A STUDY OF INVESTMENT PATTERN ANALYSIS OF COMMERCIAL BANKS OF NEPAL

(A Comparative Study with Reference to Bank of Kathmandu Limited and Kumari Bank Limited)

A Thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled "A study on Investment pattern analysis of commercial banks in Nepal: A comparative study with reference to KBL and BOKL" submitted to united Academy, the faculty of Management is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of prof. Dr. Bal Krishna Shrestha.

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ABBREVIATIONS

A/C	:	Account
ATM	:	Automatic Teller Machine
B.S.	:	Bikram Sambat
BOKL	:	Bank of Kathmandu
CDM	:	Central Department of Management
C.V.	:	Coefficient of Variation
e.g.	:	For Example
F.C.	:	Foreign Currency
F/Y	:	Fiscal Year
Govt.	:	Government
i.e.	:	That is
JVBS	:	Joint Venture Banks
KBL	:	Kumari Bank Limited
Ltd.	:	Limited
No.	:	Number
NRB	:	Nepal Rastra Bank
P. Er.	:	Probable Error
r	:	Coefficient of Correlation
RBB	:	Rastra Banijya Bank
Rs.	:	Ruppees
S.D.	:	Standard Deviation
T.U.	:	Tribhuvan University
w.r.t.	:	with respect to

CHAPTER – I

1.1 Background of the Study

Nepal is one of the least developed country with poorest economic condition of the world. It is placed a among the lowest per capita income countries. The economic development of the country, which is reflected by the annual GDP growth rate in recent year, is around 2.72% (source: www.tradingeconomics.com.october, 2010) and it has also fluctuating trend. It's population growth rate as high a two percent has affected its economy to large extent. Nepalese economy can be characterized by stagnated growth, less poverty deprivation and illiteracy 45% (source: http://nepali/nepals-literacy-rate, January 13, 2010).

The proper mobilization and utilization of domestic resource is one of the key factors in the development of a country. Similarly, integrated and speedy development of the country in only possible when competitive and reliable banking services are reaching and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be earned without the existence and support of financial institutions. Financial institutions have catalytic role in the process of economic development. The investment pattern of financial institutions, especially banks has 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 prime requisite of successful performance of basic and other financial institutions.

The initial step of an investing policy involves is determining the investment objectives and the amount of one's invest able fund. Investment is always related with risk and return. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Therefore, investment objective should be stated in terms of both risks and return. Setting a clear investment

pattern also involves 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, invest able fund, tax consideration etc.

Investment is a very risky job for a purposeful, safe and profitable investment. Bank must follow round investment policy. The fundamental principle of investment must be followed through for profitable investment. Investment policy should ensure maximum amount of investment to all sector with proper utilization. There is high liquidity in the market and it seems no profitable place to invest these days. Investment policy provides the bank several inputs through which may 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 shareholders' wealth maximization.

1.1.1 Evolution of Bank

The origin of commercial banking can be traced back to the early times of human history. The evolution of bank is not a non-phenomenon. There was crude firm of banking even in an ancient Vedic era. The roman empire collapses in the last of 15th century and consequently commercial banking transaction were stated.

In the ancient Rome and Greece, the practice of storing precious metals an coins at safe place and loaning out money for public and private on interest was prevalent. In 17th century, in England, London Goldman began to accept deported two merchant and other safe keeping of the money and other valuables. As public enterprise banking made its first appearance in Italy in 1157 A.D. when the Bank of Venice was founded.

According to the opinion of great economist Geothong Crowtor, following community group are the ancestors of modern banking.

- The Merchant traders
- The Goldsmith
- The money banker

The merchant banker forms the earliest stage in the evolution of modern banking. Merchant those days required remittances of money from one place to another while trading. This give rise the institution of hundi or the later of transfer which these days are done through drafts, cheques, travelers cheque etc.

The next stage in the growth of banking was the goldsmiths. They are original representations of private bank in England. The business of goldsmith was such hat they had to take deposits such as bullion, money and ornaments for the security from theft and they charge for safe keeping of money consisting of gold and silver. On other hand as the evidence of receiving valuables, they used to issue a receipt to the deposits. As those receipts are good for payment equipment to the amount mentioned it become like the modern cheques, as a medium of exchange and a means of payments.

Finally, money lenders in the early age had contributed in the growth of banking to a larger extent. They used to advance the coins on loan by charging interest. As a safe guard they used to keep some money in the reserve. Therefore, goldsmiths and moneylenders became bankers who started performing the two functions of bank i.e. accepting deposit and providing loans and advances. "The bank of Venice" of Italy was established in 1157 A.D. as the first banking institution in the world. The second banking institution namely "The bank of Barcelona" of Spain was established in 1401 A.D. Its function is to exchange money, receive deposits and discount bill of exchange, both for their own citizens and for the foreigner, during 1401 A.D. "The Bank of Genon" was established in 1609 A.D. "The Bank of England" was incorporated in 1694 A.D. as a joint stock bank and later on the 1844 A.D. it becomes a first central bank in the world (Bupta : 1984).

1.1.2 Concept of Commercial Banks

Commercial Banks are the hearts of the financial system. It is an entity which 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 facilitating 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. Active role is played by commercial banks have changed the economic structure of the world.

Commercial bank deals with peoples 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 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 secure 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 guide bank's investment operation. A sound and viable investment policy attract both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. Commercial banks 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 and 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 regulations bodies while mobilizing its funds. So, the banks should invest its funds in legal securities only. Diana Mc Manghton in her research paper "Banking Institutions in Developing Markets' 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 and Diana: 1994). 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.

1.1.3 Investment Pattern of Nepalese Commercial Banks

The development of banking sector in Nepal is relatively recent. The establishment of "Tejarath Adda" during the year 1877 A.D. was the first step in institutional development of banking sector in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy. Considering this situations, the "Udyog Parishad" was constituted in 1936 A.D. One year after its establishment, it formulated the "Company Act" and "Nepal Bank Act" in 1937 A.D. Nepal Bank limited was established under Nepal Bank Act in 1937 A.D. as a first commercial bank of Nepal with authorized capital of Rs. 10 million.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However, the stand of Nepal Bank Limited alone in total monetary and financial sector was not sufficient and satisfactory. Thus Nepal Rastra Bank was set up on 1956 A.D. (2013-01-14) Rastriya Banijya Bank (RBB) was established on a fully government owned commercial bank.

With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality and competition service because of excessive political and bureaucratic interference. For industrial development, Industrial development center was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal. Industrial development corporation (NIDC) in 1959 A.D. (2016 B.S.). Similarly, Agriculture Development Bank (ADB/N) was established in 1976 A.D. (2024.10.7) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques. As the country moved towards economic liberalization in 1980 A.D., foreign Banks were invited to operate in Nepal. The financial scenario has changed with the introduction of joint venture banks in 1984. The number of commercial banks has been increasing. Since then, various financial institution like, joint venture banks, domestic commercial banks, development banks, finance companies, micro finance companies, credit guarantee corporation, employee provident funds, citizen investment trust. National insurance corporation, Nepal stock exchange have come into existence to cater the financial needs of the country move by assisting financial development of the country.

In 1990 A.D. after the restoration of democracy in Nepal, the government highlights the agenda of economic liberalization and emphasized to invite foreign direct investment (FDI) in the banking sector of Nepal. Therefore, the development of commercial Banks in Nepal is categorized in three phases on the basis of financial institutions polices adopted by the country from time to time. They are:

- Commercial Banks prior to 1980s
- Commercial Banks of 1980s
- Commercial Banks post 1990s.

There were only two banks prior to 1980's they are NBL and RBB. All the three commercial banks of 1980's were established a joint venture banks. Similarly ten commercial banks of past 1990's were also come into operation as joint venture banks. Several commercial banks were established by the private sector entrepreneurs of Nepal.

Table No. 1

List of Licensed commercial Banks in Nepal

S.N.	Name of Bank	Estd. Date
1	Nepal Bank Ltd.	1994/07/30
2	Rastriya Banijya Bank	2022/10/10
3	Nabil Bank	2041/04/01
4	Nepal Investment Bank	2042/11/16
5	Standard Chartered Bank	2043/10/16
6	Himalayan Bank	2049/10/05
7	Nepal SBI Bank Ltd.	2050/03/03
8	Nepal Bangladesh Bank	2050/02/23
9	Everest Bank Ltd.	2051/07/01
10	Bank of Kathmandu Ltd.	2051/11/28
11	Nepal Credit and Commerce Bank	2053/06/28
12	Lumbini Bank Ltd.	2055/04/03
13	Nepal Industrial and Commerce Bank	2055/04/05
14	Machhapuchhre Bank Ltd.	2057/06/17
15	Kumari Bank Ltd.	2056/08/24
16	Development Credit Bank	2057/10/09
17	Laxmi Bank Ltd.	2058/06/11
18	Siddhartha Bank Ltd.	2058/06/12
19	Agriculture Development Bank	2024/10/17
20	Global Bank Ltd.	2063/08/18
21	Citizens Bank Int. Ltd.	2064/01/06
22	Prime Commercial Bank Ltd.	2064/06/04
23	Bank of Asia Nepal Ltd.	2064/06/28
24	Sunrise Bank Ltd.	2064/06/28
25	NMB Bank Ltd.	2053/08/02
26	Kist Bank	2066/01/24
27	Mega Bank	2067

Source: www.nrb.org.np

After the announcement of liberal and free market economic based policy, Nepalese banks and financial sectors are having greater network and access to national and international markets. They have to go with their portfolio management very efficiently and seriously for coping with various challenge in order to increase their regular basis of income as well as to enrich the quality base of service for the attraction of good client. In this competitive and market oriented open economy, each and every commercial bank and financial institution has to play a determining role by widening various opportunities for the sake of expanding provisions of best service to their customers and by making themselves as a strong and potential financial intermediaries as per countries need of present scenario to obtain the desired level of economic development.

Nepalese commercial banks play a vital role in the economic growth . It investments range from small scale cottage industries to all types of social and commercial loans and large industries. Generally the investment of the commercial banks include the investment on Government securities like treasury bills, development bonds, national saving bonds, foreign government securities, shares of government owned companies and non-government companies and investment an debentures. Similarly, the commercial banks use their major chunk of funds in loan and advances.

1.2 Introduction of Selected Banks

1.2.1 Bank of Kathmandu Ltd.

Bank of Kathmandu limited is one of the reputed commercial bank which is a culmunation of a comprehensive vision of the promoters to take the Nepalese economy to a newer realm is a global market. Each promoter of Bank of Kathmandu has successfully demonstrated leadership skills and entrepreneurial talents in his /her respective field. Incorporated in 1993 Bank of Kathmandu came into operation in March 1995 with the following predominant objects.

- Identify business prospects not yet catered by existing commercial banks and offer new banking products and services.

- Introduce modern banking technology facilitating banking technology facilitating bank and business operation and transactions. BOKL has been providing wide-range of modern banking services through 28 points of representations located in various.

Bank of Kathmandu activities globe around deposit mobilization, advancement of various credits, international banking including trade financing, inwards and outwards remittances and funds and portfolio management. Bank of Kathmandu is committed to providing products and services of the higher standards. Bank of Kathmandu is committed as state of art technology for appropriate and efficient management information system (M.I.S.) and rendering quality service, VSAT radio modern for networking, SWIFT for international trade and transfer of funds around the world correspondent banking relationships with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities, gamut of corporate and retail banking products and services and centralized banking operation for better risk management, consistent service deliveries lowering operation cost.

With an intention of providing efficient service to customers by reducing the total processing time. BOKL has entered into a paperless environment and has implemented DOC BLITZ software. The software helps in processing documents without the movement of paper and accelerates the decision making process.

Brief Status of BOKL

The status of the bank up to F/y 2009/10 is as follows:

Table No. 2

Status of Bank of Kathmandu Ltd.

S.N.	Particulars	Rs. in Million
1	Total assets	23396.20
2	Loan overdrafts and bill purchased and demounted	16664.93
3.	Investments	3269.25
4.	Operating Profit	1342.69
5.	Deposition	20315.83

Source: Annual Report of BOKL, F/Y 2009/10

1.2.2 Kumari Bank Ltd.

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S. (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market.

Kumari Bank Ltd. has been providing wide range of modern banking services through 20 points of representation located in various urban and semi-urban part of country. The bank is pioneer in providing some of latest banking services like E-banking and SMS banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing need of customers that enhance high comfort and value,. The adoption of modern Globus software, developed by Temenos Nv, Switzerland and arrangement of centralized data base system enable customer to make highly secured transaction in any branch regardless of having account with particular branch. Similarly, the bank has been providing 365 days banking facilities extended banking hours till 7 pm in the evening, utility bill payment services, inward and outward remittance services, and various other banking services Visa Electron Debt Card, which is accessible in entire VISA linked ATMS (Including own ATMS and POS (Point of sale) terminals both in Nepal and India, has also added convenience to the customer.

The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by banking transparent business practice, professional management, corporate governance and total quality management as the organization mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

Brief Status of KBL

The status of the bank up to F/Y 2009/10 is as follows:

Table No. 3

Status of Kumari Bank Ltd.

S.N.	Particulars	Rs. in Million
1	Total assets	20522.47
2	Loan overdrafts and bill purchased and demounted	14765.91
3.	Investments	2296.87
4.	Operating Profit	488.06
5.	Deposition	17432.25

Source: Annual Report of KBL, F/Y 2009/10

1.3 Statement of Problem

Commercial banks have huge collection from depositors. Effective utilization of collected fund is possible only through sound investment policy. Most Nepalese commercial banks have not formulated their investment policies in organized manner. They mainly rely upon the instructions and guidelines issued by NRB. They are unable to estimate the future, they hardly have any clear view toward investment policy. Furthermore, the implementation of policy is not much effective way. The main reason attributed to unsound

investment policy is lack of proper analysis on financial risk, interest rate risk, liquidity risk, business risk etc.

It can be hypothesized the bank portfolio like loans, investment, cash reserve deposit and borrowing affects the natural income as economic development of country is based on financial sectors.

The problem that persists for a bank even today is to find a proper and viable project to ensure healthy profit. They have always feared high degree of risk and uncertainly owing to of profitable sectors for their investment. Still, some emerging and existing commercial banks are tempted to invest, without proper credit analysis and on personal guarantee. Commercial banks are nowadays investing only in less risky business. They mainly focus an non performing assets that means may invest the fund as giving loan like house loan, education loan, travel loan rather than on more profitable sectors i.e. treasury bills, development bonus and other securities. Thus the high liquidity of banks has resulted in a decrease in investment in productive sectors.

Thus, the present study will make a modest attempt to analyze investment pattern of BOKL and KBL. Some research questions relating to investment function of commercial bank of Nepal have been presented briefly as under.

- Is there sufficient liquidity position?
- Is fund mobilization and investment pattern of the bank effective and efficient?
- What is the relationship between investment, loan and advances with total deposits and total profits?
- Do the degree of success in investment strategy successful to utilize its available fund of BOKL and KBL?

1.4 Objective of Study

Based on the problem identified the following objectives have been set. Investment decision is one of the major decision functions of financial

management. The main objective of the study is to assess the investment policy and strategies followed by the KBL and BOKL. The specific objectives of this study are as follow.

- To study and examine the fund mobilization and investment practices of the concerned bank.
- To analysis the liquidity, profitability growth and risk of concerned bank.
- To evaluate the relationship between deposits and investments.
- To examine the effectiveness of sampled organization regarding formulation and implementation of investment policies.

1.5 Significance of the Study

Investment activity is one of the major activity of any financial institutions because only deposit collection do not have any meaning. Better return can be ensure only when deposits are properly mobilized and then only sustainability is possible. Therefore, to this significance on account this study on behalf of the firms investment pattern and its relationship is justified as the specified subject matter.

1.6 Rationale of the Study

The financial sector plays an important role in every country. The economic development of the country highly depends upon the financial institutions. The success of bank relies heavily upon the successful investment of collected resources 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. Good investment policy has a positive impact on economic development of the country and vice versa. Therefore, the effect is made to highlight the investment policy of commercial banks expecting that the study can be bridge gap between deposits and investment policies. On other hand, the study would help them to take collective action. similarly, from the study the shareholders would get information to make decisions while making investment on share of banks.

So with the study of existing investment pattern analysis the truth position of the bank among the commercial banks to invest and provide package of suggestions for its improvement customers saving should be invested in proper field to return like business, industries, development infrastructure, which directly or indirectly influences the economy of the country. So its very important to study the investment pattern of the bank.

1.7 Limitation of the Study

This study is simply a partial study for the fulfillment of MBS degree which has to be finished with in limited period. Hence, this study is not far from several limitation of its own kind, which weaken the scope of the study to some extent. Some of such limitation are as follows:

- The study is meanly based on secondary data collection from different sources.
- Only five years data used for the study covering from F/Y 2005/06 to 2009/10.
- Only two commercial bank are taken for the study.
- Out of numerous affecting factors, mix study concentrates only on those factors, which are related with investment pattern and available in the form required for analyzing the different issues.
- The truth of research result will base upon the available date from the bank.

1.8 Organization of the Study

The study will be organized into five chapters:

Chapter I: Introduction

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

Chapter II: Review of Literature

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

Chapter III: Research of Methodology

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

Chapter IV: Data Presentation and Analysis

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

Chapter V: Summary, Findings, Conclusion and Recommendations

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

The main part of research is data presentation and analysis, which is shown in fourth chapter.

Lastly, the fifth chapter includes summary, conclusion and recommendations which shows success or failure of the research done. And therefore, a bibliography and appendices also are included.

CHAPTER II : REVIEW OF LITERATURE

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus has been made on the review of literature relevant to the investment pattern of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic has been reviewed.

2.1 Conceptual Framework

2.1.1 Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of persons and institution and giving loans against securities. Commercial bank provide technical and administrative existence to industries, trade and business enterprises. Commercial bank means a basic which operates currently exchange transaction, accepts deposits, provide loan and performs dealing relating to commerce, and other than those books which have been specified for the cooperative, agriculture, industry of likely for other specific objective" (Principle of Bank Operation, American institute of banking, USA 1972, p. 245).

Under the Nepal commercial bank act 2031 B.S. that has been defined and emphasized about commercial banks they provide short term and long term loan whenever necessary for trade and commerce. They accept deposit from the public and provide loans in different form. The purchase and discount the bills of exchange promissory notes and exchange foreign currency.

Commercial banks must mobilize its deposits and other funds to profitable, sured and mixable sector so that it can earn a land. Some profit as well as it should be secured and can be converted it to cash whenever needed.

Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money how much money the firm needs and when it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensaving the maximum return with minimum exposure to risk, which ultimately leads to the path of success.

2.1.2 Investment

The banks are such types of institutions, which deals in money and substitute for money. They deals with deposit, credit and credit instrument. Good circulation of credit is very much important for financial institution and bank. Unsteady and unevenly flow of credit harms the economy and profitability of commercial banks. Thus to collect fund and utilize it in good investment is the prime objective of commercial banks.

Frank K. Reilly defined investment as "An investment may be defined as the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time the funds are committed, for the expanded rate of inflation and also for the uncertainly involved is the future flow of funds".

Gitman and Joehnk, in his book expressed that, "Investment is any vehicle into which funds can be placed with the expectation that will preserved or increase in value and generate position returns".

William and Gorden define investment as, "Investment in its broadcast sense, means the scarifies of certain present value for (possible uncertain) future value".

F. Amling "Investment may be defined as the purchase by an individual or institutional investor of a financial or real a net that produces a return proportional to the risk assumed over some future investment period.

From the above definition it is clear that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return or interest is expected because of uncertainly involved in expected future cash flow. Investment is long term commitment of bank in the uncertain and risky environment. It is very challenging taste of commercial banks. Bank has to be very careful while investing their funds in various sectors. The success of bank heavily depends upon the proper management of funds.

2.1.3 Characteristics of Sound Investment Policy

Income and profit of the bank depends upon its lending procedure and investment of funds of different securities. The greater the credit by a bank, the greater will be profitability. A sound lending policy is not only prerequisite banks profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some main characteristics of good investment policy which help to measure its efficiently are as follows:

a) Liquidity
b) Profitability
c) Safety and security
d) Suitability
e) Diversification

a) Liquidity

Liquidity refers to the capacity of the bank to pay cash against deposits. People deposit money at bank in different account with confidence that the bank will repay their money whenever it is needed in order to maintain the confidence to the depositors, bank must be prepared with sufficient degree of liquidity of its assets.

b) Profitability

Bank should invest their fund where they earn maximum profit bank built up their capital accepts deposits from depositor and issued of share debenture from shareholders who contribute invest and divided. The profit of bank mainly depend on the interest rate, volume of loans, time period and nature of investment in different securities.

c) Suitability

Bank should know whether loan is utilized in proposed plan or not if borrower mix used the loan granted by the bank they can never be able to repay which passed heavy bad debt to bank detailed information about the scheme of the project activities should be examined before lending.

d) Safety and Security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its fund into speculative businessmen who may be bankrupt at once or who may earn million in a minute also. The bank should accept that type of securities which are commercial, durable and marketable and have high marketable price.

e) Tangibility

Though it may be considered that tangible property does not yield income part form direct satisfaction of possession of property, may times, intangible securities lost their value due to price level infection. So commercial banks should prefer tangible securities to intangible one.

f) Diversification

Diversification of loan helps to sustain loss as, if securities of some company deprived, there may be appreciation in the securities of other companies. Hence bank should be careful while granting loan. To minimize risk and maximize profit, a bank must diversity its investment an different sector or make portfolio investment.

g) Legality

Every financial institution must follow the rules and regulation of the company, government and various directions supplied by NRB, ministry of finance while mobilizing funds and issuing securities. Illegal securities will bring out many problems to the investors that may lose reputation and good will of the bank.

2.2 Review of Related Studies

2.2.1 Review of Books

"An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit" (Francis 1991, p. 1).

Investment by individuals, business and government involves a present sacrifice of income to get an expected future benefit. As result investment raises a nations standard of living". (The World Book Encyclopedia, 1976, p. 232).

According to William J. Sharpe and Alexander J. Gorden also defined the term "Investment" as the sacrifice of money today for the prospective money tomorrow. He writes "Investment" in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, it at all the magnitude is uncertain. In some cases the element of time predominates (e.g. Government bond). In other cased, risk is the dominant attribute (e.g. call option on common stock). In yet both time and risk are important. (Sharpe and Alexander, 1996, p. 1)

The term investment can cover wide range of activities. It often refers to investing money in certificate of deposits, bonds, common stock or mutual funds. More knowledgeable investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing

encompasses very conservative position and aggressive speculation (Charles, 1998:269).

Emphasizing the importance of investment policy, H.D. Crosse puts his view in this way "Lending is the essence of commercial banking and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform it credit creation function effectively and minimize the risk inherent in any extension of credit" (Crosse, 1963:358).

V.K. Bhatta, has given the basic concepts of investment in three points. They are as follows:

- Economics investment that is an economist definition of investment.
- Investment is a more general or extended sense, which is uses by "the man of the street".
- The sense in which we are going to be very much interested normal financial investment.

From the above definitions we can conclude that investment means use also rupee of amount today be expecting more income in future. If someone invest his fund today, he will get financial benefit in future from mobilization of their fund. The value of rupee in future is increased than current value, so the expected change in price during the period and for the uncertainity involved in cash flow. so, it is clear that investment is the mobilization of funds today will expected additional return in future but the return sometimes may be negative also, if wrongly invested without sound knowledge of investment and their related factors.

2.2.2 Review of Articles and Research Works

In this section, effort has been made to examine the review of some article published in different magazine, journal and newspaper.

Parasuram Chhetri (2005), Chief lending officer of NBL, commercial that big investors are losing interest an loans. However, demand for small loan has gone up which is also less risky compared to huge loans. He further said that.

a) Business confidence among big clients has been low. There is high risk in corporate loans.
b) The banks high liquidity and low interest rate in treasury bills issued by NRB has also compelled the bank to go for consumer financing at low interests.
c) In customers loan market, 60 to 64 percent occupied by auto, 35 percent by housing and less than 5 percent by the educational sector.
d) The bank is giving housing loans at the rates of 7.5 percent and auto loans at 6.5 percent interest rates.

Bruce Henderson (2006), chief executive officer of RBB said that effective reform in RBB helped the bank to move into customer lending and compete with private banks. The bank has reformed areas like lending and recovery, right sizing staff, quality manpower, reducing non performing assets and computerization. He further said that.

a) Consumer get attracted towards small loans for housing, automobile and education due to low interest rates giving an example of over 750 people registered their names for housing, automobiles and educational loans at the exhibition recently held at international convention centre at the RBB stall.
b) The bank opening the window of opportunities for many consumer. It encourages individuals to do business and other loans promptly.
c) The bank is opening the window of opportunities for many consumers. It encourage individuals to do business other loans promptly.

Bodi B. Bajracharya (2007), in the article, "Monetary policy and deposit mobilization in Nepal" that "The mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. for this purpose, commercial

banks stood as the active and vital financial intermediary for generating resources in form of the private sectors. So for providing credit to the investors is a different aspect of the economy".

He has explained that commercial banks only can play an important role to mobilize the national savings. Nowadays other financial institution like finance companies, cooperative societies have been established actively to mobilization deposits in the proper sectors so that return can be ensured from the investment.

Ajay Ghimire (2008), General Manager of ACE Development Bank Ltd. has explained about the procedure of establishment of financing company. After establishment of a firm, any firm has an objective of maximizing value of the firm. He gives emphasis towards the financing decisions of a firm is an outcome of a complain, equillibrium process. Therefore, there is no "one best investment policy" of all the organizations. The organizations are interested in optimizing its investment decisions should formulate its investment policy taking into considerations the skilled, taste and performance of manager involved in the decision making process".

2.2.3 Thesis Review

Many thesis were review in course of preparation of this thesis. Among them, only relevant thesis which are significant for this research are included. Every research thesis has a long list of its findings, summary conclusions and recommendation. However, the researcher has tried to edit them for brevity.

Netra Kumar Khatri (1997) in his thesis work entitled, "A study on Investment policy of Nepal Industrial Development Corporation (NIDC), has found that NIDC has supposed to be invested the highest percentage of loan as direct loan and the least percentage of loan as guarantee on. NIDC has facilitated high priority to central Development Region and least to far western development. During his study period, he has also found that NIDC has provided more assistance and services to the hotels, tourism based industrial

sectors and so on. In the recommendation sectors, he has included that NIDC has to provide the facilities and services equally in all the development regions and finance with equal preference to minimize the industrial imbalance among the different region.

He has focused his study on NIDC, which is competitive study. It can not represent that investment policy of other firms. It is a limitation of his study. He has tried to show the investment policy and priority sectors of NIDC. His study is not complete to analyze the investment policy of commercial banks and finance companies. The study period of his research work in up to F/Y 1996/97, which can not represent the result and investment policy after F/Y 1996/97.

Dillip Roy (2000) has conducted as thesis research on "An investment analysis of Rastriya Banijya Bank (in comparison with Nepal Banks Ltd.) with main objectives:

- To evaluate liquidity, activity and profitability ratio of RBB in comparison with NBL and industry average.
- To use trend analysis to compare loan and advances, total investment with total deposits and net profit of RBB and to compare it with that NBL and industry average.
- To examine the loan loss provision of Rastriya Banijya Bank and NBL.
- To provide suggestion and recommendation on the basis of findings.

The findings of the researcher were as follows:

- RBB has good deposit collection enough loan and advance and small investment in government scarifies.
- The assets management ratio of RBB in not better than that of NBL.
- The profitability position of RBB is worse in comparising with NBL due to low return on working fund, loans and advances outside assets.
- The fund collection of mobilization position of RBB is satisfactory in comparison to NBL while considering growing rate.

- In relation to find flow analysis, the RBB has poor loan and advance issued.
- RBB has better positive relationship between deposit and loan and advances, where there is no signification relation between deposit and investment of both banks RBB and NBL. And this is to relationship outside assets and net profit.

Ruru Kusum Gautam (2000), in his thesis work entitled, "Investment analysis of the Finance Companies" has tried to examine the deposits, loan and advances repayment of the loan. His main objectives to overcome the existing problem of finance companies are:

- Analysis of transaction on the government securities.
- Analysis of the capital range of the finance companies.
- Analysis of the loans and advances of finance companies.

He has found the following points from his research study:

- Investment on government securities of finance companies was increasing rapidly from the period of 1995 to 1998. However, it has been decreased in the year 1999 due to low return on government securities.
- Capital range of the finance companies are not greater. Their capital range lies between 100-500 lakh only.
- The major source of fund of finance companies is it utilized in loan and advances.
- They grant their fund on hire purchase loan lease, term loan but hire purchase loan decreasing rapidly.

He has also recommended the following points to more finance companies that are facing several problems in present.

- Investment policy of the finance companies should be concentrated on productive sector.
- Unhealthy competition of interest rate on deposit collection as well as lending should be monitored and amended.
- Now investment policy should be adopted. so that they can increase the public confidence.
- Past mistakes and errors should be avoid and rectified.

He has tried to analyze the investment policy of finance companies. His study does not cover the investment analysis of commercial banks and other institution. His study also analyzes the comparative study of the commercial banks and finance companies. He has not also analyze the risk factors. The study period of his research work on investment policy of finance companies is up to F/Y 1999/2000.

Kamala Ojha (2001) has presented her objective of study and conclusion in her thesis entitled , "A study on priority sector investment in commercial Bank (with special reference to Rastriya Banijya Bank)". She has main objective of examining the priority sectors for investment of Rastriya Banijya Bank, utilization of the funds during his five years study period i.e. from 1992/93 to 1996/97. Lastly she found that the banks was unable to meet the requirement of 12% lending in the priority sector as set under NRB directives. She has further found low interest rate in the priority sector but increasing trend of over due and its misutilization. She has also recommended for improving the proper supervision, evaluating the borrowers paying capacity and trying to reduce the overdue through integrated program of priority sector loan.

She has tried to examine the investment sectors of Rastriya Banijya Bank, which can not explain the investment policy of the firm properly. Her study can not also analyse the investment priority of other banks. Her study period is up to F/Y 1996/97. It can not examine the investment sectors after that fiscal year.

Raja Ram Khadka (2002), in his thesis work, entitled "A study on the investment policy of Nepal Arab Bank Ltd. in comparision to other joint venture banks of Nepal", has made an attempt to examine and interpret the investment policies adopted of NABIL and other joint venture banks of Nepal. He has included the following objectives:

- To evaluate the liquidity, asset management efficiency and profitability position.
- To discuss fund mobilization and investment policy and growth ratios of loan and advances and total deposit, net profit and total investment.
- To find out the relationship between deposits and total investment, deposits and loan and advances etc.
- To evaluate the trend of deposit utilization and its projection for next five years.

His major findings are

- The mean current ratio of NABIL is slightly lower than that of other joint venture bank but the mean ratio of cash and bank balance to current ratio of NABIL is greater in comparision to other JVBs.
- The mean ratio of loan and advances to total deposits of NABIL is lower than that of other JVBs, similarly, the mean ratio of total deposits of NABIL is lower then that of other JVBS.
- The mean ratio of investment on government securities to total working fund of NABIL in slightly lower than that of other JVBS.

Min Bahadur Ranabhat (2003), in his thesis, "An analysis of financial performance of finance compares in the context of Nepal has included the objectives of fund mobilization and investment on different sectors of finance companies, how the finance companies are utilizing their funds through

housing loans. Hire purchase loan, how they are investing in government securities share and between of other companies. Finally he found that,

- Finance companies are using their fund on hire purchases loan in decreasing trend.
- The use of funds towards housing loans is also gradually decreasing.
- They are providing term loan in increasing way.
- The fund used by finance companies is increased towards leasing with increasing rate.
- Investment on government securities is in increasing rate.

On the basis of above findings, Mr. Ranabhat has recommended the following points.

- Finance companies are providing several financial services. The uses of funds toward hire purchase and hanging financing must be shifted towards the business financing. They have to prepare good investment policy credit strategies to form adequate capital for overall development of nations. The unhealthy competition of interest rate towards finance companies for the collection of deposits should be avoided.
- They need strong supervision and control of finance by Nepal Rastra Bank.
- They should have good cooperation and gain public confidence.
- The finance companies have to country that they can really contribute to the national economy.
- They are efficient to mobilize their deposits.

Joshi (2005) conducted a study on "Investment policy of commercial banks in Nepal. A comparative study of Everest Bank Limited with NABIL Bank Limited and Bank of Kathmandu" with the objective of:

- To discuss fund mobilization and investment policy of EBL, NABIL and BOKL Ltd.

- To evaluate the liquidity, efficiency and profitability and risk position.
- To evaluate the growth ratios of loan and advances, total investments with other financial variables.
- To analyze the trend of deposits utilizations towards total investments and loan and advances.
- To conduct hypothetical test to find whether there is significant difference between the various important ratios to EBL, NABIL & BOKL.

The study was conducted on the basis of secondary data. The research findings of the study are:

- The liquidity position of the EBL is comparatively better than NABIL and BOKL. EBL has the highest cash and bank balance to total deposits, cash and bank balance to current asset ratio. NABIL has the lowest liquidity position than that of other two banks. EBL has good deposits collection and has made enough investment on government securities but it has maintained moderate investment policy on loan & advances.

- From the analysis of assets management ratio or actively ratio, it can be concluded to NABIL and BOKL. The total investment of EBL is in between compared to other two banks.

- In the study, loan and advances to total deposit is higher in BOKL but total investment to total deposit is higher in NABIL. Investment on shares and debentures to total working fund ratio is higher in BOKL. But the coefficient of variation is higher in EBL.

- In analysis of profitability, total interest earned to total outside asset to EBL is lowest at all. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e. NABIL and BOK. From the view point of risk ratio, EBL has higher capital risk but average of credit risk in compared to NABIL and BOKL.

2.3 Research Gap

The purpose of this research work is quite different from other studies. The author focuses this study mainly in effectiveness on investment policy analysis of only two banks i.e. Kumari Bank and Bank of Kathmandu in comprehensive manner considering the major items. Similarly, period of time is also cause this research has followed five years (f/y 2005/06 to 2009/10) period and the method of analysis is also quite different.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systamically solve the research problem. It refers to the various sequential steps that are to be adopted by researcher during the course of studying a problem with certain objectives. It includes construction of research design, nature of data, data gathering procedure, population and sample and data processing procedure. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect.

This research tries to perform a well designed, quantitative and qualitative research in a very clear and direct way by using both financial and statistical tools.

3.2 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research question and to control variance. The research design allows the researcher to take an appropriate measure and direction towards the predetermined goals and objectives.

A research design, bearing the techniques and systematic steps of research, helps to collect various information, requested to researcher for thesis writing of any investigation. The lack of research design, the functional process on researches is never achieved. The research study examines the fact and postulates in certain frameworks or details and supplies the imported information on subject matter. Major finding, recommendation, conclusions etc. are the most significant information among them. They are demand with the help of some financial and statistical tools, which help to evaluate comparatively the investment pattern of BOKL and KBL. This study evaluate

comparative analysis of investment pattern with special reference to BOKL and KBL. So it is mainly based on descriptive analytical research design.

3.3 Population and Sample

At present, there are 29 commercial banks. It is not possible to study all of them regarding the research topic. Therefore BOKL and KBL, the reputed and well established commercial banks are taken as a sample bank for research study from population (Commercial Banks).

3.4 Nature and Sources of Data

The research is mainly based on secondary data but some additional required information has been collected through the personal interview with key person and employees. The secondary data have been collected from financial statement,. annual report, unpublished official records of concerned companies, journals and from the office website of NRB and individual sampled companies.

The secondary sources of data collection are balance sheet, PL accounts of concerned banks, NEPSE report and SEBON's report. Some supplementary data and information have collected from the authoritative sources like Nepal Rastra Bank, Central library T.U., college library, Nepal stock exchange limited, security exchange Board etc. The data are prerequisites for any project study. The data collection entail labor and time and is a raw information taken in stateside manner.

3.5 Data Presentation and Analysis

Data presentation and analysis mechanism is the core of project study. This study heavily depends on selected financial and statistical tools to accomplish the objectives of the research project. The data extracted from financial, statistical and accounting tools have been used. These results are them compared with each other to interpret the results. Two kind of tools have been used to achieve the purpose namely financial tools and statistical tools.

3.5.1 Financial Tools

Financial tools basically help to analyze the strength and weakness of a firm ratio analysis being one of the important financial tools has been used in this study. In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make quantitative judgement about the firms performance. The point to note is that a ratio indicates a quantitative relationship, which can be used to make a qualitative judgement.

There are several ratios involved in analyzing and interpreting the financial statement. In this study, basically four types of ratio have been used which are related to investment of banks. They are liquidity ratio, asset management ratio (Activity ratio), Profitability ratio and Risk ratio.

A. Liquidity Ratios

Liquidity Ratio measures the firms ability to meet its current obligation. Commercial banks collect fund from the community with commitment to return depositors fund, facilitate withdrawal on demand. A firm should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. It is necessary to strike a proper balance between high liquidity and lack of liquidity. The following ratios are evaluated under liquidity ratio.

I. Current Ratio

Current ratio is the relationship of current assets and current liabilities. Current assets are those assets, which can be converted into cash within short term. Current ratio measures paying ability of short-term debt of the firm. Traditionally 2.1 is standard ratio but it is a conservative outlook about the coverage of current liabilities. Current ratio is calculate by dividing current assets by current liabilities.

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

Current Assets = Inventories, sundry debtors, cash and bank balance, receivable/accrual incomes, loan and advances disposable and investment etc.

Current Liabilities = Creditors, short -term loan, bank overdraft, cash credit, outstanding expresses, provision for taxation, proposed dividend and unclaimed.

II. Cash and bank balance to total deposit ratio

They are the most liquid of current asset to pay off depositors immediately. This ratio is calculated by dividing cash and bank balance by total deposits. In order to bring about consistency in this research, checks for clearing have been excluded from cash and bank balance and include in other assets. Mathematically,

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

Cash and bank balance includes cash in local currency and foreign currency on hand or with banks. The total deposits consists of deposits in current account, savings account, fixed deposits account, money at call deposits, margin deposit etc. A higher ratio indicates greater ability of banks to meet their deposits and vice-versa.

III. Cash and bank balance to current asset ratio

This ratio measure the percentage of liquid assets i.e. cash and bank balance in the current assets of the firm. Higher ratio shows greater capacity of firms to meet cash demand. The ratio is calculated by dividing cash and bank balance by current assets. Mathematically,

$$\text{Cash \& bank balance to current assets ratio} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

IV. Investment on Government securities to total asset ratio

This ratio is used to find the percentage of current assets invested on government securities treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows:

Investment on Government securities to current asset

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

B. Asset management ratios

Asset management ratio indicate how efficiently the selected banks have arranged and invested their limited sources. The following financial ratio related to investment policy are calculated under asset management ratio and interpretation are made by these calculation.

I. Loan and advances to total deposit ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total deposits on loan and advances to generate profits. A higher ratio is indicative of better utilization of total deposits, but the same might not hold true from liquidity point of view. It is computed by dividing total loan and advances by total deposits. Mathematically,

$$\text{Loan and advance to total deposits ratio} = \frac{\text{Loan and advance}}{\text{Total deposits}}$$

II. Total investment to total deposit ratio

This ratio shows the utilization of firms deposits on investment in government securities and purchasing shares and debentures of other companies. A high ratio is indicative of high success in mobilization of deposits in investments and vice-versa. This ratio can be calculated by dividing total investment by total deposits. Mathematically,

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

III. Investment on government securities to total working fund ratio

This ratio shows the percentage of total working fund invested in government securities. In other words, this ratio measures the extent to which the banks have been successful in mobilizing their total working fund on different type of government securities. The logic behind investment in government securities by banks is to diversity the risk by not putting all the eggs in the same basket. This is also beneficial in the sense that banks are assured of adequate liquidity. A high ratio indicates better mobilization of funds as investment on government securities and vice-versa.

This ratio can be calculated by dividing total amount of investment in government securities by the total working fund. Mathematically,

$$\text{Investment in government securities} = \frac{\text{Investment in Government Securities}}{\text{Total working fund}}$$

IV. Loan and advance to total assets ratio

The main element of total assets is loan and advance. This ratio indicates the ability of selected banks in term of earning high profit loan and advance. Loan and advance to total assets ratio can be obtained by dividing loan and advance amount by total assets.

$$\text{Loan and advances to total asset ratio} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

Where, total assets includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loan for development banks and other sundry assets except off balance sheet items i.e. letter of guarantee, letter or credit etc.

C. Profitability Ratio

The profitability ratio are calculated to measure the overall efficiency of a firm in terms of profit earning and performance. Profit is one of the major

indicators of efficient performance of banks. One of the major objectives of banks is to earn profit, so profit is very crucial for the survival of banks. To meet various objectives like, maintaining good liquidity position, meet internal obligations, expansion of banking services, finance short term government needs, commercial banks need to earn sufficient profit. A higher profit ratio shows higher efficiency of a bank.

The following ratios related to investment policy are calculated under profitability ratios:

I. Return on loan and advance ratio

Return on loan and advances ratio indicates how efficiently the bank has utilized its resources in the form of loan and advances to generate good return. It measures the earning capacity of a commercial bank. This ratio is calculated by dividing net profit by loan and advances. Mathematically,

$$\text{Return on loan \& advances ratio} = \frac{\text{Net profit/loss}}{\text{Total loan and advances}}$$

II. Return on total assets

Return on total assets shows the overall profitability of working fund or total assets. Return on working fund ratio is a measuring rod of the profitability with respect to each financial resource, investment of banks asset. If the banks total working fund is well managed and utilized efficiently, return as such asset will be higher and vice-versa. This ratio is calculated by dividing net profit by total working fund. It is calculated by dividing net profit by total assets. Mathematically,

$$\text{Return on total assets} = \frac{\text{Net profit/loss}}{\text{Total working fund}}$$

III. Total interest earned to operating income ratio

This ratio is measured to find out the ratio of interest income with operating income of the bank. It shows how efficiently the banks have mobilized their resources in interest bearing assets i.e., loan and advances investment in government securities. Total operating income includes interest income, commission fees & discount, dividend income, foreign exchange income etc. This ratio shows the magnitude of interest income in total income. It is calculated by dividing total interest earned by net operating income. Mathematically,

$$\text{Total interest earned to total operating income ratio} = \frac{\text{Total interest earned}}{\text{Total operating income}}$$

D. Risk Ratio

Risk means uncertainty, variability of return, which is inherent in any investment portfolio of a business enterprise. Risk is an important element since investment with greater risk requires higher return than investments with lower risk. Risk ratio measures the degree of risk involved in various financial operations. The possibility of risk involved in bank's financial operations makes the bank investment a challenging taste. As the notion goes, "no risk no gain". Therefore, if a bank expects high return on its investment it must be prepared to accept the risk and manage it efficiently.

The following risk ratios are used to analyze and interpret the financial data and investment policy.

I. Liquidity risk ratio

Liquidity risk of the bank defines its liquidity needs for deposit. Cash and bank balance are the most liquid of all the assets and are considered banks' liquidity sources. Deposits on the other hand refers to the liquidity needs of banks.

This ratio measures the risk associated with liquid assets i.e., cash and bank balance that are kept to satisfy the cash demand of customers. A higher ratio shown that the banks has sufficient cash to meet its current obligations i.e. lower liquidity risk, but that may have an adverse impact on the profitability position of the bank. A trade off between liquidity and profitability must be maintained. This ratio is calculated by dividing cash and bank balance by total deposit. Mathematically,

$$\text{Liquidity risk ratio} = \frac{\text{Total Cash and Bank Balance}}{\text{Total Deposits}}$$

II. Credit risk ratio

Normally, every credit is good at the time it is sanctioned. Most of bank failures due to shrinkage in the value of loan and advances. Loan is a risky asset and risk of non-payment of loan in known as credit risk or default risk. Credit risk ratio measures the possibility of loan going into default. While sanctioning loans banks measure credit risk involved in the project. Credit risk is calculated by dividing total loan and advances by total assets. Mathematically,

$$\text{Credit risk ratio} = \frac{\text{Total loan and advances}}{\text{Total Assets}}$$

E. Growth Ratio

The growth ratio represent how the commercial banks are maintaining their economic and financial condition. As a conventional rule, a higher ratio is preferable. A high ratio indicates better performance of the banks and vice-verse. The growth ratios like growth ratio of total deposit, growth ratio of total deposit, growth ratio of total investment, growth ratio of loan and advances and growth ratio of net profit are directly related to the fund mobilization and investment of the banks are calculated. So on chapter four, the details of the above chapter are explained.

3.5.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives of this study. Co-efficient of variance, co-efficient of correlation, standard deviation, least square, linear trend analysis etc. have been used for the purpose of investment policy analysis.

Karl Pearson's correlation co-efficient analysis. This statistical tool interprets and identifies the relationship between two or more variables. It identifies whether two or more variables are positively correlated or negatively correlated. Statistical tool helps to analyze the relationship between these variables and aids the selected banks to prepare appropriate investment policy relating to deposit collection, fund utilization (loan and advances and investment) and profit maximization.

Karl Pearson's correlation coefficient (r) can be obtained by using the following formulae.

$$r = \frac{N\sum xy - \left(\sum x\right)\left(\sum y\right)}{\sqrt{N\sum X^2 \left(\sum x\right)^2}\sqrt{N\sum y^2 - \left(\sum y\right)^2}}$$

Here,

N = Number of observation in series x and y

Σx = Sum of observation in series x

Σy = Sum of observation in series y

Σx^2 = Sum of squared observation in series X.

Σy^2 = Sum of squared observation in series Y.

Σxy = Sum of product of observation in series x & y.

The co-efficient of correlation (r) lies between -1 to +1, if r = +1 there exists a significant relationship between the two variables. It r = -1 then the two

variables are negatively correlated or there is no significant relationship between two variables.

A. Trend analysis

Under this topic the trend of deposits, loan and advances, investments and net profit of KBL and BOKL from F/Y 2005/2006 to F/Y 2009/2010 are analyzed. It also aids in making forecasting for the next five years up to 2014/2015 . The following trend value analysis has been used in this study.

(i) Trend analysis of total deposits.

(ii) Trend analysis of loan and advance.

(iii) Trend analysis of total investment.

(iv) Trend analysis of net profit.

B. Standard deviation (S.D.)

The standard deviation measures the absolute dispersion. The lower the percentage of dispersion lower the standard deviation. The lower percentage of dispersion also projects a high degree of uniformity of the observations as well as homogeneity of the series. A large value of standard deviation suggests exactly the opposite. In this study standard deviation of different ratios are calculated. Mathematically,

$$S.D. = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

Co-efficient of variation (C.V)

C.V. is the proportion of standard deviation with mean multiplied by 100. Mathematically,

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

Chapter Summary

In order to get meaningful result, the collected data should be analyzed. But it requires suitable tools and techniques that match with topic of the study. By this chapter, one can identify the tools and techniques that are used to analyze this dissertation. Basically in this study, two type of tools are used, viz (i) financial tools and (ii) statistical tools. To give more concrete result from financial tools, statistical tools are used. All the calculation procedures are shown in the appendix of this study. The results and findings are presented and analyzed in chapter four.

CHAPTER – IV

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have an impact on investment management and fund mobilization of BOKL and KBL. A number of financial ratios crucial in evaluating the funds mobilization system of commercial banks have been calculated and analyzed in this chapter.

4.2 Financial Tools

A. Liquidity Ratios

Liquidity ratios measures the firms ability to meet its current obligations. The following ratios which measures the liquidity position of banks are calculated.

I. Current Ratio

This ratio measures the liquidity position of financial institutions. Current ratio is calculated by dividing current assets by current liabilities.

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

Table 4 Present with the current ratio of BOKL and KBL.

Table 4 : Current Ratio (Times)

F/Y	BOKL	KBL
2005/06	0.762	0.901
2006/07	0.764	0.912
2007/08	0.820	0.916
2008/09	0.864	0.929
2009/10	0.853	0.839
Mean	0.8126	0.8994
SD	0.1489	0.0352
CV	6.01%	3.91%

Source : Annual Reports of BOKL and KBL.

From above table it is clear that current ratio of BOKL is higher in F/Y 2008/09. Similarly KBL also has higher current ratio in same year.

Here the liquidity position of BOKL is better than KBL i.e. The coefficient of variance of BOKL is 6.01% where as KBL is only 3.91%.

II. Cash and bank balance to total deposit ratio

Cash and bank balance ratio measures the availability of banks highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. The ratio is calculated as:

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

Table 5 : Cash and bank balance to total deposit ratio

F/Y	BOKL	KBL
2005/06	0.083	0.071
2006/07	0.069	0.050
2007/08	0.106	0.064
2008/09	0.031	0.073
2009/10	0.025	0.033
Mean	0.075	0.0582
SD	0.034	0.0167
CV	53.9%	28.69%

Source: Annual Report of BOKL and KBL

The above table shows that the cash and bank balance to total deposit ratio is in fluctuating trend for BOKL and KBL. Higher ratio of BOKL is 10.6% in F/Y 2007/08 where as lower in F/Y 2009/10 i.e. 2.5 % . The KBL has higher ratio 7.3% in F/Y 2008/09 and lower in 2009/10 is 3.3%. the above analysis help to conclude that cash and bank balance position of BOKL and KBL with respect to deposit is better. The average ratio of BOK is greater than KBL i.e. 7.5% and 5.82%.

III. Cash and bank balance to current assets ratio

This ratio examine the banks liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the bank to make quick payment of its customers deposits.

The ratio calculated by dividing cash and bank balance by current asset i.e.

$$\text{cash and bank balance to current assets} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

The ratio is presented in the following table.

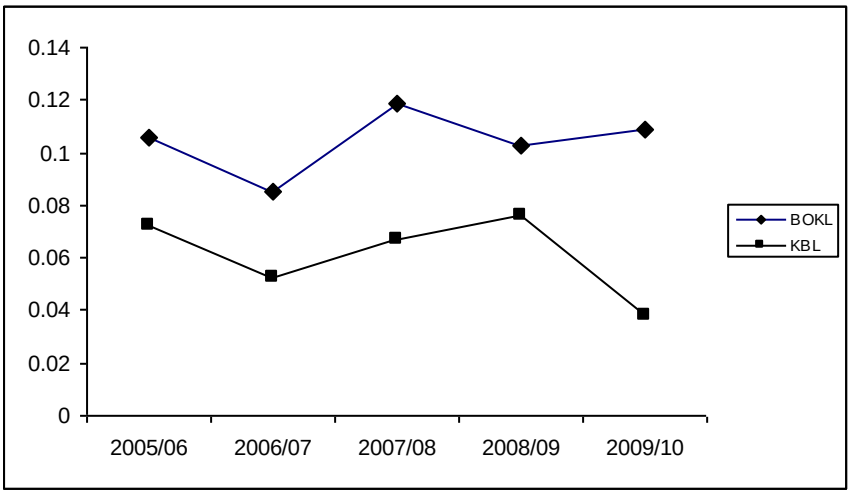
Table No. 6 : Cash and bank balance to current asset ratio

F/Y	BOKL	KBL
2005/06	0.106	0.0723
2006/07	0.085	0.0524
2007/08	0.119	0.0673
2008/09	0.103	0.076
2009/10	0.109	0.038
Mean	0.1044	0.0612
SD	0.0124	0.01577
CV	11.88%	25.77%

Source: Annual report of BOKL and KBL

The above table reveals that both bank's cash and bank balance to current asset ratio is in fluctuating trend. BOKL has highest ratio 0.119 in F/Y 2007/08 whereas KBL has highest ratio 0.076 in FY 2008/09. The mean ratio of BOKL is 10.44% and coefficient of variation is 11.88%. Likewise KBL has mean ratio 6.12% and variability 25.77%. Mean ratio of BOKL is greater than KBL where as variability is lesser than KBL.

Figure No. 1 : Cash and bank balance to total assets



IV. Investment on government securities to current asset ratio

This ratio examines that portion of commercial bank's current assets, which invested on different government securities.

The ratio is computed by dividing investment on government securities by total current asset i.e.

$$\text{Investment on government securities} = \frac{\text{Investment on government securities}}{\text{Current assets}}$$

The ratio is presented in following table

Table No. 7 : Investment on government securities to current assets ratio

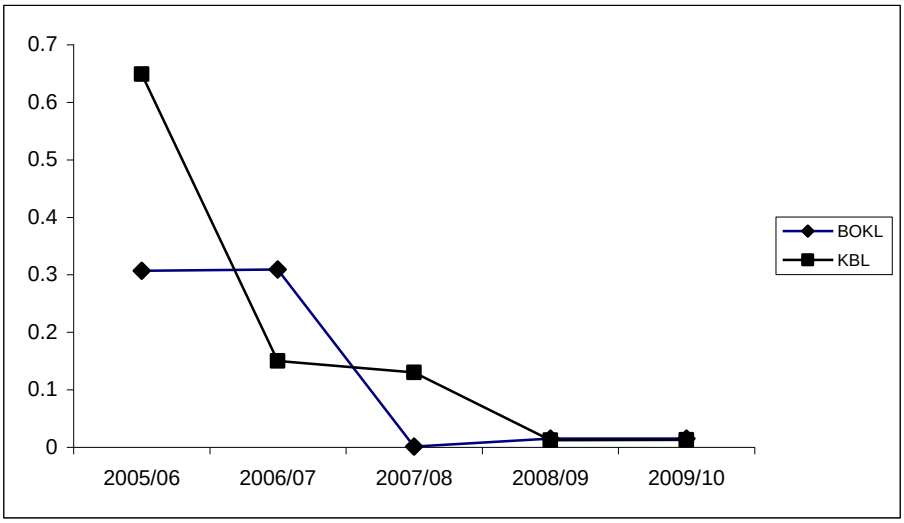
F/Y	BOKL	KBL
2005/06	0.307	0.649
2006/07	0.309	0.150
2007/08	0.001	0.130
2008/09	0.0151	0.012
2009/10	0.0152	0.013
Mean	0.1354	0.1908
SD	0.1583	0.2640
CV	85.53%	72.27%

Source: Annual Report of BOKL and KBL

Table no. 7 shows the banks investment in government securities to current asset ratio has a fluctuating trend during the study period. The lowest ratio of BOKL is 0.001 in FY 2007/08 and highest is 0.309 in 2006/07. In overall, the mean ratio of investment of bank is 0.1354 and coefficient of variation is 85.53% where as KBL has highest ratio 0.649 in FY 2005/06 and lowest ratio 0.012 in FY 2008/09. The mean ratio of KBL is 0.1908 and coefficient of variation is 72.27%.

From above analysis we can conclude that the both bank have made big mount of investment on government securities as it is secured and probability investment sector.

Figure No. 2 : Investment on government securities to current ratio BOKL and KBL



B. Asset management ratio

Asset management ratio are employed to evaluate the efficiency with which the firm manage and utilize its assets. The efficiency with which the asset are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversion the more efficient in the management or utilization of assets.

The following ratios measures the asset management ability of BOKL and KBL.

I. Loan and advances to total deposit ratio

This ratio measures the bank success to mobilize the deposit on loan and advances for the purpose of profit generation. This ratio is calculated by dividing loan and advances by total deposits i.e.

$$\text{Loan and advances to total deposit ratio} = \frac{\text{Loan Advance}}{\text{Total Deposit}}$$

The ratio is presented in following table

Table No. 8 : Loan and advances to total deposit ratio

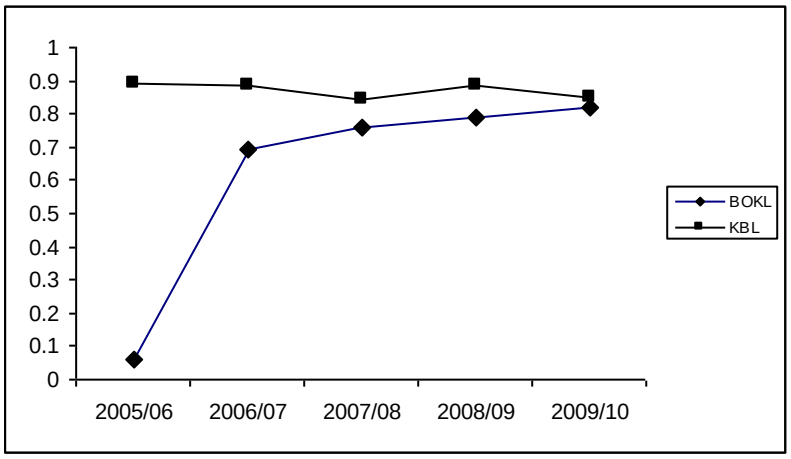
F/Y	BOKL	KBL
2005/06	0.058	0.890
2006/07	0.6920	0.887
2007/08	0.758	0.845
2008/09	0.787	0.887
2009/10	0.820	0.847
Mean	0.743	0.8712
SD	0.067	0.0230
CV	9.02%	2.64%

Source: Annual reports of BOKL and KBL.

The table listed above shows that both BOKL has increasing trend with highest ratio 0.820 in FY 2009/10 and lowest ratio 0.658 in FY 2005/06. According KBL has highest ratio in FY 2005/06 is 0.890 and lowest ratio in FY 2007/08 is 0845. The mean ratio of KBL is higher than BOKL i.e. 87.12% > 74.3% KBL seems to be stronger in mobilizing its deposit as loan and advances with compared to BOKL. In term of CV, KBL and BOKL has 2.64% and 9.02% respectively.

It can be concluded that KBL has been mobilizing their total deposit as loan and advances little more than BOKL and aquaring high profit.

Figure No. 3 : Loan and advances to total deposit ratio



II. Total investment to total deposit ratio

Total investment to total deposit ratio indicates how properly firms deposits have been investment on government securities and shares and debentures of the other companies.

The ratio can be calculated by dividing the total investment by total amount of deposit collections.

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

The ratio is presented in following table.

Table No. 9 : Total investment to total deposit ratio

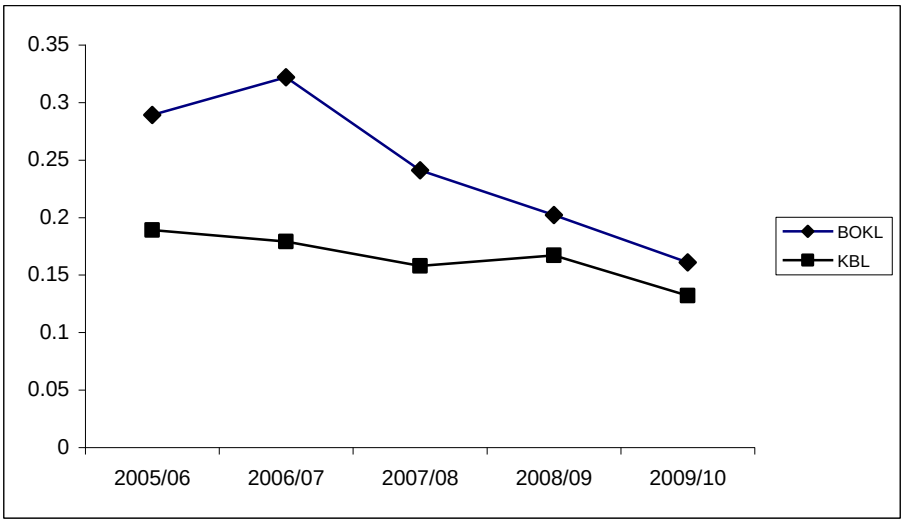
F/Y	BOKL	KBL
2005/06	0.289	0.189
2006/07	0.322	0.179
2007/08	0.241	0.158
2008/09	0.202	0.167
2009/10	0.161	0.132
Mean	0.243	0.165
SD	0.65	0.02187
CV	26.75%	13.25%

Source: Annual Report of BOKL and KBL

The above information proves a highly fluctuating trend in total investment to total deposit ratio of BOKL and KBL. BOKL has high ratio of 32.2% and lowest ratio of 16.1% on other hand KBL has high ratio 18.9% and low ratio 13.2% in FY 2006/06 and 2009/10 respectively. The mean ratio is high in BOKL than KBL i.e. 24.3% > 16.5%.

From the mean ratio respective BOKL has not great capacity mobilization of deposit on various form of investment. the coefficient of variation of BOKL and KBL is 26.75% and 13.25% respectively. This means KBL has better capacity than BOKL.

Figure No. 4 : Total investment to total deposit ratio



III. Investment on government securities to total working fund ratio

Investment on government securities to total working fund ratio shows. How much part of total investment is there on government securities in percentage. This ratio can be computed by dividing investment on government securities by total working fund.

$$\text{Investment on government securities} = \frac{\text{Investment in government securities}}{\text{Total working fund}}$$

The following table shows the ratio

Table No. 10 : Investment on government securities to total assets ratio

F/Y	BOKL	KBL
2005/06	0.217	0.150
2006/07	0.216	0.123
2007/08	0.159	0.108
2008/09	0.119	0.0977
2009/10	0.105	0.098
Mean	0.1652	0.1153
SD	0.0499	0.02194
CV	30.21%	19.03%

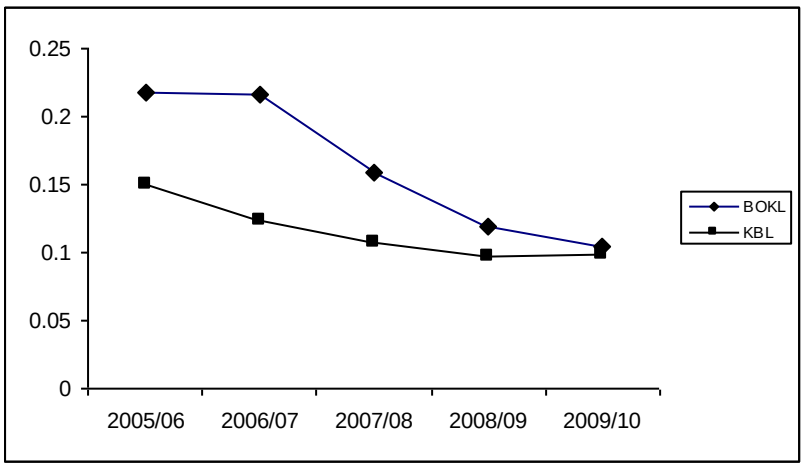
Source: Annual Report of BOKL and KBL

The above table reveals that investment on government securities to total working fund ratio is in fluctuating trend. The BOKL has high and low ratio of 0.217 and 0.105 in FY 2005/06 and FY 2009/10 respectively. KBL has high ratio of 0.150 in FY 2005/06 and low ratio of 0.098 in FY 2009/10.

The mean ratio of BOKL is higher than KBL i.e. 16.52% > 11.53%. Comparing CV of both the ratio of BOKL is less consistent than KBL i.e. 30.21% > 19.03%.

We can conclude that BOKL has invested larger partion of its working fund in government securities than KBL.

Figure No. 5 : Investment on government securities to total working fund



IV. Loan and advances to total assets ratio

A commercial bank's total assets should play very significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation.

The ratio is computed by dividing loan and advances by total working fund.

$$\text{Loan and advances to total working fund} = \frac{\text{Loan and advance}}{\text{Total assets}}$$

The ratio is shown in following table.

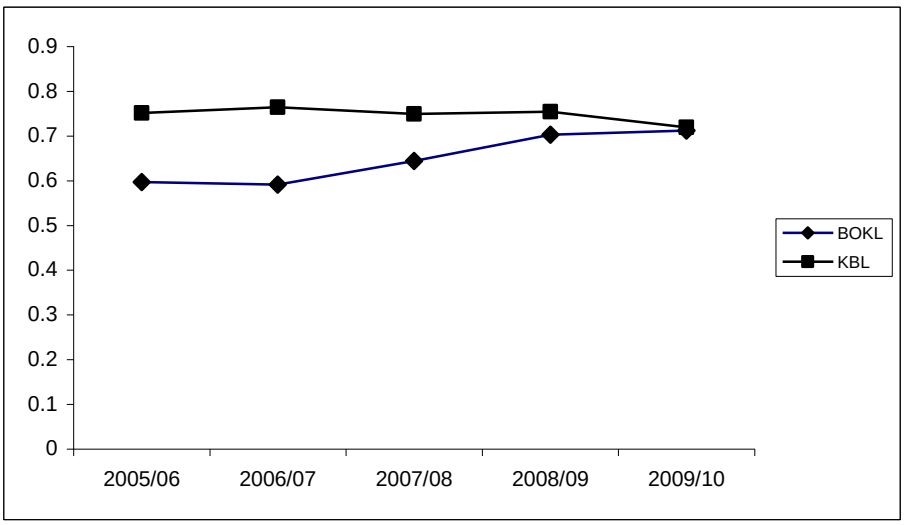
Table No. 11 : Loan and advances to total assets ratio

F/Y	BOKL	KBL
2005/06	0.597	0.751
2006/07	0.591	0.764
2007/08	0.644	0.749
2008/09	0.703	0.754
2009/10	0.712	0.719
Mean	0.649	0.7474
SD	0.057	0.01689
CV	8.78%	2.26%

Source: Annual Report of BOKL and KBL

The figure calculated in table no. 11 shows that the loan and advances to total assets ratio is in increasing trend in BOKL while it is in fluctuating trend in KBL. BOKL has highest ratio of 0.712 in FY 2009/10 and lowest ratio 0.591 in FY 2006/07. KBL has highest ratio of 0.764 in FY 2006/07 and lowest of 0.719 in FY 2009/10. While observing mean ratio, it is 0.649 and 0.7474 and CV are 8.78% and 2.26% which reveals that bank is in strong position.

Figure No. 6 : Loan and advances to total working fund



C. Profitability Ratio

One major objective of the commercial bank is to earn profit. Management, owner and creditors of the bank expect reasonable and more return. Profitability ratio indicates public acceptances of the service of the bank. In this study the profitability ratios are computed by relating the profits of banks to their investment. Here, mainly those major ratios are presented and analyzed.

I. Return on Loan and Advance Ratio

Return on loan and advances ratio measure the earning capacity of commercial bank through its mobilized fund as loan and advances. A high ratio indicates greater success to mobilize fund as loan and advances and vice-versa.

The ratio is calculated by dividing net profit by loan and advances.

$$\text{Return on loan and advances} = \frac{\text{Net Profit}}{\text{Loan advances}}$$

The following table shows the ratio of return on loan and advances of BOKL and KBL.

Table No. 12 : Return on loan and advances

F/Y	BOKL	KBL
2005/06	0.023	0.015
2006/07	0.027	0.015
2007/08	0.024	0.019
2008/09	0.029	0.015
2009/10	0.031	0.0214
Mean	0.027	0.017
SD	0.0033	0.00297
CV	12.22%	17.47%

Source: Annual Report of BOKL and KBL

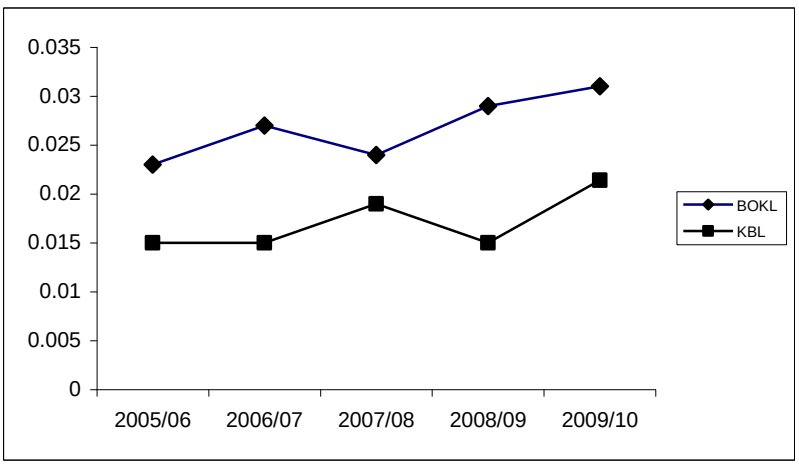
The above table shows that the ratio of return on loan and advances of BOKL are better than KBL in all FY, though they have fluctuating trend BOKL has recorded high ratio of 3.1 in FY 2009/10 and low ratio of 2.3% in 2005/06 whereas KBL has high ratio of 2.14% in 2009/10 and low ratio of 1.5% in three FY except 2007/08 of 1.9%.

The comparison of mean ratio reveals that BOKL has higher ratio than KBL i.e. 2.7% > 1.7%. This shows that BOKL has been more successful in maintaining its higher return on loan and advances than KBL.

CV of KBL is significantly higher than BOKL 17.47% > 12.22%. It proves that KBL has higher variability ratio than BOKL.

In conclusion KBL's profit earning capacity is weaker compared to BOKL.

Figure No. 7 : Return on loan and advances



II. Return on total asset ratio

Return on assets ratio is a measuring rod of the profitability with respect to each financial resource investment of bank's assets. The ratio can be calculated by dividing net profit by total working fund.

$$\text{Return on total assets} = \frac{\text{Net Profit}}{\text{Total assets}}$$

The following table shows that profitability position with respect to total assets.

Table No. 13 : Return on total assets

F/Y	BOKL	KBL
2005/06	0.014	0.011
2006/07	0.016	0.011
2007/08	0.017	0.014
2008/09	0.020	0.011
2009/10	0.022	0.015
Mean	0.018	0.0124
SD	0.0032	0.00195
CV	17.78%	15.73%

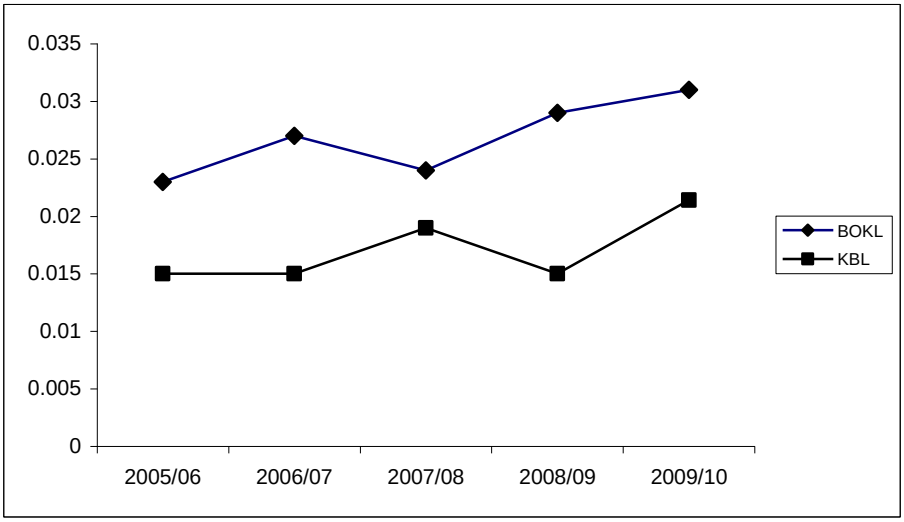
Source: Annual Report of BOKL and KBL

The table reveals that the ratio of return on total assets is in increasing trend in case of BOKL through out the study period but KBL has fluctuating trend. KBL has increasing trend up to FY 2007/08 than decrease in FY 2008/09 and campaign increase in FY 2009/10. BOKL has high ratio of 2.29 in FY 2009/10 and low ratio of 1.4% in FY 2005/06. Similarly KBL has high ratio of 1.5% in FY 2009/10.

The mean ratio of KBL is slightly lower than BOKL i.e. 1.24% <1.80%. It reveals that BOKL has been able to earn high profit on total assets in comparison to KBL.

From view point of CV, BOKL has higher variability than KBL i.e. 17.78% > 15.83%.

Figure No. 8 : Return on total asset ratio



III. Total interest earned to operating income ratio

Total operating income consists of interest, income commission and discount, dividend income, foreign exchange income, non-interest income etc. Interest earned to total operating income ratio shows the magnitude of interest income in total income. It also indicates how efficiently the bank has mobilized its fund in interest bearing assets i.e. loan and advances, investment in government securities.

The ratio is calculated by dividing total interest earned by net operating income.

$$\text{Total interest earned to total operating income ration} = \frac{\text{Total interest fund}}{\text{Net operating income}}$$

The following table exhibits the ratio of interest income to the operating income of BOKL and KBL.

Table No. 14 : Total interest earned to total operating income ratio

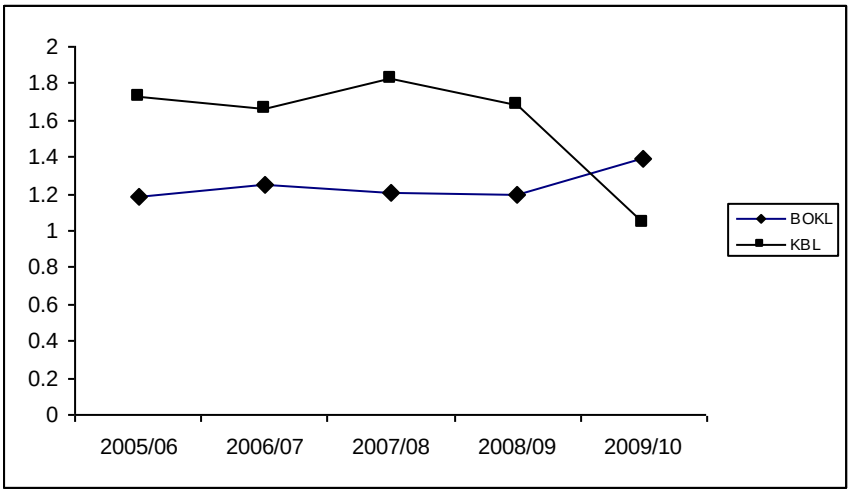
F/Y	BOKL	KBL
2005/06	1.180	1.733
2006/07	1.245	1.663
2007/08	1.209	1.823
2008/09	1.198	1.681
2009/10	1.393	1.041
Mean	1.245	1.5892
SD	0.086	0.3130
CV	6.91%	19.70%

Source: Annual Report of BOKL and KBL

The above table shows that both the banks have a fluctuating trends of interest earning ratio. The higher and lower ratio of BOKL are 1.393 in FY 2009/10 and 1.180 in FY 2005/06 respectively. KBL has higher ratio of 1.828 in FY 2007/08 and lower ratio of 1.041 in FY 2009/10. The average total interest earned ratio of BOKL is lower than KBL i.e. 1.245 < 1.589.

It can be concluded that both bank have low mobilized fund in interest bearing assets i.e. government securities, share and debenture of other companies, loan and advances etc.

Figure No. 9: Total interest to total operating income ratio



IV. Total interest earned to total asset ratio

This ratio reveals how much interest mobilizing assets in the banks has generated. Interest occupies significant place in income for the banks. Generally banks earn interest through the provision of loans and advances, overdraft and investment in securities.

The ratio can be calculated in following ways.

$$\text{Total interest earned on total asset ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

The ratio shown in following table.

Table No. 15 : Total interest earned to total assets

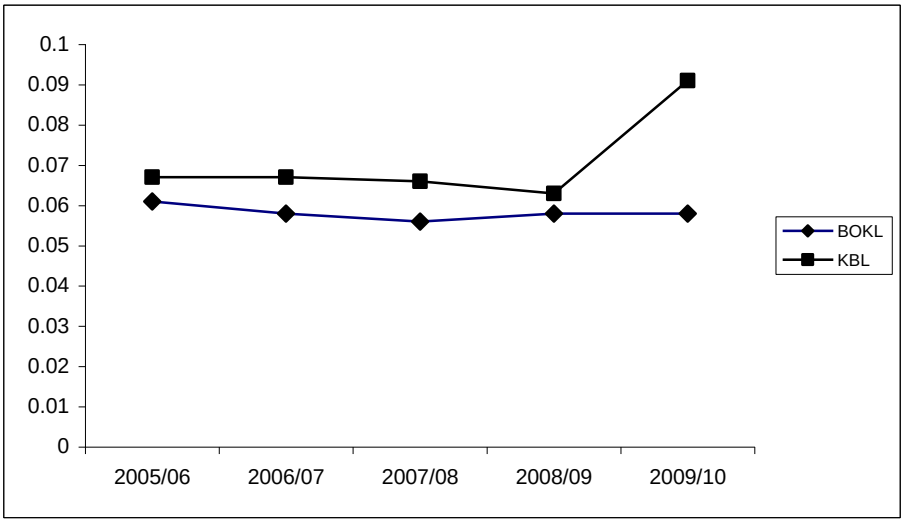
F/Y	BOKL	KBL
2005/06	0.061	0.067
2006/07	0.058	0.067
2007/08	0.056	0.066
2008/09	0.058	0.063
2009/10	0.058	0.091
Mean	0.0582	0.0708
SD	0.0018	0.0114
CV	3.09%	16.10%

Source: Annual Report of BOKL and KBL

The above table reveals that the banks interest earning ratio with respect to total assets is in fluctuating trend. BOKL has maintained highest ratio of 0.061 in FY 2005/06 and lowest ratio 0.056 in FY 2007/08. The mean ratio is 0.0582 and CV is 3.09% KBL has highest ratio 0.091 in FY 2009/10 and lowest ratio 0.063 in FY 2008/09. The mean ratio is 0.0708 and CV is 16.10%.

Thus it can be concluded that KBL has better performance than BOKL to earn interest on its assets.

Figure No. 10 : Total interest earned to total asset



D. Risk ratios

The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is satisfied by the increase in profit. So the banks operating for high profit have to accept the risk and manage it efficiently.

Through following ratios, effort has been made to measure the level of risk.

I. Liquidity risk ratio

Liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. Higher liquidity ratio indicate less risk and less profitable bank and vice-versa.

The ratio is calculated by dividing cash and bank balance to total deposit.

$$\text{Liquidity risk ration} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

Table No. 16 : Liquidity risk ratio

F/Y	BOKL	KBL
2005/06	0.082	0.170
2006/07	0.069	0.050
2007/08	0.106	0.663
2008/09	0.0901	0.073
2009/10	0.0224	0.033
Mean	0.0739	0.0778
SD	0.0318	0.0536
CV	43.03%	68.89%

Source: Annual Report of BOKL and KBL

The table listed above shows that the both banks has liquidity risk ratio in fluctuating trend. BOKL recorded higher and lower ratio of 0.106 and 0.0224 in FY 2007/08 and FY 2009/10 respectively. The KBL has highest ratio of 0.170 in FY 2005/06 and lowest ratio in 0.033 in FY 2009/10.

The average liquidity risk ratio of BOKL and KBL is 0.0739 and 0.0778 respectively. In comparison to CV BOKL is more consistent than KBL.

II. Credit risk ratio

Bank utilizes its collected fund in providing credit to different sectors. There is risk of detail or non repayment to loan. The ratio is computed by dividing total loan and advances to total assets.

$$\text{Credit risk ratio} = \frac{\text{Total loan and advances}}{\text{Total assets}}$$

The ratio is presented in following table.

Table No. 17 : Credit risk ratio

F/Y	BOKL	KBL
2005/06	0.860	0.912
2006/07	0.866	0.919
2007/08	0.850	0.890
2008/09	0.884	0.896
2009/10	0.712	0.719
Mean	0.834	0.8672
SD	0.0695	0.0836
CV	8.33%	9.64%

Source: Annual Report of BOKL and KBL

The table shows that BOKL has highest ratio of 0.884 in FY 2008/09 and lowest ratio of 0.712 in FY 2009/10. On other hand KBL has highest ratio of 0.919 in FY 2009/10. The KBL has greater credit risk ratio of 0.8672 than BOKL with 0.834. Credit risk ratio should be low for better performance of bank or low credit risk ratio helps to achieve the goal of the bank.

E. Growth ratio

Growth ratio represent how well the banks are maintaining their economic and financial condition. It is related to fund mobilization and investment of the banks.

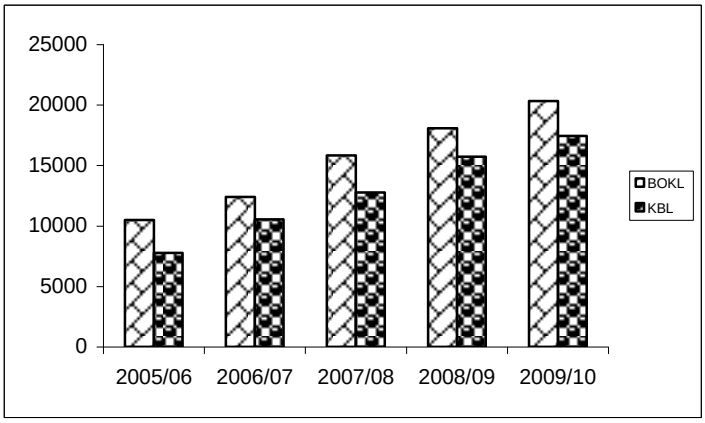
I. Growth rate of total deposits

Table No. 18: Growth rate of total deposit (Rs. in million)

FY	BOKL		KBL	
	Total deposit (Rs.)	%	Total Deposit (Rs.)	%
2005/06	10485	0.00	7768	0.00
2006/07	12388	18.15	10557	35.90
2007/08	15833	27.81	12774	21.00
2008/09	18084	14.22	15711	22.99
2009/10	20315	12.34	17432	10.95
Mean		18.13		22.71
SD		6.89		10.25

Source (see appendix 3)

Figure No. 11 : Growth Rate of total deposit



Based on table no. 18 and figure 11, the growth rate to deposits of both bank's are in increasing trend. the average growth rate of KBL is significantly higher than BOKL i.e. 22.71 > 18.13%. During the study period BOKL has dramatically increased its ratio 27.14% in FY 2007/08 but lowered in following year.

On the contrary KBL has been successful in increasing its deposit which is a solid proof of its high quality service, image and credibility in the mind of depositors.

II. Growth rate to total loan and advances

Table 19 present the comparative display of growth rate of total loan and advances.

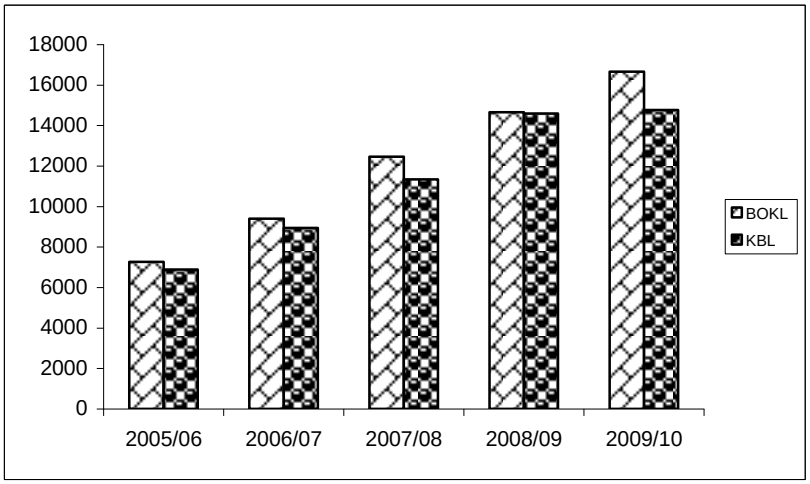
Table No. 19 : Loan and Advances

Rs. in million

FY	BOKL		KBL	
	Total deposit (Rs.)	%	Total Deposit (Rs.)	%
2005/06	7259	0.00	6891	0.00
2006/07	9399	29.48	8929	29.57
2007/08	12462	32.59	11335	26.95
2008/09	14647	17.53	14593	28.74
2009/10	16664	13.77	14765	1.18
Mean		23.34		21.61
SD		9.10		13.66

See: Appendix 4

Figure No. 12: Growth rate of total loan and advances



Based on table no. 19 and figure 12, the growth rate of total loan and advances of both bank are in fluctuating trend. The average growth rate to total loan and advances of BOKL is better than KBL i.e. 23.34% > 21.61%.

III. Growth rate of total investment

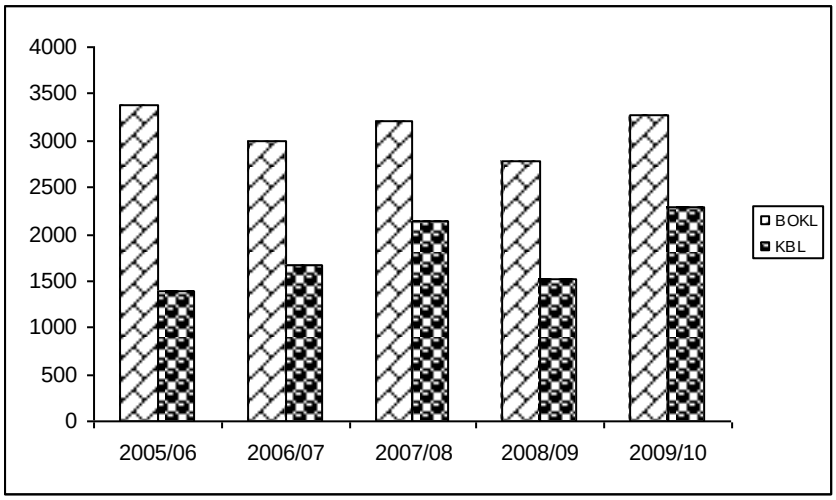
Table No. 20 : Growth rate of total investment

(Rs. in million)

FY	BOKL		KBL	
	Total deposit (Rs.)	%	Total Deposit (Rs.)	%
2005/06	3378	0.00	1394	0.00
2006/07	2995	-11.34	1678	20.37
2007/08	3206	7.05	2138	27.41
2008/09	2783	-13.19	1511	-29.33
2009/10	3269	17.46	2296	51.95
Mean		-0.005		17.6
SD		14.80		34.09

See: Appendix 5

Figure No. 13 : Growth rate of total investment



Based on above table no. 20 and figure 13, the growth rate to total investment of both bank is in fluctuating trend. BOKL has negative growth rate in two FY. Through out the study period. In FY 2006/07 it is -11.34% and in FY 2008/09 it is -13.19%. KBL has also negative growth rate of 29.33% in FY 2008/09. The average growth rate of KBL is 17.6% and BOKL has negative growth of 0.005%. Hence KBL has better investment performance as compared to BOKL.

4.3 Statistical Analysis

Under this, some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposits, loan and advances investment and net profit are used to achieve the objective of the study.

The following section deals with the various statistical analysis of the investment effectiveness of these two projects

I. Coefficient of correlation between total deposit and loan and advances

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. Here, deposit is an independent variable denoted by (X) and loans and advances as dependent

variable (Y). The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as loan and advances or not.

The following table shows the values of r, r^2, p. Er and 6p.Er of the BOKL and KBL during the study period.

Table No. 21 : Correlation between deposit and loan and advances

Bank	Evaluation criterions			
	r	r^2	P.Er.	6.P.Er.
BOKL	1.007	1.015	-0.0045	-0.0271
KBL	0.7914	0.6264	0.1127	0.676

Source: Appendix 7 and 8

In above table, the coefficient of correlation between deposits and loans and advances in case of BOKL is 1.007. This indicates that there exists a perfectly positive relationship between deposit and loan and advances. The coefficient of determination is 1.015. This means 101.5% of variation of the dependent variable (loan and advance) has been explained by the independent variable (deposit). The value of r is higher than 6P.Er so we can say there exist relationship between deposit and loan and advances.

In case of KBL, the correlation coefficient 'r' between deposits and loan and advances is 0.7914, which gives us an indication of higher positive correlation between them. Similarly, the value of coefficient of determination (r2) is 0.6264. This shows that 62.64% variation of dependent variable (loan and advances) has been explained by the independent variables (deposits). The value of r is greater that 6.P.Er i.e. 0.7914>0.6760 so there exist significant relationship between variables.

From above analysis, it can be concluded that there is positive relationship between both bank. The value of r2 shows higher percentage of dependency which is more significant in BOKL than KBL. It indicate that BOKL has been more successful in utilizing deposit in proper manner than KBL.

II. Coefficient of correlation between deposit and total investment

The coefficient of correlation between deposit and investment measure the degree of relationship between two variables. In correlation analysis, deposit independent variable (x) and total investment is dependent variable (Y). The purpose of computing coefficient of correlation is to examine whether the deposit are used in proper way or not and also to see the relationship between these two variables or no. In order to see the relationship, Karl Pearson's coefficient of correlations is calculated and analyzed accordingly.

The following table shows the coefficient of correlation between deposit and total investment i.e. r, r^2, P.Er. and 6P.Er.

Table No. 22 : Correlation between deposit and total investment

Bank	Evaluation criterions			
	r	r^2	P.Er.	6.P.Er.
BOKL	-0.061	0.004	0.301	1.803
KBL	0.614	0.377	0.188	1.170

(Source: Appendix 9 and 10)

Above table shows coefficient of correlation 'r' between deposit and total investment in case of BOKL is -0.061 which indicate a perfectly negative correlation between variables. However in case of KBL it is 0.614 which shows the positive relationship between two variables. Similarly coefficient of determination is 0.004 and 0.377 of BOKL and KBL respectively. It means variation in the dependent variable (total investment) has been explained by the independent variable deposit. Moreover considering probable error. The value of r is less than 6P.Er in both cases it shows that there do not exist any significance relationship between deposit and total investment. In conclusion, no relationship could be established between variables in case of BOKL and KBL shows a minor relationship between variables.

B. Trend analysis and projection for next five years

The main objective of this analysis is to analyze the trend of deposit collection, its utilization and net profit of BOKL and KBL. This topic analyzes the trend of deposits, loan and advances, total investment and net profit and its

projection for the next five years on the basis of past performance and record available.

The projections are based on the following assumptions

- The bank will run in this present position.
- Other things will remain unchanged.
- The economy will remain in the present stage.
- The forecast will be true only when the limitation of least square method is carried out.
- Nepal Rastra Bank will not change its guidelines to commercial banks.

I. Analysis of trend values of total deposit

Under this topic, an effort has been made to calculate the trend values of deposit of BOKL and KBL for next five year from FY 2010/11 to 2014/15 on the basis of trend value of deposit from FY 2005/06 to 2009/10. The following table shows that trend value of next five year from FY 2010/11 to 2014/15.

Table No. 23 : Trend value of total deposit of BOKL and KBL

Rs. in million

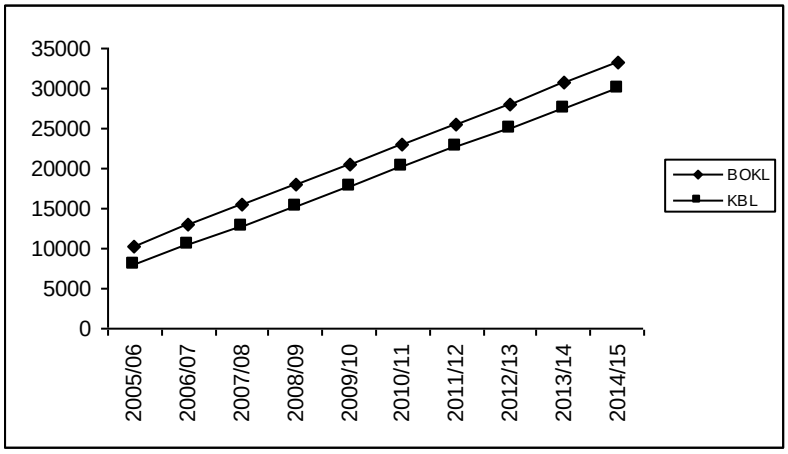
FY	BOKL	KBL
2005/06	10349.80	7945.80
2006/07	12885.40	10394.10
2007/08	15421.00	12842.40
2008/09	17956.60	15290.70
2009/10	20492.20	17739.00
2010/11	23027.80	20187.30
2011/12	25563.40	22635.60
2012/13	28099.00	25083.90
2013/14	30634.60	27532.20
2014/15	33170.20	29980.50

Source: (See Appendix 11 & 12)

From the above table, it is clear that trend values of BOKL and KBL both is in increasing trend. If other thing remain unchanged, the total deposit in 2014/15 is predicted Rs. 33170.20 million where as KBL has predicted value is rs. 29980.50 million which is lesser than BOKL.

From above table trend analysis, it is quite obvious that BOKL and KBL deposit collection position is better in all then years. The trend value of total deposit of both BOKL and KBL are fitted in the trend lines in given figure below.

Figure No. 14 : Trend value of total deposit



II. Analysis of trend values of loan and advances

Here, the trend value of loan and advances of BOKL and KBL has been calculated for five years from FY 2010/11 to 2014/15.

Table No. 24 : Trend value of Loan and Advances

Rs. in million

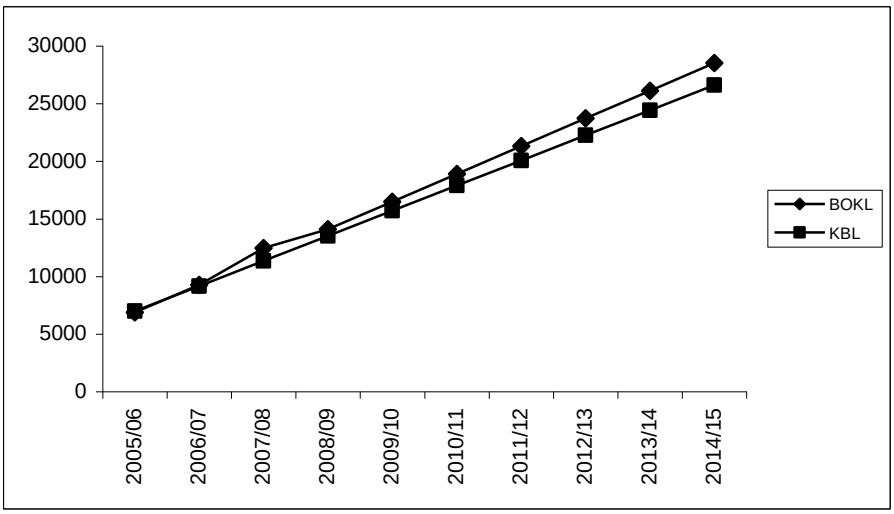
FY	BOKL	KBL
2005/06	6874.80	6980.00
2006/07	9280.50	9161.40
2007/08	12462.00	11342.80
2008/09	14091.90	13524.20
2009/10	16497.60	15705.60
2010/11	18903.30	17887.00
2011/12	21309.00	20068.40
2012/13	23714.70	22249.80
2013/14	26120.40	24431.20
2014/15	28526.10	26612.60

Source: (see appendix 13 & 14)

From above table, it is clear that the loan and advances of both the banks are in an increasing trend assuming that other thing will remain constant, the loan and advances of BOKL at the end of FY 2014/15 is predicted to be Rs. 28526.10 million. Similarly the projection of KBL at the end of FY 2014/15 is 26612.60 million.

From above table analysis, it is clear that the both bank's utilization of deposit in term of loan and advances is good. The above trend values of loan and advances of BOKL and KBL are fitted in trend line given in figure below.

Figure No. 15: Trend value of loan and advances



III. Analysis of trend value of total investment

Under this topic, an attempt has been made to analyze to total investment of BOKL and KBL has been calculated forecast for next five years i.e. from FY 2010/11 to 2014/15.

Table No. 25 : Trend value of total investment of BOKL and KBL

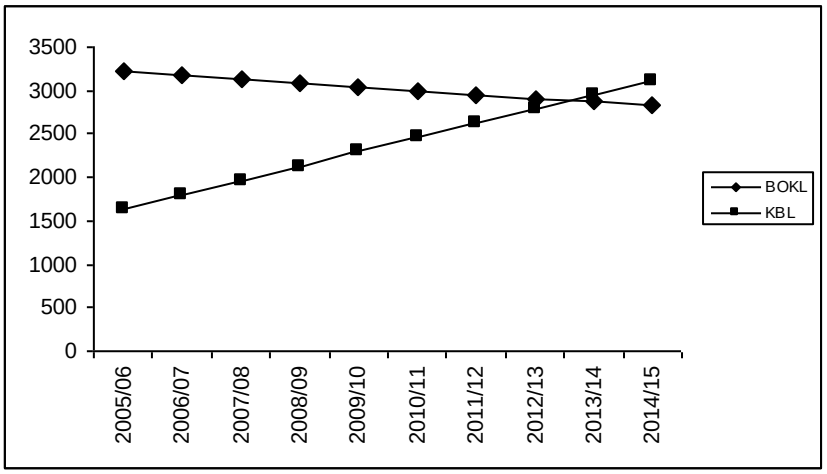
Rs. in million

FY	BOKL	KBL
2005/06	3212.20	1635.80
2006/07	3169.20	1799.70
2007/08	3126.20	1963.60
2008/09	3083.20	2127.50
2009/10	3040.20	2291.40
2010/11	2997.20	2455.30
2011/12	2954.20	2619.20
2012/13	2911.20	2783.10
2013/14	2868.20	2947.00
2014/15	2825.20	3110.90

Source: (see appendix 15 & 16)

The above table clearly shows that the trend value of BOKL is decreasing. If other things remain unchanged total investment of BOKL to be Rs. 2825.20 million which is also the lowest value under the review period. But the trend value of KBL is in increasing trend. If other things remain unchanged total investment of KBL to be Rs. 3110.90 million which is highest under the review period . In conclusion, we can say that the KBL has followed the policy of maximizing the investment. The above trend values have been fitted in the trend line in figure below.

Figure No. 16: Trend value of total investment



IV. Analysis of Trend value of Net profit

Under this topic, effort has been made to analyze the net profit of bank for next five years from 2010/11 to 2014/15.

Table No. 26 : Trend value of Net profit of BOKL and KBL

Rs. in million

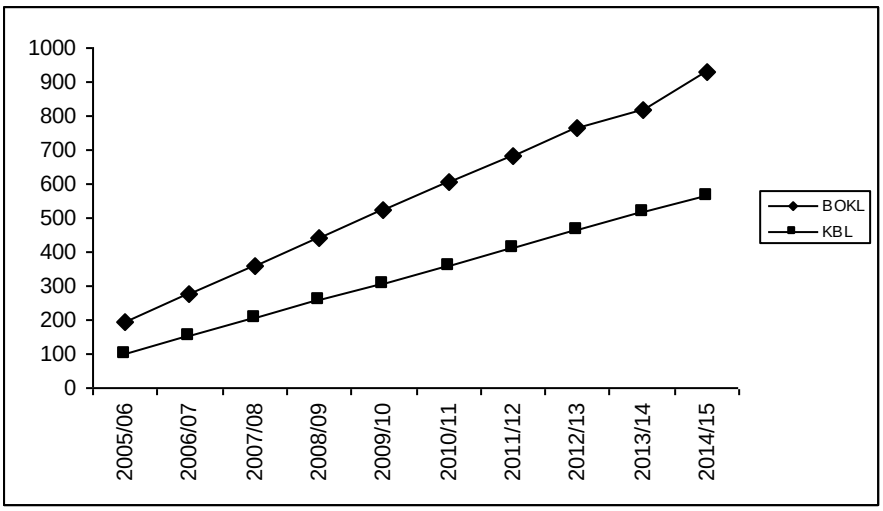
FY	BOKL	KBL
2005/06	196.40	101.40
2006/07	277.80	153.10
2007/08	359.20	204.80
2008/09	440.60	256.50
2009/10	522.00	308.20
2010/11	603.40	359.90
2011/12	684.80	411.60
2012/13	766.20	463.30
2013/14	817.60	515.00
2014/15	929.20	566.70

Source: (see appendix 17 & 18)

From above table it is clear that net profit of both bank's is in increasing trend. The trend value of BOKL will be highest in FY 2014/15 i.e. Rs. 929.20 million. In case of KBL the highest trend value is 566.70 million in FY 2014/15.

However we draw a conclusion that the BOKL and KBL seems to have utilize their fund to earn profit. The above given trend values of table has been fitted in trend lines given below.

Figure No. 17 : Trend value of Net profit



Percentage Analysis of Investment

Percentage analysis of investment includes investment on government securities and shares and debenture in relation with total investment. In this study the percentage is calculated to achieve the objective of the study.

4.4 Major findings of the study

The major findings of the study are derived on the basis of analysis of financial data of BOKL and KBL, which are given below.

Findings from the liquidity analysis

- The mean current ratio of BOKL is 0.8126 and KBL is 0.8994. The coefficient of variation of BOKL and KBL is 6.01% and 3.91% respectively.
- The mean cash and bank balance to current asset of BOKL is higher than KBL. This shows that BOKL's greater capacity to meet its customers daily cash requirement than KBL.
- The mean of cash and bank balance to total deposit of BOKL and KBL with respect to deposit is better.

It can be conclude that liquidity position of BOKL is comparative better than KBL. It has highest cash and bank balance to total deposit, cash and bank balance to total assets and investment in government securities to current assets.

However the liquidity ratio is in fluctuating trend, it shows that bank has not properly formulated any stable policy.

Finding from asset management analysis

The asset management ratio of the bank reveals that:

- The mean ratio of loan and advances to total deposit of KBL is higher than BOKL.
- The mean ratio of total investment to total deposit ratio is 0.243 of BOKL and 0.165 of KBL. The ratio is more consistence.
- The mean ratio of investment on government securities to total working fund ratio of BOKL and KBL is 0.1652 and 0.1153 respectively. It means it has not consistency in maintaining the ratio.
- The mean ratio of loan and advances to total asset fund is high that means ratio is not homogenous.

It predicts the BOKL and KBL have not successfully maintained and managed its assets towards different income generation activities. But both the bank are in strong position in case of total working fund.

Finding from profitability ratio

The profitability ratio of BOKL and KBL reveals that

- The mean ratio of return on loan and advances of both banks profit earning capacity by utilizing available sources is very weak.
- The mean ratio of return on total asset ratio is higher in BOKL than KBL.
- The mean of total interest earned to total operating income ratio during this study period has not maintained consistency.
- The total interest earned to total asset ratio is also in fluctuating trend in BOKL and increasing in KBL.

From the above result, it is concluded that the profitability procession of the bank is not in better condition. So it must maintain high profit margin for the well being in future.

Finding from the risk analysis

The risk ratio of BOKL and KBL reveals that

- The average liquidity risk ratio of BOKL and KBL has followed a stable liquidity policy.
- The mean ratio of credit risk of BOKL and KBL is not consistency position.

From above findings, it can be concluded that risk ratio of BOKL is in inconsistency position.

Findings from the growth analysis

From the analysis of growth ratios of BOKL and KBL, it is clear that

- Growth ratio of total deposit of BOKL is higher than KBL.
- Growth ratio of loan and advances higher in BOKL.
- Growth ratio of total investment is higher in KBL. BOKL shows the negative growth of 0.005%.

From the analysis it can be concluded that BOKL and KBL have not been more successful to increase in source of funds.

Findings from the coefficient of correlation analysis

Coefficient of correlation analysis between different variables of BOKL and KBL reveals that:

- Coefficient of correlation between total deposit and loan and advances of BOKL and KBL shows positive value.

- Relationship between total deposit and investment of BOKL shows negative value whereas KBL have significance positive value.

Finding from the trend analysis

Trend analysis of the study period and its projection for the next five year (FY 2010/11 to FY 2014/15 reveals that

- Trend value of total deposit of BOKL and KBL is in increasing trend, it reveals that they are using large portion of deposit.
- Trend value of loan and advances of BOKL and KBL is also in increasing trend.
- Trend value of total investment reveals that BOKL has decreasing trend and KBL has increasing trend.
- Trend of net profit of BOKL and KBL reveals that it can utilize large amount of fund to earn handsome amount of profit.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The last chapter of this study is to analyze the investment pattern of KBL and BOKL . The final and most important task of the researcher is to enlist findings, issues and challenges of the study and give suggestions for the further improvements. This chapter includes the summary of this study, conclusion and some possible recommendations have been put forward for the beneficial of the selected banks.

5.2 Summary

The researcher has identified the research problem and set objectives to solve research problem about investment pattern of selected commercial banks. The related literature have been reviewed to make this study effective. The review of literature provides the foundation of knowledge in order to undertake this research more precisely.

Research methodology has been described in third chapter, which is a way to solve the research problem with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions, this chapter includes the research design, population and sample data collection procedure, data period covered and method of analysis. The study is mainly base on secondary data collected from annual reports, financial statement, office report etc. and authorize website of BOKL, KBL, Nepal Rastra Bank. The five years financial statement has been examined for the purpose of study.

The presentation and analysis of data has been made comparative analytical and interpretation has done in chapter four by applying wide varieties of methodology as stated in chapter three. It includes various financial

and statistical tools. Financial tools consists liquidity ratio, asset management ratio, profitability ratio, risk ratio, growth ratio. Statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, trend analysis have been applied to full fill the objective of study.

5.3 Conclusion

This study reveals that the current ratio of both banks satisfactory. The liquidity position of BOKL is better than KBL. The cash and bank balance of BOKL w.r.t. deposit is greater than KBL which shows that BOKL is in a better position w.r.t meeting customer requirement than KBL. In contrast a high ratio of non-earning cash and bank balance is an indicator of bank's inability to invest its fund in income generation areas. The cash and bank balance of BOKL w.r.t. current ratio is higher than KBL. This shows BOKL has greater capacity to meet the daily customer cash requirement BOKL need to invest its fund in more productive sectors.

KBL has invested more portion of its current asset and working fund in government securities than BOKL. This is due to lack of other secured and profitable investment sector.

From the view point of profitability, BOKL seems to be more successful than KBL w.r.t profit earning capacity by utilizing available resources. But both the banks have low mobilized fund in interest bearing assets. However, KBL seems to be slightly successful in mobilizing its fund in interest bearing assets. KBL has better performance than BOKL to earn interest on its assets.

The liquidity risk and credit risk of BOKL is comparatively lower than KBL.

KBL has been successful in maintaining a steady growth rate on deposit. It proves that KBL is providing high quality service, credibility and image to the depositors. However growth rate on loan and advances and investment is higher in BOKL than in KBL.

From the analysis of coefficient of correlation, we can say that both the banks show positive relationship between deposit and loan and advances. But BOKL shows negative relation between investment and deposit which shows that there do not exist relationship between total deposit and investment in case of BOKL. However KBL shows positive relationship between deposit and investment. So, there is insignificant relationship in case of BOKL but significant in case of KBL.

The trend value of loan and advances net profit and total deposit of BOKL and KBL are in increasing trend. The trend value of total investment is in fluctuating trend in case of BOKL and increasing in case of KBL. The trend value of total deposit and loan and advances of BOKL is better than KBL.

5.4 Recommendation

On the basis of analysis, findings following recommendation are made. Banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment pattern.

Increase deposit

The main source of commercial banks is collecting deposit from publics who don't need that fund recently. Without enough deposit collect bank cannot operate smoothly. So it is recommended to collect more amount as deposit large varieties of deposit schemes and facilities like cumulative deposit schemes, prize bonds scheme gift cheques schemes, recurring deposit scheme (life insurance). Minimizing the amount needed to open an account, providing facility of transfer money which will attract the depositions and entrepreneurs.

More investment in government securities

The study reveals that BOKL and KBL both have invested funds in government securities, but it's not enough. The increase in amount on assets as cash and bank balance is not good from the profitable point of view.

Government securities like treasury bills, development bonds, should be in emphasis of investment. Though they yield low interest rate these areas are safely for investment. So BOKL and KBL both are strongly recommended to give importance to invest more fund in government securities instead of keeping them idle.

More investment on share and debenture

To get success in competitive market and to raise financial and economic development of country banks must mobilize its funds in different sectors such as purchase share and debenture of other financial and non financial companies and government and non government companies. BOKL and KBL both have low mean ratio of investment on share and debenture so it is recommended to increase their investment in it.

Investment of deprive and priority sector

NRB has directed to commercial banks to invest their certain percentage in deprives and priority sector. The study has been found that the banks have earned high profit in last year because of their services only in profitable sectors. It has not granted loan on priority and deprive sector. So it is recommended to thoroughly follow the direction issued by NRB.

Effective portfolio management

Portfolio management is important for every investor as risk is involved in every investment. Portfolio management of the bank assets basically means allocation of funds in different components. Portfolio condition of BOL: and KBL should be examined time to time and alternation should be made to mountain equilibrium in the portfolio condition as far as possible. The greater the variability the riskier is the project.

Liberal lending policy and sound credit collection policy

Commercial bank must utilize their deposit as loan and advances to get success in competitive banking market. Most of the banks failure due to reason of liquidity arises so bank must be able to collect loan and advances granted by it after certain period.

Therefore it is recommended to BOKL and KBL to follow liberal lending policy when sensations of loan and advances with sufficient guaranty and implement sound collection policy including procedure for identification of bad debtors loan, immediate contact with borrower, continual follow up a well as legal procedure, if require.

Investment vision

The trend of investment of BOKL is decreasing level. So it is recommended to keep wide vision in investment of their resource in different income sector. The trend of KBL is increasing but still it should keep vision for utilizing their resources.

Concluding remarks

Nepal is developing country. The strong economic structure is needed for the rapid overall development. Commercial bank plays significant role in the economic growth of country like Nepal. Nepal's commercial banks face several problems related to fund mobilization and investment. They are working in traditional method. They have to rush in modern banking technology. These suggestions will be helpful to the commercial banks to develop new system in banking business.

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APPENDICES

Appendix-1

Balance Sheet of BOKL

Rs. in million

Capital and Liabilities	2005/06	2006/07	2007/08	2008/09	2009/10
Share Capital	463.581	463.581	603.141	1182.157	1359.480
Reserve and fund	376.153	390.134	738.932	897.192	714.000
Debenture and bond	200.00	200.000	200.000	200.000	200.000
Borrowing outstanding	533.180	730.000	100.000	100.000	300.000
Deposit liabilities	10485.359	12388.927	15833.738	18083.980	20315.834
Bills payable	11.622	25.777	51.576	51.125	35.702
Proposed dividend payable	98.712	135.575	32.804	77.333	177.323
Income tax liabilities	-	-	-	-	-
Other liabilities	89.723	107.841	161.733	241.977	293.801
Total capital and liabilities	12278.329	14581.329	17721.925	20496.005	23395.191

Rs. in million

Assets	2005/06	2006/07	2007/08	2008/09	2009/10
Cash Balance	184.020	219.043	536.747	565.066	455.181
Balance with NRB	349.296	883.490	606.049	1324.108	687.581
Balance with Banks	195.382	213.366	297.671	292.938	655.604
Financial Institution					
Money at call	594.047	259.279	72.680	243.352	931.998
Investment	3374.712	2992.434	3204.068	2783.598	3269.204
Loans and advances	7259.083	9399.328	12462.638	14647.297	16664.930
Fixed assets	110.745	320.847	387.274	417.041	491.295
Non-banking Assets	7.356	3.626	0.453	-	-
Other Assets	203.689	289.979	154.346	222.606	240.405
Total Assets	12278.329	14581.395	1772.925	20496.005	23395.191

Source : Annual Report of BOKL

Appendix-2

Balance Sheet of KBL

Rs. in million

Capital and Liabilities	2005/06	2006/07	2007/08	2008/09	2009/10
Share Capital	635.000	750.000	1070.000	1187.000	1306.015
Reserve and fund	23.851	275.630	294.885	438.854	479.743
Debenture and bond	-	-	-	400.000	400.000
Borrowing outstanding	401.761	251.400	212.970	100.000	293.420
Deposit liabilities	7768.957	10557.416	12774.281	15710.925	17432.253
Bills payable	11.919	16.554	65.297	70.087	42.312
Proposed dividend payable	6.579	-	-	6.584	156.816
Income tax liabilities	296.00	11.007	9.650	0.235	-
Other liabilities	107.274	94.734	333.786	432.361	275.594
Total capital and liabilities	9010.176	11918.311	15026.600	18536.565	20522.474

Rs. in million

Assets	2005/06	2006/07	2007/08	2008/09	2009/10
Cash Balance	135.795	190.748	565.641	549.109	574.065
Balance with NRB	210.553	384.748	244.576	1120.761	1663.997
Balance with Banks	43.282	96.520	123.624	16.430	485.765
Financial Institution					
Money at call	145.00	372.215	55.360	30.000	120.000
Investment	1394.948	1678.418	2138.798	1510.828	2296.872
Loans and advances	6891.855	8929.013	11335.88	14593.247	14765.912
Fixed assets	91.933	189.324	222.000	247.933	285.637
Non-banking Assets	3592	2.395	3.141	-	-
Other Assets	93.318	74.834	338.370	380.258	330.222
Total Assets	9010.276	11948.311	15026.600	18538.565	20522.474

Source : Annual Report of KBL

Appendix-3

Total Deposit

Rs. in million

F/Y	BOKL	KBL
2005/06	10485	7768
2006/07	12388	10557
2007/08	15866	12774
2008/09	18084	15711
2009/10	20315	17433

Appendix-4

Loan and Advances

Rs. in million

F/Y	BOKL	KBL
2005/06	7259	6891
2006/07	9399	8929
2007/08	12462	11335
2008/09	14647	14593
2009/10	16664	14966

Appendix-5

Total Investment

Rs. in million

F/Y	BOKL	KBL
2005/06	3378	1394
2006/07	2995	1678
2007/08	3206	2138
2008/09	2783	1511
2009/10	3269	2297

Appendix-6

Net Profit

Rs. in million

F/Y	BOKL	KBL
2005/06	202	103
2006/07	262	170
2007/08	361	174
2008/09	462	261
2009/10	509	316

Appendix-7

Correlation between total deposit and loan and advances of BOKL

Rs. in million

F/Y	Total Deposit (X)	Loan and advances (Y)	X^2	Y^2	XY
2005/06	10485	7259	109935225	52693081	76110615
2006/07	12388	9399	153462544	88341201	116434812
2007/08	15833	12462	250683889	155301444	197310846
2008/09	18084	14647	326994889	214534609	264864701
2009/10	20315	16664	412699225	277688896	338529160
	$\Sigma X = 77105$	$\Sigma Y = 60431$	$\Sigma X^2 = 1252775772$	$\Sigma Y^2=788559231$	$\Sigma XY=993247134$

Here,

N = 5

Calculation of correlation coefficient (r)

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

$= 1.007$

$r^2 = 1.015$

Calculation of probable error,

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

$= -0.0045$

6.P.Er. = -0.0271

Appendix-8

Correlation between total deposit and loan and advances of KBL

Rs. in million

F/Y	Total Deposit (X)	Loan and advances (Y)	X^2	Y^2	XY
2005/06	7768	6891	60341824	47485881	53529288
2006/07	10557	8929	111450249	79727041	94263453
2007/08	12744	11335	163175076	728482225	144793290
2008/09	12710	14593	246804100	212955649	229256030
2009/10	17433	14966	303909489	223981156	260902278
	$\Sigma X = 64242$	$\Sigma Y = 56714$	$\Sigma X^2 = 885680738$	$\Sigma Y^2=720694852$	$\Sigma XY=782744579$

Here,

N = 5

Calculation of correlation coefficient (r)

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

$= 0.7914$

$r^2 = 0.6264$

Calculation of probable error,

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

$= 0.1127$

6.P.Er. = 0.676

Appendix-9

Correlation between total deposit and investment of BOKL

Rs. in million

F/Y	Total Deposit (X)	Loan and advances (Y)	X^2	Y^2	XY
2005/06	10485	3378	109935225	11410884	35418330
2006/07	12388	2995	153462544	8970025	37102060
2007/08	15833	3206	250683889	10278436	50760598
2008/09	18084	2783	326994889	7745089	50324989
2009/10	20315	3269	412699225	10686361	66409735
	$\Sigma X = 77104$	$\Sigma Y = 15631$	$\Sigma X^2 = 1253775772$	$\Sigma Y^2=44429515$	$\Sigma XY=240015712$

Here,

N = 5

Calculation of correlation coefficient (r)

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

$= 0.061$

$r^2 = 0.004$

Calculation of probable error,

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

$= 0.301$

6.P.Er. = 1.803

Appendix-10

Correlation between total deposit and investment of KBL

Rs. in million

F/Y	Total Deposit (X)	Loan and advances (Y)	X^2	Y^2	XY
2005/06	7768	1394	60241824	1943236	10828592
2006/07	10557	1678	11450249	2815684	17714646
2007/08	12744	2138	163175076	4571044	27310812
2008/09	12710	1511	246804100	2283121	23737810
2009/10	17433	2297	303909489	5276209	40043601
	$\Sigma X = 64242$	$\Sigma Y = 9018$	$\Sigma X^2 = 885680738$	$\Sigma Y^2=16889294$	$\Sigma XY=119635461$

Here,

N = 5

Calculation of correlation coefficient (r)

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

$$= 0.614$$

$$r^2 = 0.377$$

Calculation of probable error,

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

$$= 0.188$$

6.P.Er. = 1.17

Appendix-11
Trend value of total deposit of BOKL

Rs. in million

F/Y	Total Deposit (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	10485	-2.00	4.00	-20970	10349.80
2006/07	12388	-1.00	1.00	-12388	12885.40
2007/08	15833	0.00	0.00	0.00	15421.00
2008/09	18084	1.00	1.00	18084	17956.60
2009/10	20315	2.00	4.00	40630	20492.20
	$\Sigma Y = 77105$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY=25356$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 15421

From (iii) $b = \frac{\sum XY}{X^2}$ .....(v)

or, b = 2535.60

The straight line trend for total deposit is,

$Y = a + bX \longrightarrow 15421 + 2535.60\ X$

For year 2010/11,

$Y = a + bX \longrightarrow 15421 + 2535.60 \times 3$

X = 3, Y = 23027.8

Trend value for next five year are:

Rs. in million

Year	X = t - 2007/08	Y (Projected deposit) = a + bx
2010/11	3	23027.80
2011/12	4	25563.40
2012/13	5	28099.00
2013/14	6	30634.60
2014/15	7	33170.20

Appendix-12
Trend value of total deposit of KBL

Rs. in million

F/Y	Total Deposit (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	7768	-2.00	4	-15536	7945.80
2006/07	10557	-1.00	1	-10557	10394.10
2007/08	12744	0.00	0	0.00	12842.40
2008/09	15710	1.00	1	15710	15290.70
2009/10	17433	2.00	4	24866	17739.00
	$\Sigma Y = 64212$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY=24483$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 12842.40

From (iii) $b = \frac{\sum XY}{\sum X^2}$ .....(v)

or, b = 2448.30

The straight line trend for total deposit is,

$Y = a + bX \longrightarrow$ 12842.40 + 2448.30 X

For year 2010/11,

$Y = a + bX \longrightarrow$ 12842.40 + 2448.30 x 3

X = 3, Y = 23027.8

Trend value for next five year are:

Rs. isn million

Year	X = t - 2007/08	Y (Projected deposit) = a + bx
2010/11	3	20187.30
2011/12	4	22635.60
2012/13	5	25083.90
2013/14	6	27532.20
2014/15	7	29980.50

Appendix-13
The Trend value of loan and advances of BOKL

Rs. in million

F/Y	Loan and advances (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	7259	-2.00	4.00	-14519	6874.80
2006/07	9399	-1.00	1.00	-9399	9280.50
2007/08	12462	0.00	0.00	0.00	12462.00
2008/09	14647	1.00	1.00	14647	14091.9
2009/10	16664	2.00	4.00	33328	16497.6
	$\Sigma Y = 58431$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY=24057$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 11686.20

From (iii) $b = \frac{\sum XY}{\sum X^2}$ .....(v)

or, b = 2405.70

The straight line trend for loan and advances is,

$Y = a + bX \longrightarrow$ 11686.20+ 24056.70 X

For year 2010/11,

$Y = a + bX \longrightarrow$ 11686.20 + 2405.70 x 3

X = 3, Y = 18903.3

Trend value for next five year are:

Rs. isn million

Year	X = t - 2007/08	Y (Projected deposit) = a + bx
2010/11	3	18903.30
2011/12	4	21309.00
2012/13	5	23714.70
2013/14	6	26120.40
2014/15	7	28526.10

Appendix-14
The Trend value of loan and advances of KBL

Rs. in million

F/Y	Loan and advances (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	6891	-2.00	4.00	-13782	6980.00
2006/07	8929	-1.00	1.00	-8929	9161.40
2007/08	11335	0.00	0.00	-	11342.80
2008/09	14693	1.00	1.00	14593	13524.20
2009/10	14966	2.00	4.00	29932	15705.60
	$\Sigma Y = 56714$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY=21814$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 11342.80

From (iii) $b = \frac{\sum XY}{\sum X^2}$ .....(v)

or, b = 2181.40

The straight line trend for loan and advances is,

$Y = a + bX \longrightarrow 11342.80 + 2181.40\ X$

For year 2010/11,

$Y = a + bX \longrightarrow 11342.80 + 2181.40 \times 3$

X = 3, Y = 17887

Trend value for next five year are:

Rs. isn million

Year	X = t - 2007/08	Y (Projected loan and advances) = a + bx
2010/11	3	17887.00
2011/12	4	20068.40
2012/13	5	22249.80
2013/14	6	24431.20
2014/15	7	26612.60

Appendix-15
Trend value of total investment of BOKL

Rs. in million

F/Y	Investment (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	3378	-2.00	4.00	-6756	3212.20
2006/07	2995	-1.00	1.00	-2995	3169.20
2007/08	3206	0.00	0.00	0	3126.20
2008/09	2783	1.00	1.00	2783	3083.20
2009/10	3269	2.00	4.00	6583	3040.20
	$\Sigma Y = 15631$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY=(430)$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 3126.20

From (iii) $b = \frac{\sum XY}{\sum X^2}$ .....(v)

or, b = -43

The straight line trend for investment is,

$Y = a + bX \longrightarrow 3126.20 - 43\ X$

For year 2010/11,

$Y = a + bX$

X = 3, Y = 2997.20

Trend value for next five year are:

Rs. isn million

Year	X = t - 2007/08	Y (Projected investment) = a + bx
2010/11	3	2997.20
2011/12	4	2954.20
2012/13	5	2911.20
2013/14	6	2868.20
2014/15	7	2825.20

Appendix-16
Trend value of investment of KBL

Rs. in million

F/Y	Investment (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	1394	-2.00	4.00	-2788	1635.80
2006/07	1678	-1.00	1.00	-1678	1799.70
2007/08	2138	0.00	0.00	0	1963.60
2008/09	1511	1.00	1.00	1511	2127.50
2009/10	2297	2.00	4.00	4594	2291.40
	ΣY =	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY = 1639$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 1963.6

From (iii) $b = \frac{\sum XY}{\sum X^2}$ .....(v)

or, b = 163.90

The straight line trend for investment is,

$Y = a + bX \longrightarrow 1963.6 + 163.90\ X$

For year 2010/11,

$Y = a + bX$

X = 3, Y = 2455.30

Trend value for next five year are:

Rs. isn million

Year	X = t - 2007/08	Y (Projected value) = a + bx
2010/11	3	2455.30
2011/12	4	2619.20
2012/13	5	2783.10
2013/14	6	2947.00
2014/15	7	3110.90

Appendix-17
BOKL
Trend value of net profit of BOKL

Rs. in million

F/Y	Net Profit (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	202	-2.00	4.00	-404	196.40
2006/07	262	-1.00	1.00	-262	277.80
2007/08	361	0.00	0.00	0	359.20
2008/09	462	1.00	1.00	462	440.60
2009/10	509	2.00	4.00	1018	522.00
	$\Sigma Y = 1796$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY=814$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 359.20

From (iii) $b = \frac{\sum XY}{\sum X^2}$ .....(v)

or, b = 81.40

The straight line trend net profit is,

$Y = a + bX \longrightarrow 359.20 + 81.40\ X$

For year 2010/11,

$Y = a + bX$

X = 3, Y = 603.4

Trend value for next five year are:

Rs. isn million

Year	X = t - 2007/08	Y (Projected value) = a + bx
2010/11	3	603.46
2011/12	4	684.80
2012/13	5	766.20
2013/14	6	877.60
2014/15	7	929.20

Appendix-18
KBL
Trend value of net profit of KBL

Rs. in million

F/Y	Net Profit (Y)	X = t-2007/08	X^2	XY	Y = a + bx Trend values
2005/06	103	-2.00	4.00	-206	101.40
2006/07	170	-1.00	1.00	-170	153.10
2007/08	174	0.00	0.00	0	204.80
2008/09	261	1.00	1.00	261	256.50
2009/10	316	2.00	4.00	632	308.20
	$\Sigma Y = 1024$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY=517$	

Here,

N = 5

Let the trend line be,

$Y = a + bx$ ..... (i)

The two normal equation are

$\Sigma Y = na + b\Sigma x$ .....(ii)

$\Sigma XY = a\Sigma X + b\Sigma x^2$ .....(iii)

From (ii) $a = \frac{\sum Y}{N}$ .....(iv)

or, a = 204.80

From (iii) $b = \frac{\sum XY}{\sum X^2}$ .....(v)

or, b = 51.70

The straight line trend for total deposit is,

$Y = a + bX \longrightarrow 204.80 + 51.70\ X$

For year 2010/11,

$Y = a + bX$

X = 3, Y = 359.90

Trend value for next five year are:

Rs. isn million

Year	X = t - 2007/08	Y (Projected value) = a + bx
2010/11	3	359.90
2011/12	4	411.60
2012/13	5	463.30
2013/14	6	515.00
014/15	7	566.70