9.16
	2010/11	2436	44125	5.52	1679	19969	8.41

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix:4
Investment on Government Securities to current assets Ratio

(Rs in Million)

Banks	NABIL			BOK			
	Fiscal Year	Investment on Govt. Securities	Current Assets	Ratio%	Investment on Govt. Securities	Current Assets	Ratio %
	2004/05	2413.94	14971.8	16.12	2146.62	9310.27	23.06
	2005/06	2301.46	13857.5	16.61	2658.37	8919.06	29.81
	2006/07	4808.35	19127.3	25.14	2332.04	14174.3	16.45
	2007/08	4646	26593	17.47	2113	14131	14.95
	2008/09	3705	32380	11.44	1745	17295	10.09
	2009/10	7974	37700	21.15	2955	19636	15.05
	2010/11	8745	44125	19.82	4002	19969	20.04

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix:5
Loan and Advances to Current Assets Ratio

(Rs. In Million)

Banks	NABIL			BOK		
	Fiscal Year	Loan & Advance	Current Assets	Ratio%	Loan & Advance	Current Assets

2004/05	10586.17	14971.8	70.71	5912.58	9310.27	63.51
2005/06	12922.5	13857.5	93.25	7259.68	8919.06	81.40
2006/07	15545.78	19127.3	81.28	9399.33	14174.3	66.31
2007/08	21365	26593	80.34	12463	14131	88.20
2008/09	27590	32380	85.21	14647	17295	84.69
2009/10	32268	37700	85.59	16665	19636	84.87
2010/11	38034	44125	86.20	17468	19969	87.48

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix: 6
Loan and Advances to Total Deposit Ratio

(Rs. In Million)

Banks	NABIL			BOK			
	Fiscal Year	Loan & Advance	Total Deposit	Ratio%	Loan & Advance	Total Deposit	Ratio %
	2004/05	10586.17	14586.66	72.57	5912.58	8942.75	66.12
	2005/06	12922.5	19347.4	66.79	7259.68	10485	69.24
	2006/07	15545.78	23342.29	66.60	9399.33	12388.9	75.87
	2007/08	21365	31915	66.94	12463	15834	78.71
	2008/09	27590	37348	73.87	14647	18084	80.99
	2009/10	32268	46410	69.53	16665	20316	82.03
	2010/11	38034	49696	76.53	17468	21018	83.11

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-7
Total Investment to Total Deposit Ratio

(Rs. in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Total Investment	Total Deposit	Ratio%	Total Investment	Total Deposit	Ratio %
	2004/05	4267.23	14586.66	29.25	2598.25	8942.75	29.05
	2005/06	6178.53	19347.4	31.93	3378.13	10485	32.22
	2006/07	8945.31	23342.29	38.32	2995.19	12388.9	24.18
	2007/08	9940	31915	31.15	3204	15834	20.23
	2008/09	10826	37348	28.99	2784	18084	15.39
	2009/10	13703	46410	29.53	3269	20316	16.09
	2010/11	13081	49696	26.32	4286	21018	20.39

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-8
Loan and Advances to Total Working Ratio

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Loan & Advance	Total Working Fund	Ratio%	Loan & Advance	Total Working Fund	Ratio %
	2004/05	10586.17	17186.33	61.60	5912.58	9857.13	59.98
	2005/06	12922.5	22330	57.87	7259.68	12278.3	59.13
	2006/07	15545.78	27253.39	57.04	9399.33	14570.1	64.51
	2007/08	21365	37133	57.54	12463	17721	70.33
	2008/09	27590	43867	62.89	14647	20496	71.46
	2009/10	32268	52151	61.87	16665	23396	71.23
	2010/11	38034	58141	65.42	17468	24758	70.55

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-9
Investment on Government Securities to Total Working Fund Ratio.

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Investment on Government Securities	Working Fund	Ratio%	Investment on Government securities	Working Fund	Ratio %
	2004/05	2413.94	17186.33	14.05	2146.62	9857.13	21.78
	2005/06	2301.46	22330	10.31	2658.37	12278.3	21.65
	2006/07	4808.35	27253.39	17.64	2332.04	14570.1	16.01
	2007/08	4646	37133	12.51	2113	17721	11.92
	2008/09	3705	43867	8.45	1745	20496	8.51
	2009/10	7974	52151	15.29	2955	23396	12.63
	2010/11	8745	58141	15.04	4002	24758	16.16

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-10
Investment on Share and Debentures to Total Working Fund

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Investment on Share and Debentures	Working Fund	Ratio%	Investment on Share and Debentures	Working Fund	Ratio %
	2004/05	27.36	17186.33	0.16	23.16	9857.13	0.23
	2005/06	27.56	22330	0.12	23.16	12278.3	0.19
	2006/07	27.56	27253.39	0.10	23.16	14570.1	0.16
	2007/08	324	37133	0.87	114	17721	0.64
	2008/09	354	43867	0.81	123	20496	0.60
	2009/10	946	52151	1.81	40	23396	0.17
	2010/11	936	58141	1.61	40	24758	0.16

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-11
Return on Total Working Fund Ratio

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Net Profit	Working Fund	Ratio%	Net Profit	Working Fund	Ratio %
	2004/05	518.64	17186.33	3.02	139.52	9857.13	1.42
	2005/06	635.3	22330	2.85	202.44	12278.3	1.65
	2006/07	673.96	27253.39	2.47	262.39	14570.1	1.80
	2007/08	746.48	37133	2.01	361.5	17721	2.04
	2008/09	1031.06	43867	2.35	461.73	20496	2.25
	2009/10	1141	52151	2.19	509	23396	2.18
	2010/11	1337	58141	2.30	605	24758	2.44

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-12
Return on Loan and Advances Ratio

(Rs in Millions)

Banks	NABIL			BOK		
Fiscal Year	Net Profit	Loan & Advance	Ratio%	Net Profit	Loan & Advance	Ratio %
2004/05	518.64	10586.17	4.90	139.52	5912.58	2.36
2005/06	635.3	12922.5	4.92	202.44	7259.68	2.79
2006/07	673.96	15545.78	4.34	262.39	9399.33	2.79
2007/08	746.48	21365	3.49	361.5	12463	2.90
2008/09	1031.06	27590	3.74	461.73	14647	3.15
2009/10	1141	32268	3.54	509	16665	3.05
2010/11	1337	38034	3.52	605	17468	3.46

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-13
Total Interest earned to Total Working Fund Ratio

(Rs in Millions)

Banks	NABIL			BOK		
Fiscal Year	Total Interest Earned	Working Fund	Ratio%	Total Interest Earned	Working Fund	Ratio %
2004/05	1068.75	17186.33	6.22	607.09	9857.13	6.16
2005/06	1310	22330	5.87	718.12	12278.3	5.85
2006/07	1587.76	27253.39	5.83	819.004	14570.1	5.62
2007/08	1979	37133	5.33	1034	17721	5.83
2008/09	2798	43867	6.38	1348	20496	6.58
2009/10	4049	52151	7.76	1870	23396	7.99
2010/11	5254	58141	9.04	2387	24758	9.64

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-14
Total Interest Paid to Total Working Fund Ratio

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Interest Paid	Working Fund	Ratio%	Interest Paid	Working Fund	Ratio %
	2004/05	243.54	17186.33	1.42	241.64	9857.13	2.45
	2005/06	357.2	22330	1.60	308.15	12278.3	2.51
	2006/07	555.71	27253.39	2.04	339.18	14570.1	2.33
	2007/08	758.4	37133	2.04	417.5	17721	2.36
	2008/09	1153	43867	2.63	563.11	20496	2.75
	2009/10	1960	52151	3.76	902	23396	3.86
	2010/11	2955	58141	5.08	1219	24758	4.92

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-15
Liquidity Risk Ratio

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Cash & Bank Balance	Total Deposit	Ratio%	Cash & Bank Balance	Total Deposit	Ratio %
	2004/05	559.38	14586.66	3.83	740.52	8942.75	8.28
	2005/06	630.29	19347.4	3.26	728.7	10485	6.95
	2006/07	1399.83	23342.29	6.00	1315.9	12388.9	10.62
	2007/08	2670	31915	8.37	1441	15834	9.10
	2008/09	3372	37348	9.03	2182	18084	12.07
	2009/10	1400	46410	3.02	1798	20316	8.85
	2010/11	2436	49696	4.90	1679	21018	7.99

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-16
Total Credit to Deposit

(Rs in Millions)

Banks	NABIL	BOK
Fiscal Year	Ratio%	Ratio %
2004/05	75.05	68.87

2005/06	68.63	71.42
2006/07	68.13	78.25
2007/08	68.18	80.51
2008/09	73.87	82.65
2009/10	71.17	83.90
2010/11	78.29	85.43

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-17
Capital Risk Ratio

(Rs in Millions)

Banks	NABIL			BOK			
	Fiscal Year	Capital	Risk weight Assets	Ratio%	Capital	Risk weight Assets	Ratio %
	2004/05	1657.64	14193.07	11.68	720.74	6926.86	10.41
	2005/06	1823.04	16976.4	10.74	720.74	7583.65	9.50
	2006/07	1992.85	19166.77	10.40	702.74	10226.2	6.87
	2007/08	2363.6	30256	7.81	1310.85	14318	9.16
	2008/09	3044.34	32500	9.37	1683.58	16025	10.51
	2009/10	3668	39016	9.40	2021	21472	9.41
	2010/11	4319	44469	9.71	2378	22918	10.38

Sources: www.nabilbanklimited.com, www.bok.com.np

Appendix-18

Calculation of Growth Ratio

Let,

D_n = Variable in the 7th year

D_o = Variable in the initial year

n = no of period study

i) Total deposit growth rate of NABIL

$$D_n = D_o (1+g)^{n-1}$$

$$49696 = 14586.66(1+g)^{7-1}$$

$$1+g = 1.2267$$

$$g = 22.67\%$$

ii) Total deposit growth rate of BOK

$$D_n = D_o(1+g)^{n-1}$$

$$21018 = 8942.75(1+g)^{7-1}$$

$$1+g = 1.1531$$

$$g = 15.31\%$$

iii) Total Loans and Advance growth rate of NABIL

$$D_n = D_o (1+g)^{n-1}$$

$$38034 = 10586.17(1+g)^{7-1}$$

$$1+g = 1.2376$$

$$g = 23.76\%$$

iv) Total Loans and Advance growth rate of BOK

$$D_n = D_o(1+g)^{n-1}$$

$$17468 = 5912.58(1+g)^7$$

$$1+g = 1.1979$$

$$g = 19.79\%$$

v) Total Investment growth rate of NABIL

$$D_n = D_o (1+g)^{n-1}$$

$$13081 = 4267.23(1+g)^7$$

$$1+g = 1.2053$$

$$g = 20.53\%$$

vi) Total investment growth rate of BOK

$$D_n = D_o(1+g)^{n-1}$$

$$4286 = 2598.25(1+g)^7$$

$$1+g = 1.087$$

$$g = 8.7\%$$

vii) Total Net Profit growth Rate of NABIL

$$D_n = D_o (1+g)^{n-1}$$

$$1337 = 518.64(1+g)^7$$

$$1+g = 1.1710$$

$$g = 17.10\%$$

viii) Total Net Profit Growth Rate of BOK

$$D_n = D_o(1+g)^{n-1}$$

$$605 = 139.52(1+g)^7$$

$$1+g = 1.2771$$

$$g = 27.71\%$$

