

**A STUDY ON INVESTMENT POLICY OF SELECTED  
COMMERCIAL BANKS**

**(With Special Reference to Nepal Investment Bank Limited and  
Bank of Kathmandu Limited)**

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***In partial fulfillment of the requirement for the degree of  
Master of Business Studies (MBS)***

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# **RECOMMENDATION**

This is to certify that the thesis

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Entitled:

**A STUDY ON INVESTMENT POLICY OF  
SELECTED COMMERCIAL BANKS**

**(With Special Reference to Nepal Investment Bank Limited and  
Bank of Kathmandu Limited)**

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**(With Special Reference to Nepal Investment Bank Limited and  
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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**A Study on Investment Policy of Selected Commercial Banks (With Special Reference to Nepal Investment Bank Limited and Bank of Kathmandu Limited)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Achyut Raj Bhattarai** and **Lecturer Mikha Shrestha** of Shanker Dev Campus.

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## **ABBREVIATIONS**

|        |   |  |
|--------|---|--|
| ADB    | = | Agricultural Development Bank              |
| AGM    | = | Annual General Meeting                     |
| BOK    | = | Bank of Kathmandu Limited                  |
| BPS    | = | Book-value Per Share                       |
| BS     | = | Bikram Sambat (Abbreviation of Bikram Era) |
| CEO    | = | Chief Executives Officer                   |
| CV     | = | Coefficient of Variation                   |
| DPS    | = | Dividend Per Share                         |
| EBL    | = | Everest Bank Limited                       |
| EPS    | = | Earning Per Share                          |
| G/N    | = | Government of Nepal                        |
| GDP    | = | Gross Domestic Product                     |
| HBL    | = | Himalayan Bank Limited                     |
| IMF    | = | International Monetary Fund                |
| MBL    | = | Machhapuchhre Bank Limited                 |
| MPS    | = | Market Price of Share                      |
| NABIL  | = | Nabil Bank Limited                         |
| NBL    | = | Nepal Bank Limited                         |
| NEPSE  | = | Nepal Stock Exchange                       |
| NIB    | = | Nepal Investment Bank Limited              |
| NICB   | = | Nepal Industrial & Commercial Bank Limited |
| NPV    | = | Net Present Value                          |
| NRB    | = | Nepal Rastra Bank                          |
| PE     | = | Price Earnings                             |
| RBB    | = | Rastra Banijya Bank                        |
| SBI    | = | Nepal State Bank of India Limited          |
| SCBNL  | = | Standard Chartered Bank Nepal Limited      |
| SEBO/N | = | Security Board of Nepal                    |

# CHAPTER -I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is a land-locked under developing country situated 26° 22" to 30° 27" northern latitude and 80°04" to 88°12" eastern longitude situated between two Asian giants China & India, both having well-developed economic condition. The development of a country is measured by its economic indices. Nepal, like any other country has been laying emphasis on the upliftment of its economy. The process of economic development depends upon various factors. Financial institutions are viewed as catalyst in the process of economic growth. The mobilization of domestic resources, capital formation and its proper utilization plays an important role in the economic development of a country. Every financial institution, big or small, be it a commercial bank or a finance company or a cooperative bank play an important role in the development of a country.

Commercial banks are major financial institutions, which occupy quite an important place in the economy because through the deposits they collect they provide much needed capital for the development of industry, trade and business and other deficit sectors, thereby contributing to the economic growth of the nation (*Limbu; 2009:41*).

"Investment in the actual sense refers to the sacrifice of current dollars for future dollars". Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude of which is uncertain. In some cases, the element of time predominates (for example, government bonds). In other case, risk is more dominant (for example call option on common stock). In yet others, both time and risk play a dominant role (for example share of common stock) (*Sharpe; 1986:9*).

Investment is the use of money to earn profit. It can be said that investment is concerned with the proper management of the investors wealth, which are the sum of the current income and the present value of all future income. Fund to be invested come from assets already owned, borrowed money and saving or foregone consumption. By foregoing today and investing the saving, investors expect to enhance their future consumption possibilities i.e. the fund is

invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other possible harms (*Pandy; 1999:145*).

"Investment policy involves determining the investor's objectives and the amount of his or her investable wealth. It is not appropriate for an investor to say that his objective is to make a lot of money" (*Clarke; 1989: 10*). What is appropriate for an investor in this situation is to state that the objective is to earn a profit while recognizing that there exist some chances of incurring large losses. Investment objectives should be stated in terms of both risk & return.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the bank, the bank may invest by lending the funds to various businesses. These firms in return may invest in new factories and equipment to increase their production and efficiency. In addition to borrowing from banks, most companies issue stocks and bonds, which they sell to investors to raise capital needed for business expansion. Government also issues bonds, to raise required funds to invest in various projects. NRB on behalf of HMG issues bonds, treasury bills to finance the long term and short-term needs of the government. All such investment by individuals, business, government & government entities involve a present sacrifice of income to get an expected future benefit (*Panta; 2003:124*).

For the entire development of the country, the proper development of industry and Trade in must. Therefore, the banks should give priority for the accelerating the Economic growth of the country. As the strong economic condition of a country is represented by the development of industry, trade and business, which is main sector of the banks to carry out its activities and to achieve its aim of profit maximizing. Proper investment practice assists the selected banks to make profitable Investment, which helps in the development of country as well as achieve the objective of making the profit.

### **1.1.1 A Brief Introduction of Selected Commercial Banks**

#### **1.1.1.1 Nepal Investment Bank Limited (NIBL)**

Nepal Investment Bank Ltd. (NIBL), (previously known as Nepal Indosuez Bank Ltd.) was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of

one largest banking group in the world. With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure. Rastriya Banijya Bank holds 15%, Rastriya Beema Sansthan holds 15%, General Public holds 20%, and the Nepalese promoters hold 50%.

NIBL managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has six branches in Kathmandu Valley at the following locations: Putalisadak, New Road, Pulchowk (Lalitpur), Thamel, Kalimati, and Seepadol (Bhaktapur). In addition, the bank also has eleven other branches outside Kathmandu Valley in Banepa, Narayangarh, Birgunj, Janakpur, Jeetpur, Bhairawa, Biratnagar, Pokhara, Nepaljung, Butwal and Birtamod. Bank will be aggressively opening new branches at different parts of the Kingdom to serve its customers better. Recently bank has opened its new branch outside the valley in the Birtamod. Investment Bank Limited has always been committed to providing a quality service to its valued customers, being truly a Nepali Bank. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Investment Bank Limited has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. Nepal Investment Bank also provides various services consisting of automated teller machine (ATM), credit and debit card, e banking, bill payment, premier banking, and utility payment services, as well as locker facilities. Further, the company provides remittance services through Prithivi remit, an Internet based and customer focused online money transfer product; local gents; and international network. It operates 40 branches and 67 ATMs. The capital structure of NABIL bank is as follows ([www.nibl.ocm.np](http://www.nibl.ocm.np)).

**Table 1.1**  
**Equity Capital of NIBL**

|                    |                  |
|--------------------|------------------|
| Authorized capital | Rs 4,000,000,000 |
| Issued Capital     | Rs 3,011,372,125 |
| Paid Up Capital    | Rs 3,011,372,125 |

### **1.1.2 Role of Commercial Banks in Nepal**

The main objectives of commercial banks are to mobilize ideal resources for productive use after collecting them from scattered resources. They pool scattered fund and channel them into productive use. Commercial banks render a variety of services. In the absence of commercial banks, it will be impossible to meet the financial needs of the country. Its role in economic development is so immense; it brings about greater mobility of resources to meet the emerging necessity of the economy. The essence of commercial bank is the financial intermediation between the ultimate savers and borrowers. In other word, a bank's main function is to act as middleman between the surplus and deficit units in the economy and like any other firm in business to make profit for its shareholders. Commercial banks have become heart of modern day financial system as they hold deposits of millions of people, government and business firms. In doing so, they facilitate both the flow of goods and services from producer to consumer and to the financial activities of government. So the commercial banks are the most important institutions for capital formulations. The major problem in almost all underdeveloped countries like Nepal is lack of capital formation and their proper mobilization. In such countries, the commercial banks have to take more responsibilities and should act as development bank due to the lack of other specialized institutions. Industrialization creates demand for agricultural goods as well and helps the upliftment of agricultural sector. Thus, 'Bank' can be rightly interpreted as the promoter of economic development and catalytic agent for business and trading activities (*Cross; 1999: 89*).

Investment policy is the proper management of any fund or wealth to maximize value or to obtain the high or favorable returns with low risk considering the protection of the investment from the inflation and other possible harms. Investment policy is an important ingredient of overall national economic development because it ensures efficient also allocation of fund to

achieve the materials and economic well being of the society as a whole. In general sense, investment means to payout money to get more. But in the broadest sense, investment means the sacrifice of current dollars for future dollars. The sacrifice takes place in the present and in certain. The reward comes later, if at all and magnitude is generally uncertain. Thus, Investment policies are the strategies, which find the answer of questions like who's to invest? How much to invest? When to invest and why to invest? Investment promotes economic growth and contributes to nation's wealth (*Pandy; 1999:159*).

In the study, the word investment conceptualized the investment of income, savings or other collected fund. The term investment is only possible where there adequate savings. If all the incomes and savings are consumed to solve the problem of hand to mouth and to the other basic needs. Then there is no existence of investment. Therefore, both saving and investment are interrelated. Role of Commercial Banks in the Economic Development of a Country Commercial banks play an important and active role in the economic development of a country. If the banking system in a country is effective, efficient and disciplined it brings about a rapid growth in the various sectors of the economy. The following is the significance role of commercial banks in the economic development of a country. Banks promote capital formation: Commercial banks accept deposits from individuals and businesses, these deposits are then made available to the businesses, which make use of them for productive purposes in the country. The banks are, therefore, not only the storehouses of the country's wealth, but also provide financial resources necessary for economic development. Investment in new enterprises: Businessmen normally hesitate to invest their money in risky enterprises. The commercial banks generally provide short and medium term loans to entrepreneurs to invest in new enterprises and adopt new methods of production. The provision of timely credit increases the productive capacity of the economy.

Promotion of trade and industry: With the growth of commercial banking, there is vast expansion in trade and industry. The use of bank draft, check, bill of exchange, credit cards and letters of credit etc has revolutionized both national and international trade. Development of agriculture: The commercial banks particularly in developing countries are now providing credit for development of agriculture and small scale industries in rural areas. The provision

of credit to agriculture sector has greatly helped in raising agriculture productivity and income of the farmers.

**Balanced development of different regions:** The commercial banks play an important role in achieving balanced development in different regions of the country. They help in transferring surplus capital from developed regions to the less developed regions. The traders, industrialists etc of less developed regions are able to get adequate capital for meeting their business needs. This in turn increases investment, trade and production in the economy.

**Influencing economic activity:** The banks can also influence the economic activity of the country through its influence on a. Availability of credit b. The rate of interest If the commercial banks are able to increase the amount of money in circulation through credit creation or by lowering the rate of interest, it directly affects economic development. A low rate of interest can encourage investment. The credit creation activity can raise aggregate demand, which leads to more production in the economy.

**Implementation of Monetary policy:** The central bank of the country controls and regulates volume of credit through the active cooperation of the banking system in the country. It helps in bringing price stability and promotes economic growth within the shortest possible period.

**Monetization of the economy:** The commercial banks by opening branches in the rural and backward areas are reducing the exchange of goods through barter. The use of money has greatly increased the volume of production of goods. The non monetized sector (barter economy) is now being converted into monetized sector with the help of commercial banks.

**Export promotion cells:** In order to increase the exports of the country, the commercial banks have established export promotion cells. They provide information about general trade and economic conditions both inside and outside the country to its customers. The banks are therefore, making positive contribution in the process of economic development.

**Role of Banks in 21st century** the commercial banks are now not confined to local banking. They are fast changing into global banking i.e., understanding the global customer, using latest information technology, competing in the open market with high technology system, changing from domestic banking to investment banking etc. The commercial bank is now considered the nerve system of all economic development in the country (*Pandey; 1999: 89*).

### **1.1.1.2 Bank of Kathmandu (BOK)**

Bank of Kathmandu Ltd. (BOK) is a culmination of a comprehensive vision of the Promoters to take the Nepalese economy to newer realm in the global market. The promoters' comprehensive vision and the government's overwhelming support gave birth to BOK as one of the private sectors banks of the country in 1993 which commenced its commercial business in March, 1995.

BOK was established by a group of distinguished civil servants and renowned businessmen in collaboration with the SIAM Commercial Public Company Limited (SCB) - a leading bank of Thailand. Upon establishing BOK as one of the reputed banks in a short period, the Nepalese promoters decided to conclude the technical service agreement with SCB and BOK to be arranged by the Nepalese professionals as it could further enhance its business performance years ahead under the Nepalese management. With the well-acclaimed capabilities of the Nepalese management team, BOK has successfully enhanced its capital structure, profitability; reach to the customers and image in the market. It has created a position in the industry in a shortest possible span of time. Since, BOK is established with the objective of providing prompt and quality services the clients. Its branches as well as number of eligible staffs have been increasing. Therefore, it has become successful Commercial banks in Nepal. Bank of Kathmandu's policy is to intend quality and personalized services to be customers as promptly as possible. To extend more efficient services to its customers. Bank of Kathmandu has been adeptly innovative and latest banking technology. Bok's vision to become a significant contributor to the economic development of Nepal by distinguishing the Bank as an efficient, competitive, safe and top-quality financial institution. The capital structure of BOK ([www.bok.com.np](http://www.bok.com.np)).

**Table 1.2**  
**Equity Capital of BOK**

|                    |                  |
|--------------------|------------------|
| Authorized capital | Rs 3,000,000,000 |
| Issued Capital     | Rs 164,1873,000  |
| Paid Up Capital    | Rs 164,1873,000  |

## **1.2 Focus of the Study**

Commercial bank is an entity, which accepts deposits and makes short-term loans to business enterprises, regardless of the scope of its other services. Investment is an important ingredient of overall national economic development because it ensures efficient allocation of fund to achieve the materials and economic well-being of the society. Investment policy is an important factor of the investment practice. Investment refers to sacrifice of current money for future money, generally two attributes are involved in it, they are time and risk. In this study, the word investment conceptualized the investment of income, savings or other collected fund. The term investment covers a wide range of activities. It is widely known fact that an investment is only possible where there is adequate savings. If all the incomes and savings are used to fulfill the minimum needs, then there is no existence of investment. Thus, both saving and investment are interrelated. Investment policy is the most important factor of the investment practice. The commercial banks formulate sound investment policies to make it more effective, which eventually contributes to the economic growth of the country. The sound investment policy helps the banks to maximize the quality and quantity of investment and helps to achieve the loan objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts push forward to the forces of economic growth. The commercial banks should careful while performing the credit creation function. Investment policy should be formulated in such a way that maximizes the profit and minimizes the risk from lending.

Nepalese commercial banks are far behind fulfilling the responsibility to invest in the crucial sectors of the economy for the upliftment of the national economy. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. In the present context t there is tough competition in the banking market but not enough opportunity to make investment. In this salutation, banks can take initiation in search of new opportunities to

survive in the competitive market and earn satisfactory profit. There is high liquidity in the money market but here seems to be no profitable area to invest. Flow of money is more than requirement. Likewise, the banks and financial companies (institutions) are offering very low deposit interest rate. This indicates that the joint venture banks should be able to create new investment opportunities to make investment to survive and earn maximum profit in the highly competitive market.

For the entire development of the country, the proper development of industry and trade in must. Therefore, the banks should give priority for the accelerating the economic growth of the country. As the strong economic condition of a country is represented by the development of industry, trade and business, which is main sector of the banks to carry out its activities and to achieve its aim of profit maximizing. Proper investment practice assists the banks to make profitable investment that helps in the development of country as well as achieve the objective of making the profit.

### **1.3 Statement of the Problem**

Commercial banks have huge collection from depositors. Effective utilization of collected fund is only possible through sound investment policy. Most Nepalese Commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines issued by NRB. They are unable to estimate the future; they do not have any clear view towards Investment policy. Furthermore, the implementation of policy is not in an effective way. The main reason attributed to unsound investment policy are lack of proper analysis on financial risk, interest rate risk, liquidity risk, business risk etc. CBs have become a role model in the improvement of fund mobilization.

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 uncertainty owing to lack 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. Some have even sanctioned loan to customers beyond customer's real requirement. The high liquidity position of banks has resulted in a decrease in investment in productive sectors.

Thus, the present study will make a modest attempt to analyze investment policy of two bank viz. NIBL and BOK. This study deals with the following issues of commercial banks:

- ) Are the CBs properly utilizing their available fund?
- ) What is the relationship between investment and loan, advances with total deposits and total net profit?
- ) Are they maintaining sufficient liquidity position?
- ) Are the fund mobilization and investment policy of NIBL and BOK effective?
- ) What is the relationship of investment and loan and advances with total deposits and net profit of NIBL and BOK?
- ) What is the comparative position of commercial banks on fund mobilization and investment policy
- ) Does the investment decision affect the total earnings of NIBL and BOK?
- ) What are the relationship and trend of ratio of NIBL and BOK?

#### **1.4 Objective of the Study**

Investment decision is the major decision functions of financial management of commercial banks. The main purpose of this study is to assess the investment policy and strategies followed by NIBL and BOK. The specific objectives of this study are given below:

To evaluate the liquidity, asset management, profitability, risk position and other ratios of the banks under study.

- ) To assess investment and lending policy NIBL and BOK.
- ) To find out relationship between total deposits and loan & advances, total investment, and Net profit of NIBL and BOK.
- ) To analyze the trend of deposits, investment, loan & advances and net profit for next five years of NIBL and BOK.
- ) To provide suggestions and recommendation based on the study.

#### **1.5 Significance of the Study**

Investment activity is the life-blood of any financial institution, since only accumulating deposits has no meaning, so for better return can be ensured only when deposits are properly mobilized through sound investment policy. The significance of the study is as follows:

- J The study enlightens the shareholders about the investment policy of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- J The study also compels the management of respective banks for self-assessment of what they have done in the past and guides them in their future plans and programs.
- J Those who concerned with banks in the formulation of appropriate strategies for improving the performance of banks would very beneficial.
- J The financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors, and debtors, who can objectively identify the better bank to deal in terms of profitability, safety and liquidity.
- J Policy makers at the macro level, i.e. the government and NRB will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.
- J Besides, this study can be important for the investors, customers (depositors, loan takers) and other public to know the performance of the bank as well as for the personal of the other bank to take various decisions regarding investment strategy. Due to all these, investment policy of NIBL and BOK limited can be considered to be much significant.

## **1.6 Limitation of the Study**

This research mainly concerned with the investment policy of the Nepal Investment Bank Limited and Bank of Kathmandu limited. However, some commonly attributed limitations are as follows:

- J This study is based on secondary data collected from the banks.
- J Although some primary data are included, but the study is mainly based on secondary data collected from the banks. Research based on secondary data may be far from accuracy due to inherent character.
- J A whole study is based on the data of five years period i.e. from fiscal year 2006/07 to 2010/11 and hence the conclusion drawn confines only to the above period.
- J This study has been concentrate on mainly Investment and lending policy of commercial banks.
- J This study deals with only two commercial banks i.e. NIBL and BOK

) This research particularly based on data gathered from the published annual report of the two banks along with NRB directives issued from time to time.

## **1.7 Organization of the Study**

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

### **Chapter-I: Introduction**

This chapter describes the basic concept and background of the study, commercial bank in Nepal, introduction of sample bank. Similarly, focus of the Study, problems of the study, objectives of the study, need or significance of the study and limitation of the Study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

### **Chapter-II: Review of Literature**

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It includes review of books, review of related articles and studies and previous thesis as well. Conceptual framework includes review of journals, articles, reports and Review of previous thesis studies related to study of previous study.

### **Chapter – III: Research Methodology**

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

#### **Chapter – IV: Presentation and Analysis of Data**

This chapter is the main part of the research. This chapter analyses the data related with study and presents the finding of the study. Data processing, data analysis and interpretation are given in this chapter.

#### **Chapter – V: Summary, Conclusions and Recommendations**

The last chapter contains the findings of whole study after which major conclusions and recommendations are provided. It also gives important suggestions to the concerned organization for the better improvement. Bibliography and other appendixes used in statistical results have been attached at the end of the study.

## **CHAPTER -II**

### **REVIEW OF LITERATURE**

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies. It is an integral mandatory process in research works. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posing the problem with new data and information to see that what results are derived. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

Here the study focus has been made relevant to the investment policy of commercial banks. This chapter is basically concerned with review of literature relevant to investment policy of NIBL and BOK. So, every possible effort has been made to grasp knowledge and information that is available from different sources. Here mainly two parts conceptual framework & review of related research work are included for the bases and to make the study more purposive.

#### **2.1 Conceptual Review**

##### **2.1.1 Concept of Bank**

Bank plays a significant role in the development of country. It facilitates the growth of trade and industry of the national economy. However, bank is a resource for economic development, which maintains the self- confidence of various segments of society and extends credit to people.

“A bank is a business organization that receives and holds deposits of funds from others makes loan or extends credits and transfers funds by written orders of depositors.” The

business of banking is one of collecting funds from the community and extending credit to people for useful purpose. Banks have played a vital role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit motive, it is expected to pay dividends and otherwise add to the wealth of its shareholders (*Encyclopedia; 1984*).

A good investment policy can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy (*Cross; 1999: 189*).

Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society. Seen in this light, the study of investment policy of Nepal Investment Bank limited and Bank of Kathmandu Ltd. assumes special importance. In today's completion market, it has become increasingly important for banks to know about investment policies to get success in competition (*Bhandari; 2003:127*).

### **2.1.2 Concept of Commercial Bank**

Commercial banks are that financial institutions which deal in accepting deposits of persons and institutions and giving loans against securities. They provide working capital needs of trade, industry even to agriculture sectors. Moreover, commercial banks also provide technical and administrative assistance to industries, trades and business enterprises (*Panta, 2003; 164*).

The American Institute of banking has laid down the four major function of the commercial bank such as receiving and handing deposits, handling payments for its clients, making loans and investments and creating money by extension of credit. A commercial bank is one, which exchanges money deposit, accepts deposit, grants loan and performs commercial banking functions.

American Institute of Banking (1972) states that "Commercial bank is a corporation, which accepts demand deposits subject to cheques and makes short-term loans to business enterprises, regardless of the scope of its other services." A commercial banker is a dealer in money and substitute for money such as cheques, bills of exchange. It also provides variety of financial services. Principally, commercial banks accept deposits and provide loans, primary to business firms. Commercial banks pool together the savings of the community under different account that seems they help in capital formation.

Commercial Bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services. "A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose" (*Commercial Bank Act; 2031*).

The Commercial bank has its own role and contributions in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people (*Bhandari; 2003:73*).

Commercial bank deals with others money. They have to find ways of keeping their asset liquid so that they could meet the demand of their customers. Liquidity is the lifeline of bank. Any bank perceived to be illiquid cannot attract deposit from the public. Inadequate liquidity does damage credit standing of those organizations, but if banks fail to repay the deposits on demand, the bank loses the trust of the public. This leads to "runs" is the bank and probably bankruptcy thereof. Trade off between liquidity and profitability is thus a crucial task for any bank. Satisfactory trade off is possible through correct prediction of liquidity needs and judicious distribution of resources in various forms of liquid and high earning assets.

The main function of commercial bank is concerned with the accumulation of the temporarily idle money of the public to advance it to deficit sections i.e. trade and commerce for expenditure. Its main functions are accepting various types of deposits, Lending money in various productive sectors, Letter of credit (LC), Guarantee (G'tee), Remittance, Bills and collections Hence, a commercial bank can be defined as a "Financial department store", which renders a host of financial services besides taking deposits and giving loans (*Bhandari; 2003:98*).

### **2.1.2.1 Functions of Commercial Bank**

Commercial banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of commercial banks are only concerned with accepting deposits and providing loans. But modern commercial banks work for overall development of trade, commerce, services, and agriculture also. The business of banking is very broad in modern business age. The number and variety of services provided by bank will probably expand. Recent innovation in banking include the introduction of credit cards, accounting services for business firms, factoring, leasing, participating in the Euro-dollar market, and lock-box banking. The main functions of commercial banks are as follows:

#### **i. Accepting Deposits**

It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue and pay cheques and collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank. A bank accepts deposits in three forms viz. saving, current and fixed. Saving deposit is one of the deposits collected from small depositors and low-income depositors. The banks usually pay small interest to depositors for their deposits. Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number and amount of withdrawals as contrary to saving account. The banks do not pay any interest on such account but charge small amount on the customers having current account. A fixed or time deposit is one where customers are requested to keep a fixed amount in the bank for specific period, generally by those who don't need money for stipulated time. The bank pays a higher interest on such deposits.

## **ii. Advancing Loans**

The second major function of a commercial bank is to provide loans and advances from the money, which it receives by way of deposits for the development of industry, trade, commerce, services, and agriculture. The main purpose of commercial bank is to boost up the development pace of communities and the economy as a whole.

## **iii. Agency Services**

The bank also performs number of services on behalf of the customers. The following are the agency functions provided by the bank.

- ) Dealing with the transaction of foreign exchange business
- ) Serving as an agent of correspondent on behalf of the customers
- ) Issuing letter of credit, circulate note, traveler's cheques, etc.
- ) Purchasing and selling different kinds of securities and remitting funds
- ) Keeping valuable article in safe custody
- ) Providing financial advice to various persons and bodies whenever required

## **iv. Creating Money**

The major function of the bank that separates it from other financial institution is the ability to create money and to destroy money, which is accomplished by lending and investing activities. The power of the commercial banking is of great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate (*American Institute of Banking; 1985: 149*).

### **2.1.2.2 Resources of Nepalese Commercial Bank**

Commercial banks have mainly three sources for their advancing. They are as follows:

#### **i. Capital**

As far as the capital fund is concerned, it is only a nominal source. Therefore, it can be used for investment purposes. This capital fund consists of two elements; paid up capital and general reserve.

## **ii. Deposits**

Deposits are the main resource of the banks for advancing loans. It is received from different forms and accounts. There are mainly three types of deposits viz. saving, current, and fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a country. Therefore, the main source of raising capital is deposits. “The deposit function of the bank is important because it has to aggregate small sums of money lying scattered here and there like twenties, fifties, and hundreds. Singling these sums has no economic efficiency what so ever but they can accomplish herculean tasks when they are aggregated and employed by the banker” (*Sudharsanam; 1976: 20*).

## **iii. Internal and External Borrowing**

Internal and external borrowings are very important for a developing country like Nepal. Commercial banks alone cannot fulfill the necessity of the society. Therefore, they are allowed to borrow from two sources, external and internal. Generally, external borrowing means the borrowing from foreign bank, foreign government, IBRD, IMF, etc. Internally, the banks can borrow from only one source, i.e. from NRB.

### **2.1.3 Concept of Investment**

The banks are such types of institutions, which deal in money and substitute for money. They deal 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.

“Investing involves making a current commitment of funds in order to obtain and uncertain future return. It is a risky business that demands information. To process information effectively and select the best investment requires goals that are clearing cut and realistic” (*Francis; 1983: 241*).

“Investment as commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth. This is the sum of current income and present value of all income” (*Cross; 1999:145*).

An investment is 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 expended rate of inflation and also for the uncertainty involved in the future flow of funds (*Frank and Reilly; 1990:203*).

Investment in its broadcast sense means sacrifice of certain present value for (possible uncertain) future value. The income and profit of a financial institution depends upon to its lending procedure, lending policy and investment of its fund in different securities. A sound lending and investment policy is not only pre-requisite for bank's profitability but also of utmost significance for the promotion of commercial savings of an under developed and backward country like Nepal. The factors that banks must consider for sound lending and investment policies are explained as under. Investment is the employment of funds with the aim of achieving additional income for the growth in value. The investment is the key factor to achieve additional income for the growth of banks (*Singh; 1992:183*).

Investment, in its broadest sense, means the sacrifice of certain present value for (Possible uncertain) future value. The investment is the venture that the return is uncertain. So, they have presented their view in the books that bank should look for the safe and less risky investment (*Sharpe and Gordon; 1999:298*).

From the above definitions, 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 uncertainty involved in expected future cash flow. The investment (credit or other investment) is the most important function of commercial banks. It is long-term commitment of bank in the uncertain and risky environment. Investment is a very challenging task of commercial banks. So a 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 (*Bhandari; 2003*).

#### **2.1.4 Meaning of Investment Policy**

Investment management of a bank is guided by the investment policy adopted by the bank. Investment policies can be varied in bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk (*Pandey; 1999:158*).

Investment policies of banks are conditioned, to great extent by the national policy framework; every banker has to apply his own judgment for arriving at credit decision, keeping of course, his banker's credit policy also in mind (*Singh; 1992:155*). According to the above definition, government and central bank have to make a sound policy about the investment of commercial banks. They further state, the field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But his higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex.

Investment policy fixes responsibilities for the investment disposition of the bank's assets in terms of allocating funds for invest and loan, and establishing responsibility for day to day management of these assets. It is assumed the management should be responsible for the investment decision of banks (*Baxley; 1987:241*).

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 are careful lending practice is essential in a bank to perform its credit creating function effectively and minimizing the risk inherent in any extension of credit (*Cross; 1999:213*).

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a generous profit as well as it should be secured and can be converted in to cash whenever needed. Obviously, a firm that is being considered for commercial loan must be analyzed to find out why the firm need money, how much money the firm need and when and how it will be able to repay the loan. Project or business proposal must be carefully scrutinized. Investment policy provides several inputs to the bank through which they can handle their investment operation efficiently ensuring the maximum exposure to risk, which ultimately leads the bank to provide secured loans and investment (*Bhandari; 2003*).

### **2.1.5 Characteristics of Sound Investment Policy**

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

#### **a) Safety and Security**

Banks should buy investment rated securities only. It should obtain form investing its fund in those securities, which are subject to greater depreciation and fluctuation for example common stock, since a little difference may result in a great loss. It must not advance its funds to speculative business, which may earn millions in a minute or may become bankrupt the next minute. Since risk is overpriced during recession and under priced during boom banks should invest in medium grade and high-grade securities during recession and boom respectively. Banks should buy securities, which are commercially durable, marketable and have high market price. In this regard, "MAST" should be followed while investing, Where, M =Marketability, A = Ascertain ability, S =Stability and T =Transferability.

#### **b) Liquidity**

People deposit money at bank in different account with confidence that the bank will repay their money when they are in need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities or at the

same time of lending, So that it can meet current short-term obligation, when they become due for payment.

**c) Profitability**

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

**d) Purpose of Loan**

The loan should be utilized in purposed plan. Everything related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will poses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

**e) Tangibility**

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

**f) Legality**

Every financial institution must follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of finance and other while issuing securities and mobilizing funds illegal securities will bring out many problems to the investors that may lose reputation and goodwill of the bank.

**g) Diversification**

Investment and credit concentrated on same geographical region, same sector of business and few customers increase the risk. Hence the policy should fix a cap on all these aspect. As the saying goes "A bank should not put all its eggs in the same basket", therefore, in order to minimize the risk, a bank should diversify its investment in different securities. This diversification or portfolio investment helps to earn good return and at the same time minimize the risks and uncertainty. The bank should be careful that while granting loan, it

should not be always in one sector. To minimize risk and minimize profit, a bank must diversify its investment on different sectors or make portfolio investment. Diversification of loans helps to sustain loss as, if securities of some companies deprived then there may be appreciation in the securities of other companies.

#### **h. Legality**

A commercial bank must follow the rules and regulations and statutory directives issued by Nepal Rastra Bank, Ministry of Finance and others while issuing securities and mobilizing their funds. In Nepal, NRB restricts financial institution licensed by it to invest in securities of each other (*Bhandari; 2003:156*).

#### **2.1.6 Some Important Terms**

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

##### **a) Deposits**

Deposit means the amounts deposited in different accounts such as fixed account, saving account, current accounts etc. of a bank or financial institution deposit is the main source of fund of the financial institution. For a commercial bank, deposit is the most important source of the liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene, "A Bank's deposits are the amount that it owes to its customers". Deposits are the lifeblood of the commercial bank. Though they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits. For accounting and analyzing purpose, deposits are categorized in three headings (*Pandey; 2003:192*).

- ) Current deposits
- ) Saving deposits and
- ) Fixed deposits

## **b) Loan and Advances**

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. But bank has to be more careful while providing loans and advances since they may must be realized at short period of time. And sometimes they may turn into bad debt. Therefore it is wise not to rely on them. At the time of emergency for all banks. A commercial bank hardly lends money for a long period of time. It lends money for a short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long term loan because it has to synchronize the loans and advances with the nature of deposits they receive loans and advances are provided against the security of the immovable and movable properties. Banks provide the loans in the various overdraft cash credit, direct loans and discounting bills of exchange.

## **c) Investment on Government Securities, Shares and Debentures**

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

- ) It may want to space its maturates so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- ) It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- ) It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

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

#### **d. Investment on Other Company's Share and Debentures**

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank (NRB) directives. Now a day the commercial banks have purchased share and debenture of regional development bank, NIDC'S and other development banks.

#### **e. Other Use of Fund**

A commercial bank must maintain the must minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank .Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationary etc (*Pandey; 2003:193*).

#### **f. Off-balance Sheet Activities**

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some example of these items is letter of credit, letter of guarantee, bills of collection etc. These activities are very important; as they are the good source of profit of bank through they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

### **2.1.7 Sources of Investment Risk**

There may some risk in every investment. Some investment risks are as follows:

#### **Interest Rate Risk**

It is potential variability of return caused by changes in the market interest rates if market interest rates rises, then investment value and market prices will fall and vice versa. This interest rate risk affects the prices of bonds and stocks.

### **Purchasing Power Risk**

The risk caused due to the inflation is known as purchasing power risk. Inflation has become a common phenomenon in an economy. It erodes the purchasing power of the rupee. When inflation takes place, financial assets (such as cash, stocks and bonds) may lose their ability to command the same amount of real goods and services they did in the past. To put this way, the real rate of return on financial assets may not adequately compensate the holder of financial assets for inflation.

### **Bull-Bear Market Risk**

This risk arises from the variability in market returns resulting from alternating bull and bear market forces. When a security index rises fairly consistently from a low point, called a trough, for a period of time this upward trend is called a bull market. The bull market ends when the market index reaches a peak and starts a downward trend. The period during which the market declines to the next trough is called a bear market.

### **Default Risk**

Default risk is concerned with security issuing firm's inability to meet its obligations. Therefore it is closely related to the financial condition of the firm. In case of default, investor is likely to lose some or all the initial investment made in the company.

### **Liquidity Risk**

An asset is said to be liquid if it can be sold in the market in a reasonably short period of time without losing the value of the asset. The risk associated with uncertainty created by the inability to sell an investment quickly in cash is known as liquidity risk.

### **Industry Risk**

An industry is a group of companies that compete with each other to market homogeneous products. Industry risk is that portion of an investment's total variability of return caused by events that affect the products and firms that make up an industry.

### **Call Ability Risk**

Some bonds and preferred stocks are issued with a provision that allows the issuer to call them in for purchase. Issuers like the call provision because it allows them to buy back

outstanding preferred stocks and or bonds with the funds from newer issue if market interest rates drop below the level being paid on the outstanding securities.

### **Political Risk**

The portion of an assets total variability of return caused by changes in the political environment (for example, new tax laws that affect the assets market value (*Bhandari; 2003:164*)).

## **2.2 Review of Related Studies**

### **2.2.1 Review of Journals and Articles**

In this section, efforts have been made to examine and review of some related articles in different economics journals, World Bank discussion papers, magazines, newspapers and other related books.

Sharma (2006), his article entitled “*Banking the Future on Competition*” stated that the commercial banks are establishing and operating mostly in urban areas. The banks are establishing and providing their service in urban area only. They don't have interest to establish in rural areas. Only his branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd. are running in those sectors. They have maximum tax concession. They do not properly analyze the credit system. The lack of Investment avenues, banks are tempted to invest without proper credit appraisal and personal guarantee, whose negatives side effects would show colors only after four or five years. The banks are not just the storehouse of the country's wealth but are reservoirs of resources necessary for Economic development and employment generation. There are still different obstacles in the effective operation of the commercial banks in Nepal. Therefore, these obstacles should be eradicated for the economic development of Nepal.

Mundul (2008), in article “*Understanding of Credit Derivative*” emphasized that credit derivative enable financial institution and companies to transfer credit risk to a third party and thymus reduce their exposure to the risk of an obligor's default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral

contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for the in debts. Some credit enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. Credit derivative helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tools for hedging credit risk exposure as well as method of investing in certain types of credit risk.

Credit derivative not only helps corporation and financial institution to manage to their credit risk but also enabled a new set of individual retail client to invest in bonds and stocks previously unaffordable. Through credit derivative individual investor ca invest indirectly in foreign bonds at a lower price. Credit derivative helps investor isolated credit, and transfer it to other investor who are better suited to managing it or who finds the investment opportunity more interesting. The credit instruments are total return swap (TRS), credit default swaps (CDS), and credit linked notes (CLN) and credit spread option (CSO). According to the behavior of the asset or deal above credit instrument can be used and minimizing the risk. In this way credit derivative provide protection against credit peril and risk.

Paudel (2010), in the article, "*Present Condition of Financial Companies*" has presented with compared to the commercial bank, the interest rate is relatively high that is provided and accepted by finance companies. The financial companies should not be confined only in the valley. They should extend their services to the rural sectors of Hill and Terai to reduce regional imbalance. The collection of deposit and loan investment done by the commercial banks also, to sustain themselves in the environment of competitions, they should introduce novel technology and equipment's to collect deposits and investments they should learn from the drawbacks, failure and success of commercial banks to effectively maintain as alternative status.

Mundal (2011), in article "*Lending Policy: Human and Organizational Aspects*" has highlighted that its ongoing debate if human and organizational aspects play a role in the formulation of lending policies of banks and financial institution. It takes the human and organizational factor such as skill, attitudes, human equations and leadership. Policies are ever evolving and cannot be successfully implemented unless the issues in these areas are

adequately taken care of and the right environment is set up. When change brings about development of new technical skills, there is ground for clash between experiences these skills. It is more so when both the aspects are equally important. While experience, authority and probably power is bound to go with one generation. A combination of both developing own people and hiring professionals from relevant sector would be good to enhance the internal efficiency and competitiveness. In this regard there are three gaps i.e. Skill gaps, Organizational change, Generation gaps that are evident even today.

It is important to ensure adequate leverage to the operating executives at the industry level vis-à-vis the borrowing clientele including the prospective one. The country like Nepal needs sincere implementation of change particularly in financial sectors. To be more specific these are required in the process of credit evaluation, writing of credit policy and the bringing about new product. This will certainly assist the development and maturity of the financial market. This will also assist Nepal in the process of integration with global financial market and with the expanding market of the two large neighboring countries. We should take a pragmatic view of the fast developing world and adapt to the changes first for survival and then progress.

Dhakal (2012), in article "*The Three way Merger Consolidated of Bank*" has focused that the increased capital base will definitely support our business expansion plans in the future in national as well as international levels. The agriculture is a very important sector of our economy. However, the private sector investment in this sector including those of BFIs is very negligible so far. Unlike other commercial banks, we are taking a different approach to increase investment in the agriculture sector. Currently, most commercial banks are focusing on businesses of more organized sector and corporate clients as their main transaction base. Global IME Bank has plans to finance agriculture and related productive sectors for their development to the fullest potential. By financing for the commercialization of the agriculture, Global IME Bank would also be supporting the government plans and policies to increase the contribution of the agricultural sector to country's GDP. Besides this, we will soon start to work towards minimizing operational risk of the Bank by focusing more on retail banking. This means our main transaction base for both deposit and lending will be the common people, although we will not shy away from corporate and institutional banking.

Both domestic and foreign investors are reluctant to invest in Nepal citing political instability. For improve the political instability has definitely led towards a wait-and watch situation for everybody, mainly the potential large investors. In spite of it, we should all move ahead with a positive attitude as business is also about taking risks and succeeding in it. Therefore, I think that companies investing during the crisis period can gain in the long term and make profits at a later stage. We are losing enormous opportunities due to the difficult circumstances that we currently face at home. I am sure there will be no looking back once the political issues are sorted out. I hope that it happens sooner than later and Nepal becomes one of the best destinations for investment.

### **2.2.2 Review of Thesis**

Prior to this, several thesis works has been attempted by previous students regarding various aspects of commercial banks like financial performance, lending policy, investment policy, resource mobilization, capital structure etc. Among them some research those that were found relevant for this study are presented below:

Joshi (2005), has conducted the study entitled, “*Investment Policy of Commercial Bank in Nepal (A Comparative Study of EBL with NABIL & BOK Ltd).*” Here researcher focuses on investment policy of commercial banks.

The specific objectives of the study are:

- ) To discuss fund mobilization & investment policy of NABIL and BOK Ltd
- ) To evaluate liquidity, efficiency and profitability, risk position, the growth ratios of loan and advance, total investment with other financial variables.
- ) To offer suitable suggestions based on findings of this study.

The major findings of the study are:

- ) The liquidity position of EBL is comparatively better than NABIL and BOK. EBL is comparatively average or in between successful in compared to NABIL and BOK. Total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks.

- ) The research is about comparison EBL with NABIL and BOK, based on only 5 years period which would not be reasonable to analyze investment policy of any bank as success or unsuccessful.
- ) He has also suggested adopting innovative approach to marketing and formulating new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

Thapa (2006), has conducted a research entitled "*Investment Policy of Commercial Banks in Nepal*". Here also discuss fund mobilization and investment policy of EBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction of NIBL and BOKL.

The specific objectives of the study are:

- ) To evaluate the liquidity, efficiency, profitability and risk position.
- ) To evaluate the growth ratios of loans and advances and total investment with other financial variables and to analyze the trends of deposits utilization towards total investment and loan and advances and its projection for next five years.
- ) To conduct hypothetical test to find out whether there is significant difference between the important ratios of EBL, NIBL & BOKL.
- ) To provide packages of workable suggestions and possible guidelines to improve investment policy of EBL and other banks.

The major findings of the study are:

- ) EBL is comparatively better than NIBL and BOKL in terms of liquidity. EBL has been less successful than NIBL and BOKL in its on balance sheet operation as well as off balance sheet activities.
- ) The profitability position of EBL is worse than NIBL and BOKL. EBL is exposed to more credit risk and capital risk, but lower interest rate risk than NIBL and BOKL. EBL has maintained high growth rates in total deposit, loan and advances but it has moderate position in investment.

- J There is significant relationship between deposit and loan and advances and outside assets and net profit of EBL. EBL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation.
- J Liquidity position of EBL & BOKL has not been satisfactory. EBL loan and advance to total deposit ratio is lower than NIBL & BOKL. It does not seem to follow any definite policy regarding the management of its assets.

Sedai (2007), in his thesis “*An Analysis on Lending Policy and Strength of Nepal Investment Bank Ltd*” highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable.

The specific objectives of the study are as follows:

- J To observe the loan disbursement of Nepal Investment Bank Ltd.
- J To shows the actual lending position, strength and weakness of NIBL.
- J To study of loan and advances and amount investment in various sector,
- J To find out relation and trend of deposit, loan disbursement and investment of NIBL

The major findings of the study are:

- J The asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio is good enough to judgment in their value customer.
- J The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank.
- J There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, personal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the

disbursed loan and advances. To create opportunity of business news and attractive lending scheme would be launched to the customer.

Shrestha (2008), has conducted a thesis entitled "*Investment Portfolio Analysis of JVB's*". In this research the researcher has focus on investment analysis and their portfolio of sample banks.

The specific objectives of the study were:

- ) To study portfolio structure of NIBL in investment as compared to other JVB's.
- ) To study existing investment policies taken by BOK, NIBL, HBL and NIBL in various sectors.
- ) Preference given by JVB's for investment between, Loan Investment, Investment in real fixed assets, Investment in financial assets.
- ) To provide suggestion package based on the analysis of data.

The major findings of the study are:

- ) BOKL has the highest return on shareholders' fund and total assets. It has also been successful in mobilizing its deposits as investments. NIBL and EBL have invested high amounts of deposits as loan and advances in comparison to BOKL, NIBL and HBL. EBL has investment highest amount of funds in government securities, NIBL has invested highest amount of funds on shares and debentures and NIBL has invested highest amount of funds in NRB bonds.
- ) The NIBL and BOKL have been able to mobilize the funds in an effective manner and achieved phenomenal growth and profit year after year by formulating and implementing sound investment policy. The possibility of the samples showing different result during data analysis was high. The financial and empirical analysis to data revealed higher degree of consistency in case of successful bank and less uniformity in case of emerging bank.
- ) This study aims at providing a more realistic picture to various financial aspects of the sample banks. In line with fresh guidelines and NRB directives and practices adopted by banks, some items of the balance sheet that were previously booked under one heading have now been accounted under a different heading.

) Similarly, staff loan and advances previously part of Loan Advances and Bills purchase have been booked under other assets, checks presented for clearing have been booked under other assets. Previously, it was the practice of banks to include it under current liabilities and appropriate it from profit and loss Account. This study will reveal the strength and weaknesses of the sample bank and serve as a valuable input in decision-making process of the concerned banks and other emerging banks in formulating appropriate investment policy.

Gautam, (2009), has conducted a research topic on "*A Comparative Study on Investment Policy of SCBNL and BOKL*". The researcher has highlighted that aggregate performance and condition of SCBNL and BOKL.

The specific objectives of the study are:

- ) To find out relationship between total investments, deposits, loan and advances, net profit and outside asset and compare them.
- ) To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.
- ) To analyze the risk position of SCBNL & BOKL.
- ) To analyze the trend and its projection for five years of SCBNL & BOKL.
- ) To provide suggestion & possible guidelines to improve on the basis of the finding of the study.

The major findings of the study are:

- ) SCBNL has better liquidity position than BOKL, but BOKL is in a better position to meet daily cash requirement. SCBNL has invested more in government securities than BOKL. SCBNL has utilized lesser portion of deposits and current assets as loans & advances.
- ) SCBNL has invested a high portion of total working fund in government securities and shares & debentures of other companies.
- ) The profitability position of SCBNL is better than BOKL. SCBNL has lower liquidity risk, and credit risk than BOKL.

- J The growth rate of deposits and loans and advances of SCBNL is less than that of BOKL, but SCBNL has witnessed high growth in investment and net profit over the period of study in comparison to BOKL.

Lumfungwa (2010), has conducted a thesis topic on "*A Comparative Study on Investment Policy of SCBNL and BOKL*" in this research the researcher has focus on investment pattern and its policy.

The specific objectives of the study are:

- J To find out relationship between total investments, deposits, loan and advances, net profit and outside asset of SCBNL & BOKL.
- J To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.
- J To analyze the deposit utilization trend and its projection for five years of SCBNL & BOKL.
- J To provide package of a workable suggestion & possible guidelines to improve investment policy base on finding of the study.

The major findings of the study are:

- J SCBNL has better liquidity position than BOKL, but BOKL is in a better position to meet daily cash requirement. SCBNL has invested more in government securities than BOKL. SCBNL has utilized lesser portion of deposits and current assets as loans & advances. SCBNL has invested a high portion of total working fund in government securities and shares & debentures of other companies.
- J The profitability position of SCBNL is better than BOKL. SCBNL has lower liquidity risk, and credit risk than BOKL.
- J The growth rate of deposits and loans and advances of SCBNL is less than that of BOKL, but SCBNL has witnessed high growth in investment and net profit over the period of study in comparison to BOKL.
- J There is a significant relationship between deposit and loan and advances, deposit and total investment, deposit and interest earned, total working fund and net profit for both the banks.

Silwal (2011), has conducted thesis on “*Investment Policy of Commercial Banks (With Reference To Standard Chartered Bank Nepal Ltd. & Nabil Bank Ltd.)*” Investment decision is one of the major decision functions of financial management. The main purpose of this study is to assess the investment policy and strategies followed by NABIL and SCBNL.

The specific objectives of this study are given below:

- J To evaluate the liquidity, asset management, profitability, risk position and growth ratios of the banks under study.
- J To find out relationship between total deposits and investment, loans & advances, interest earned, and net profit, net profit to outsiders assets and total working fund, loan and advances to interest paid & compare them.
- J To analyze the trend of deposits, investment, net profit and loan and advances, for next five years of SCBNL and NABIL.
- J To provide suggestions and recommendation on the basis of the study.

The major findings of the study are:

- J The current ratio of both the banks should be considered satisfactory. The liquidity position of SCBNL is better than NABIL. The cash and bank balance of SCBNL deposits is greater than NABIL. This puts, SCBNL in a better position.
- J The cash and bank balance of SCBNL is higher than NABIL. This shows greater capacity of SCBNL to meet its customer's cash requirement but that does not mean NABIL cannot meet its daily customer cash requirement. SCBNL needs to invest its funds in more productive sectors.
- J The SCBNL has invested more portions of its current assets and total working fund in government securities than NABIL. NABIL has been more successful in mobilization of its total deposits and working fund as loan and advances and achieving higher profits in comparison to SCBNL. NABIL has invested more of its funds in purchasing shares and debentures of other companies than SCBNL.
- J In the aspect of profitability, SCBNL seems to be more successful than NABIL. The liquidity risk and credit risk of SCBNL is comparatively lower than NABIL. SCBNL has been successful in maintaining a growth rate on deposits and loan and advances

year after year. The average growth rate of total investment and net profit of NABIL is higher than SCBNL.

### **2.3 Research Gap**

The purpose of this study is to draw some ideas concerning to good investment policy and to see what new contribution can be made and to receive some ideas, knowledge and suggestion in relation to maintain good investment policies of sample banks. This research is a study on investment policy of selected commercial banks special reference to NIBL and BOK. The research is done by measuring various ratios analysis, trend analysis and various financial tools as well as statistical tools. In this research various ratio are systematically analyzed and generalized. The ratios are categorized according to nature. Here in this research all ratios are categorized according to their area and nature. In this research data of only five fiscal year have been used but all the data are current and fact. This study tries to show investment policy by applying and analyzing various financial tools like liquidity ratio, asset management ratio, profitability ratio, risk ratio and other ratio as well as different statistical tools like average mean, standard deviation, coefficient of variation coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of investment policy of bank and finance. So this research is helpful to everyone who is concerned with investment policy of banks and also beneficial to other stake holders'.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter is related to the research methodology. The topic of the study has been selected as “The investment policy of Nepal Investment Bank and Bank of Kathmandu Ltd.” In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter, which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

#### **3.2 Research Design**

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying.

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) Data analysis and (v) report writing. The Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The crux of the research is to analyze NIBL and BOK in relation to investment and lending policy and recovery as well overall management.

### **3.3 Population and Sample**

The objective of the research is to explore and describe the portfolio management in Nepal from the investor's point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector. Here, the total 32 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Nepal Investment Bank and Bank of Kathmandu Limited have been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

### **3.4 Nature and Sources of Data**

There are two sources of data collection. The research is based on secondary source of data. All the adequate data are collected from secondary sources. This refers to data that are already used and gathered by others. For the major sources of secondary data are Annual Report of concerned Bank, Internet and E-mails, NRB directives and Economy survey of Government of Nepal and Ministry of finance

### **3.5 Data Collection Procedure**

The annual reports of the concerned banks were obtained from their head office and their websites. The main sources of data are annual report of concern financial institute. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc. has been collected from the personal visit of concerned department of NRB at Baluwatar. Besides, a details review materials are collected from the library of Shanker Dev Campus and central library of T.U.

### **3.6 Data Analysis Tools**

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are:

### 3.6.1 Financial Tools

i) Liquidity Ratios: This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations. As a Financial Analytical tools, following liquidity ratios will be used.

#### a) Current Ratio

This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities, which can be presented as:

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

Higher ratio indicates the strong short-term solvency position and vice-versa.

#### b) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers through different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

#### c) Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under;

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

#### **d) Investment on Government Securities to Total Current Assets Ratio**

This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. The ratio is stated as under;

$$\text{Investment on Govt. Securities to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

#### **ii) Assets Management Ratios**

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

#### **a) Loan and Advances to Total Deposit Ratio**

This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under,

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

#### **b) Total Investment to Total Deposit Ratio**

Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

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

#### **c) Loan and Advances to Working Fund Ratio**

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn

high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

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

**d) Investment on Government Securities to Total Asset Ratio**

This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

$$\text{Investment on Govt. Securities to Total Working Fund} = \frac{\text{Investment on Govt. Securities}}{\text{Total working fund}}$$

**e) Loan and Advances to Total Outside Assets Ratio**

This ratio measures the proportion of loans and advances of total outside assets. The proportion between investment and loans and advances measures the management attitude towards more risky assets and lower risky assets. This ratio is computed by dividing loan and advances by total outside assets as under:

$$\text{Loan and Advances to Total Outside Assets Ratio} = \frac{\text{Loan and advances}}{\text{Total outside assets}}$$

**f) Investment on Government Securities to Total outside Assets Ratio**

This ratio measures the proportion of the bank's investment in risky and risk free areas. This ratio is computed by dividing investment on government securities by total outside assets as under;

$$\text{Investment on Govt. Securities to total outside assets ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Total outside assets}}$$

### **iii) Profitability Ratios**

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

#### **a) Return on Loan and Advances Ratio**

This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net profit (loss)}}{\text{Loans \& advances}}$$

#### **b) Return on Total Asset Ratio (ROA)**

This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

$$\text{Return on Total Working Fund Ratio (ROA)} = \frac{\text{Net profit (loss)}}{\text{Total working fund}}$$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

#### **c) Return on Equity (ROE)**

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on Equity (ROE)} = \frac{\text{Net profit (loss)}}{\text{Total equity capital}}$$

#### **d) Interest Earned to Total Asset Ratio**

This ratio is computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing total interest earned by total working fund can be presented as;

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

#### **e) Total Interest Earned to Total outside Assets Ratio**

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as under;

$$\text{Total Interest Earned to Total Outside Assets Ratio} = \frac{\text{Total interest earned}}{\text{Total outside assets}}$$

The numerator includes total interest income from loans and advances and investment where as the denominator comprises loan and advances, bills purchased and discounted and all type investment.

#### **f) Interest Income to Total Income Ratio**

This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the lending and investing and vice-versa. This ratio can be completed by dividing interest income by total income presented as under;

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

#### **iv) Risk Ratio**

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have

idea of the level of risk that one has to bear while investing its funds. Here effort has been made to measure the level of risk inherent in the NIBL and BOK.

**a) Credit Risk Ratio**

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan and Advances. Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

**b) Liquidity Risk Ratio**

The 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. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

**c) Asset Risk Ratio**

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally Asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

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

## **V) Other Ratios**

### **a) Earnings per Share (EPS)**

EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

### **b) Market Price Per Share**

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

### **c) Price Earnings Ratio**

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earnings ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earnings ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

$$\text{Price Earnings Ratio} = \frac{\text{Market price per Share}}{\text{Earining per Share}}$$

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

## **3.6.2 Statistical Tools**

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

### **i) Average Mean**

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

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

Where,

$\bar{X}$  = Mean of the values

$\sum X$  = Summation of the values

N = No. of Observations

### **ii) Coefficient of Variation**

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

$$\text{Coefficient of variation (C.V.)} = \frac{s}{\bar{X}} \times 100$$

### **iii) Measures of Correlation**

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. This tool analyses the relationship between those variables by which it is helpful to make appropriate investment policy for profit minimization. The Karl Pearson coefficient of correlation (r) is given by following formula:

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

Where,

$$x = \frac{\sum X - Z\bar{X}}{N}$$

$$y = \frac{\sum Y - Z\bar{Y}}{N}$$

$\dagger_1$  = Standard series of X

$\dagger_2$  = Standard series of Y

N = Number of pairs of Observations

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

#### iv) Trend Analysis

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

$$y = a + bx$$

Where,

y = Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

## **CHAPTER- IV**

### **PRESENTATION AND ANALYSIS OF DATA**

In this chapter data collected are analyzed and interpreted as per the stated methodology in the previous chapter. Presentation and analysis of data is the main body of the study. Here researcher has analyzed and diagnosed the investment policy of Nepal Investment Bank and Bank of Kathmandu Limited is shown in different tables and diagrams to make the analysis simple and understandable. All the financial positions of both the banks are analyzed by calculating following ratio.

#### **4.1 Financial Analysis**

Financial ratios related to the investment policy are presented to evaluate and analyze the performance of NIBL and BOK. Some important financial ratios are calculated in the point of view of investment policy. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical procedure that shows the relationship where one item is divided by another.

##### **4.1.1 Ratio Analysis**

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It also provide for the quantitative judgment with which the investment policy of banks can be presented.

###### **4.1.1.1 Liquidity Ratio**

Commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of banks.

#### **A. Analysis of Current Ratio**

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

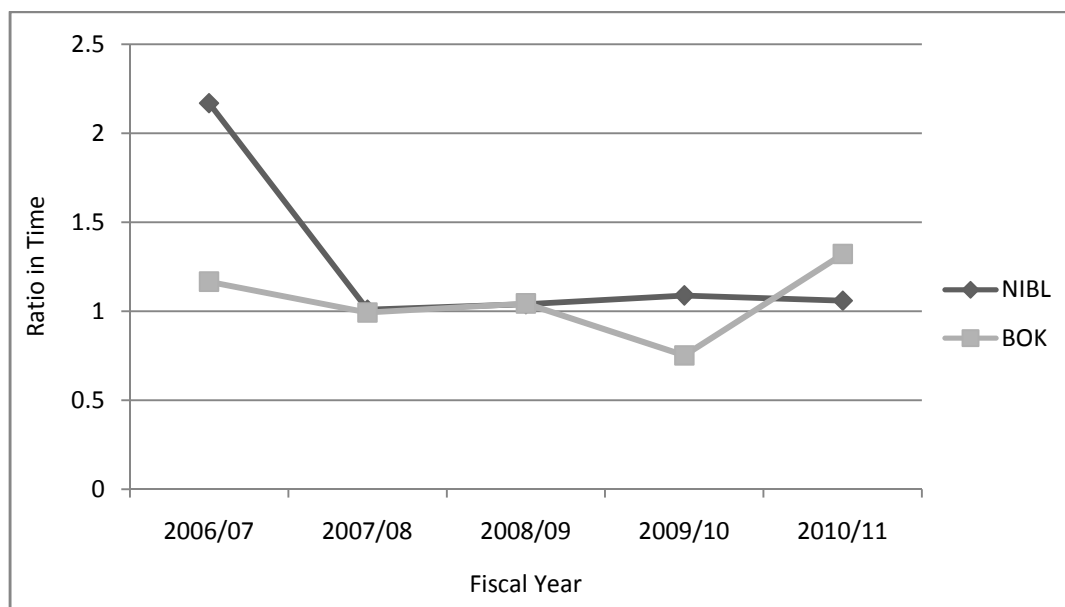
**Table 4.1**  
**Current Assets to Current Liability (in times)**

(Rs in Millions)

| Fiscal Year | NIBL           |                     |                | BOK            |                     |                |
|-------------|----------------|---------------------|----------------|----------------|---------------------|----------------|
|             | Current Assets | Current Liabilities | Ratio in Times | Current Assets | Current Liabilities | Ratio in Times |
| 2006/07     | 22929.1        | 10545.6             | 2.17           | 10181.86       | 8733.63             | 1.166          |
| 2007/08     | 31869.6        | 31430.7             | 1.01           | 11684.67       | 11761.25            | 0.993          |
| 2008/09     | 44095.57       | 42449.15            | 1.04           | 14435.32       | 13832.9             | 1.044          |
| 2009/10     | 46211.87       | 42053.17            | 1.09           | 15767.92       | 20970.55            | 0.752          |
| 2010/11     | 46260.2        | 43870.43            | 1.06           | 24882.06       | 18839.49            | 1.321          |
| <b>Mean</b> |                |                     | <b>1.28</b>    |                |                     | <b>1.055</b>   |
| <b>S.d.</b> |                |                     | <b>0.503</b>   |                |                     | <b>0.2115</b>  |
| <b>C.V.</b> |                |                     | <b>0.394</b>   |                |                     | <b>0.2004</b>  |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.1**  
**Current Ratio**



Above table and figure shows the current ratio of NIBL and BOK banks during the study period. The current ratio of NIBL and BOK has a fluctuating trend. The highest current ratio of NIBL is 2.17 in F/Y 2006/07 and lower ratio is 1.01 times in F/Y 2007/08. Similarly highest current ratio of BOK is 1.32 in F/Y 2010/11 and lowest ratio is 0.752 in 2009/10. The average current ratio of NIBL and BOK are 1.28 and 1.055. The average ratio indicates

liquidity position of NIBL is higher than BOK. So, NIBL is sound in meeting short-term obligation than NIBL. Comparatively liquidity position of NIBL is better than BOK. The S. D. and C.V. of BOK is less than NIBL so it can be said that current ratio of BOK is more consistent than that of NIBL. Lastly, from the above analysis it is known that these two banks moderate liquidity position because the ratio is more than 1:1. They have near to meet the standard ratio. Generally, banks require more liquid assets as compared to current liabilities in order to provide better banking service but these two banks have lower liquidity ratio than standard ratio.

### **B) Cash and Bank Balance to Total Deposit Ratio**

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NIBL and BOK during the study period.

**Table 4.2**  
**Cash and Bank Balance to Total Deposit Ratio**

(Rs in Millions)

| Fiscal Year | NIBL                  |               |                  | BOK                   |               |                  |
|-------------|-----------------------|---------------|------------------|-----------------------|---------------|------------------|
|             | Cash and Bank Balance | Total Deposit | Ratio in Percent | Cash and Bank Balance | Total Deposit | Ratio in Percent |
| 2006/07     | 2441.51               | 24488.85      | 9.97             | 1315.9                | 12388.93      | 10.62            |
| 2007/08     | 3754.94               | 34452         | 10.9             | 1440.47               | 15833.74      | 9.097            |
| 2008/09     | 7918                  | 46698         | 16.95            | 2182.11               | 18083.98      | 12.07            |
| 2009/10     | 6815.89               | 50094.73      | 13.61            | 1798.37               | 20315.83      | 8.852            |
| 2010/11     | 8140.37               | 50138.12      | 16.24            | 1678.93               | 21018.42      | 7.988            |
| <b>Mean</b> |                       |               | <b>13.534</b>    |                       |               | <b>9.725</b>     |
| <b>S.D.</b> |                       |               | <b>3.108</b>     |                       |               | <b>1.6173</b>    |
| <b>C.V.</b> |                       |               | <b>0.229</b>     |                       |               | <b>0.1663</b>    |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.2**

**Cash and Bank Balance to Total Deposit Ratio**

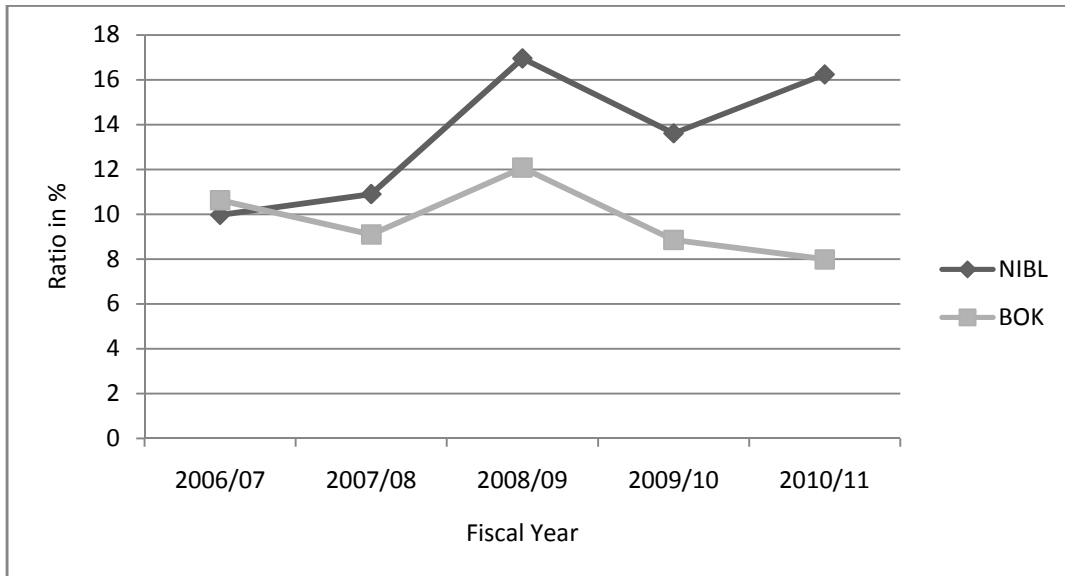


Table and figure 4.2 reveals that the Cash and bank balance to total deposit ratio of NIBL and BOK are in fluctuating trend. The highest ratio of NIBL is 16.95 percent in FY 2008/09 and lowest is 9.97 percent in F/Y 2006/07. Similarly, the highest ratio of BOK is 10.62 percent in FY 2006/07 and lowest ratio is 7.988 percent in 2010/11. The average mean ratio of NIBL and BOK are 13.534 percent and 9.725 percent respectively. The average ratio of NIBL has higher ratio than the BOK, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NIBL is 0.229 times and BOK is 0.1663 times. So C.V. of NIBL is higher than the BOK which indicates more inconsistency in its ratio.

The above analysis concludes that the cash and bank balance position of NIBL is better with respect to BOK in order to serve its customer's deposits. It implies better liquidity position of NIBL from the viewpoint of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds in income generating areas.

### C) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid assets. Cash & bank balance to current assets ratio represents the liquidity capacity of the banks as per cash and bank balance. Following table shows the cash and bank balance to current assets of NIBL and BOK.

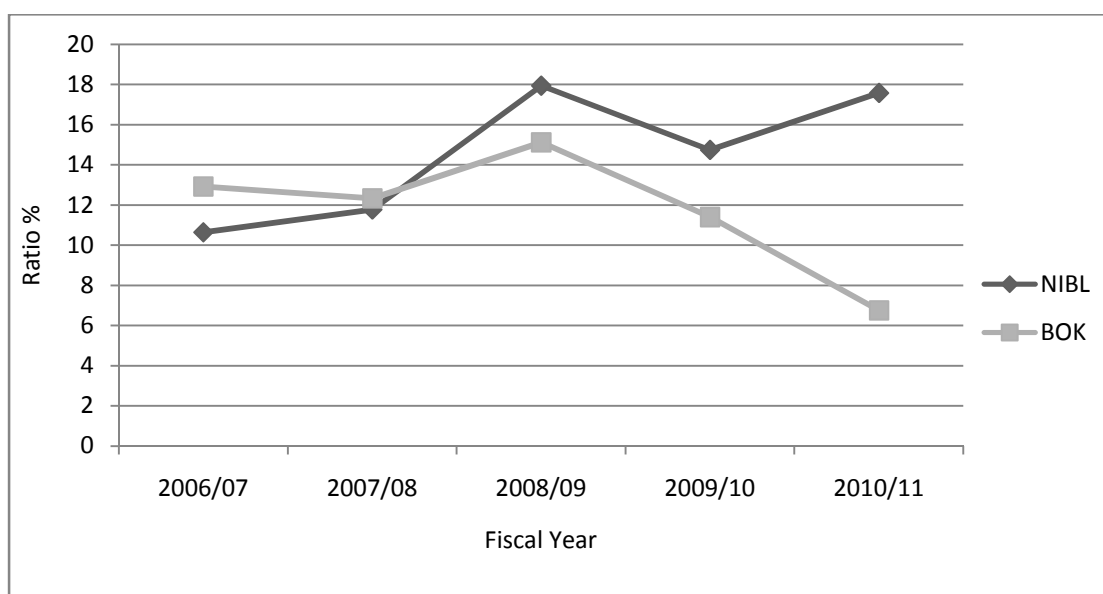
**Table 4.3**  
**Cash and Bank Balance to Current Asset Ratio**

(Rs in Millions)

| Fiscal Year | NIBL                  |               |               | BOK                   |               |                  |
|-------------|-----------------------|---------------|---------------|-----------------------|---------------|------------------|
|             | Cash and Bank Balance | Current Asset | Ratio         | Cash and Bank Balance | Current Asset | Ratio in Percent |
| 2006/07     | 2441.51               | 22929.1       | 10.65         | 1315.9                | 10181.86      | 12.92            |
| 2007/08     | 3754.94               | 31869.6       | 11.78         | 1440.47               | 11684.67      | 12.33            |
| 2008/09     | 7918                  | 44095.57      | 17.95         | 2182.11               | 14435.32      | 15.12            |
| 2009/10     | 6816                  | 46211.87      | 14.75         | 1798.37               | 15767.92      | 11.40            |
| 2010/11     | 8140.37               | 46260.2       | 17.59         | 1678.93               | 24882.06      | 6.75             |
| <b>Mean</b> |                       |               | <b>14.544</b> |                       |               | <b>11.70</b>     |
| <b>S.d.</b> |                       |               | <b>3.306</b>  |                       |               | <b>3.089</b>     |
| <b>C.V.</b> |                       |               | <b>0.2273</b> |                       |               | <b>0.2639</b>    |

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

**Figure 4.3**  
**Cash and Bank Balance to Current Asset Ratio**



The table and figure 4.3 reveals that cash and bank balance to current assets ratio of NIBL and BOK are in fluctuating form over the study period. The highest ratio of NIBL is 17.95 percent in F/Y 2008/09 and lowest ratio is 10.65 in F/Y 2006/07. Similarly the highest ratio of BOK is 115.12 percent in F/Y 2008/09 and lowest ratio is 6.75% in F/Y 2010/11. The mean ratio of NIBL and BOK is 14.544 percent and 11.70 percent respectively. The higher mean ratio shows that NIBL's liquidity position is better than that of BOK. Moreover, the C.V. of NIBL is lower than BOK. The lower C.V. of NIBL indicates that it has more consistency in the ratios compared to BOK. Regarding the above analysis, it can be concluded that NIBL has a better ability to meet daily cash requirements of their customers but there is no fix policy to maintain the standard ratio of cash balance over the period.

#### **D) Investment on Government Securities to Current Assets Ratio**

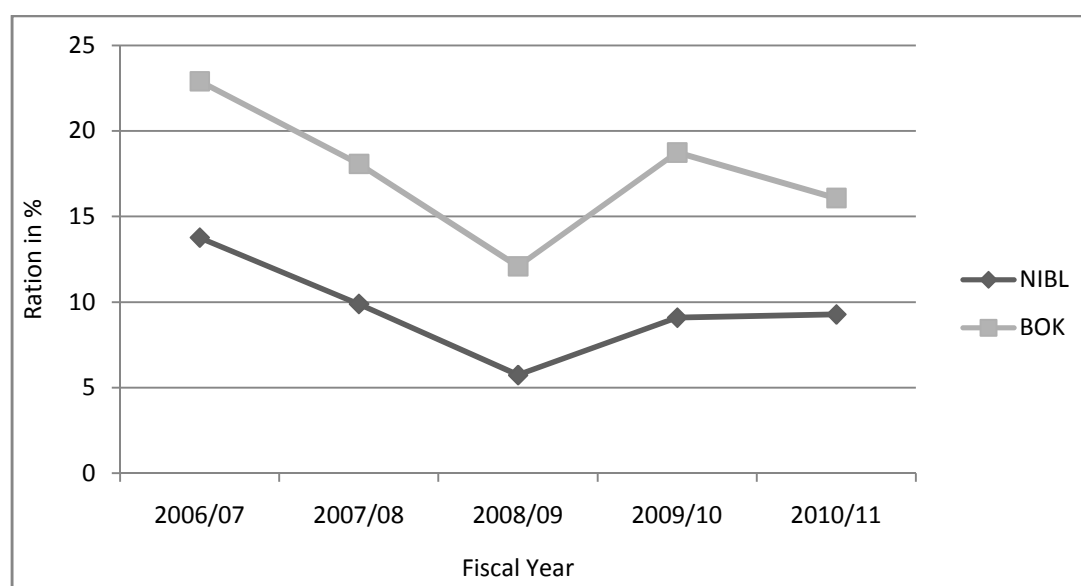
This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government at different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market and they can be converted into cash, they are liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but return generated is lesser than others risky assets.

**Table 4.4****Investment on Government Securities to Current Assets Ratio**

(Rs in Millions)

| Fiscal Year | NIBL                                |                |               | BOK                                 |                |               |
|-------------|-------------------------------------|----------------|---------------|-------------------------------------|----------------|---------------|
|             | Investment on Government Securities | Current Assets | Ratio         | Investment on Government Securities | Current Assets | Ratio In %    |
| 2006/07     | 3155                                | 22929.1        | 13.76         | 2332.04                             | 10181.86       | 22.90         |
| 2007/08     | 3155                                | 31869.6        | 9.89          | 2113.22                             | 11684.67       | 18.08         |
| 2008/09     | 2531.3                              | 44095.57       | 5.74          | 1744.98                             | 14435.32       | 12.09         |
| 2009/10     | 4201.85                             | 46211.87       | 9.09          | 2954.93                             | 15767.92       | 18.74         |
| 2010/11     | 4294.6                              | 46260.2        | 9.28          | 4002.14                             | 24882.06       | 16.08         |
| <b>Mean</b> |                                     |                | <b>9.552</b>  |                                     |                | <b>15.71</b>  |
| <b>S.d.</b> |                                     |                | <b>2.856</b>  |                                     |                | <b>6.325</b>  |
| <b>C.V.</b> |                                     |                | <b>0.2990</b> |                                     |                | <b>0.4025</b> |

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

**Figure 4.4****Investment on Government Securities to Current Assets Ratio**

Above table and figure shows investment on government securities to current assets ratio of NIBL and BOK. The ratios of both Banks have decreasing form ratios. The table show the highest ratio of NIBL is 13.76 percent in FY 2006/07 and lowest is 5.74 percent in FY 2008/09. In the same way, the highest ratio of BOK is 22.90 percent in FY 2006/07 and lowest is 12.09 percent in FY 2008/09.

The mean ratio of NIBL is 9.552 percent which is lower than the mean ratio of BOK 15.71 percent. It means BOK has invested more money in risk free assets than NIBL has. In another words BOK has emphasized more on loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, NIBL should divert its investment in govt. securities. Similarly, C.V. of NIBL is 0.299 and BOK has 0.4025 times respectively. The higher C.V. of BOK shows the more inconsistency in the ratios with compare to NIBL.

#### **D) Investment on Govt. security to Total Investment Ratio**

This ratio shows the percentage of investment on government security and Treasury bills on total investment of sampled banks. This ratio is calculated by dividing investment on government security by total investment are as follows:

**Table 4.5**  
**Investment on Government Securities to Total Investment Ratio**

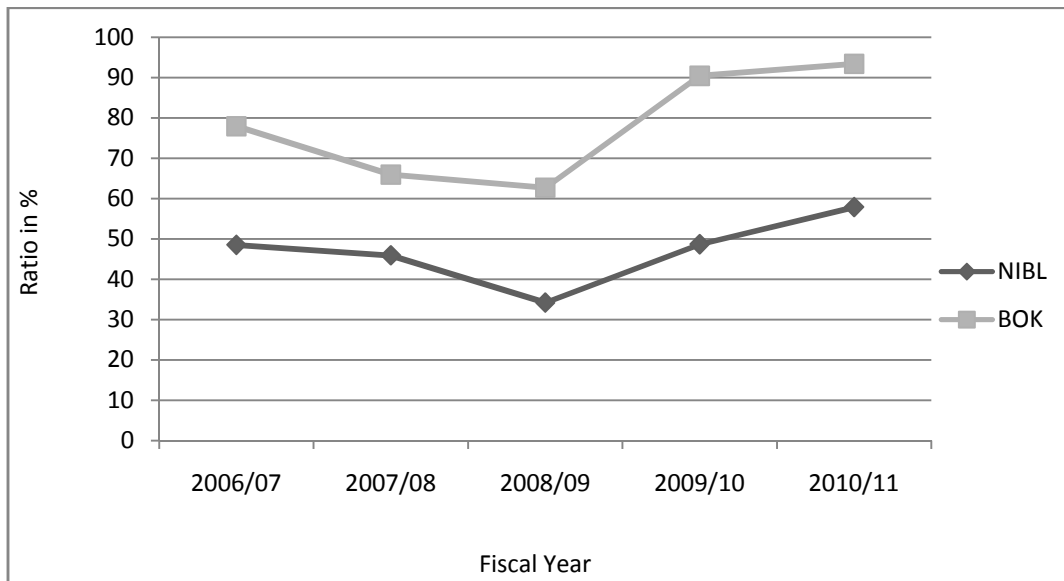
(Rs in Millions)

| Fiscal Year | NIBL                           |                  |               | BOK                            |                  |               |
|-------------|--------------------------------|------------------|---------------|--------------------------------|------------------|---------------|
|             | Investment on Govt. Securities | Total Investment | Ratio         | Investment on Govt. Securities | Total Investment | Ratio in %    |
| 2006/07     | 3155                           | 6505.7           | 48.50         | 2332.04                        | 2992.43          | 77.93         |
| 2007/08     | 3155                           | 6874.02          | 45.90         | 2113.22                        | 3204.07          | 65.95         |
| 2008/09     | 2531.3                         | 8635.53          | 34.21         | 1744.98                        | 2783.6           | 62.69         |
| 2009/10     | 4201.85                        | 7423.11          | 48.66         | 2954.93                        | 3269.2           | 90.39         |
| 2010/11     | 4294.6                         | 7423.11          | 57.85         | 4002.14                        | 4286.6           | 93.36         |
| <b>Mean</b> |                                |                  | <b>47.024</b> |                                |                  | <b>78.064</b> |
| <b>S.d.</b> |                                |                  | <b>8.478</b>  |                                |                  | <b>13.866</b> |
| <b>C.V.</b> |                                |                  | <b>0.1803</b> |                                |                  | <b>0.1776</b> |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.5**

**Investment on Government Securities to Total Investment Ratio**



Above table and figure shows investment on government securities to total investment ratio of NIBL and BOK. The ratios of both are fluctuating form. The table show the highest ratio of NIBL is 57.85 percent in FY 2010/11 and lowest is 34.21 percent in FY 2008/09. In the same way, the highest ratio of BOK is 93.36 percent in FY 2010/11 and lowest is 62.69 percent in FY 2008/09. The mean ratio of NIBL and BOK are 47.024 and 78.064 percent. The ratio of BOK is higher than the mean ratio of NIBL. It indicates that BOK has more invest in risk free from its total investment. In another words NIBL has invested more on loan and advances and other short term investment than investment in govt. securities. The total investment of BOK is risk less than the NIBL. So, NIBL should divert its investment in govt. securities. The higher C.V. of NIBL indicates more inconsistency and risky in the ratios with compare to BOK. So total investment of BOK is safer than NIBL.

**4.1.1.2 Assets Management Ratio**

A commercial bank must be able to manage its assets very well to earn higher profit, so to satisfy its customers and also for its own existence. Assets management ratio measures how efficiently the bank manages the resources at its command. Through following ratios, assets management ability of banks has been measured.

### A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advances for the purpose of profit generation. A higher ratio of loan and advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan and advances to total deposit ratio of related banks.

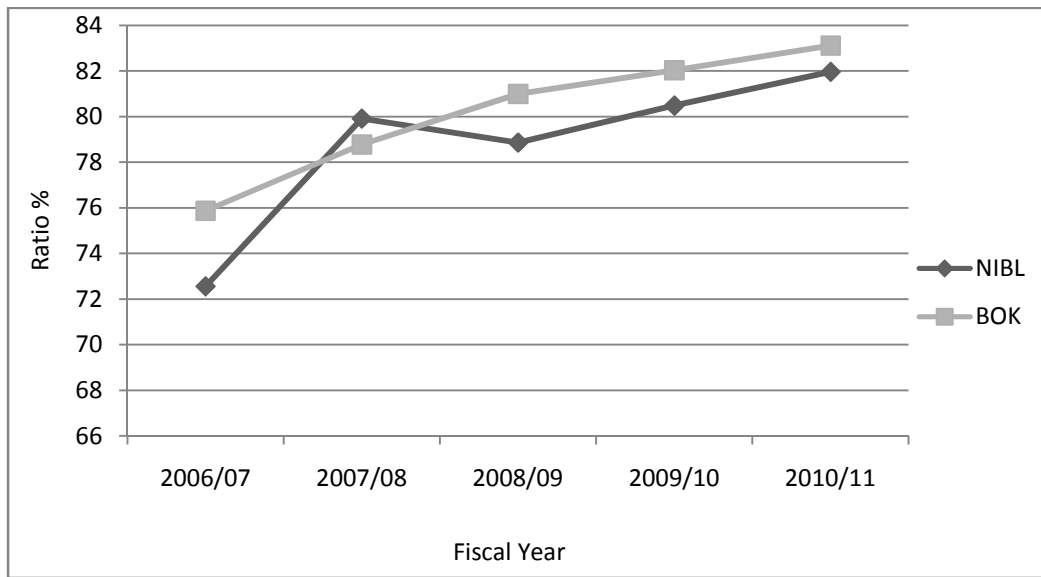
**Table 4.6**  
**Loan and Advance to Total Deposit Ratio**

| Fiscal Year | NIBL             |               |                  | BOK              |               |                  |
|-------------|------------------|---------------|------------------|------------------|---------------|------------------|
|             | Loan and Advance | Total Deposit | Ratio in Percent | Loan and Advance | Total Deposit | Ratio in Percent |
| 2006/07     | 17769.1          | 24488.85      | 72.56            | 9399.33          | 12388.93      | 75.87            |
| 2007/08     | 27529            | 34452         | 79.91            | 12462.64         | 15833.74      | 78.77            |
| 2008/09     | 36827.16         | 46698         | 78.86            | 14647.3          | 18083.98      | 80.99            |
| 2009/10     | 40318.31         | 50094.73      | 80.48            | 16664.93         | 20315.83      | 82.03            |
| 2010/11     | 41095.51         | 50138.12      | 81.96            | 17468.19         | 21018.42      | 83.11            |
| Mean        |                  |               | 78.754           |                  |               | 80.14            |
| S.d.        |                  |               | 3.639            |                  |               | 2.889            |
| C.V.        |                  |               | 0.0462           |                  |               | 0.0361           |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.6**

**Loan and Advance to Total Deposit Ratio**



Above table and figure shows that the loan and advances to total deposit ratio of NIBL and BOK. The ratio of NIBL and BOK has increasing trend. The highest ratio of NIBL is 81.96% in F/Y 2010/11 and lowest ratio is 72.56% in F/Y 2006/07. Similarly highest ratio of BOK is 82.03% in F/Y 2010/11 and lowest ratio is 75.87% in F/Y 2006/07. The mean ratio of NIBL and BOK are 78.754% and 80.14% respectively. Here BOK has higher ratio than that of NIBL. It indicates the better mobilization of deposit by BOK as loan and advance. It reveals that the deposit of BOK is quickly converted in to loan and advances to earn income. According to NRB directives less than 80% of loan and advances to total deposit ratio is required to enable better mobilization of collected deposit. The BOK has the same standard and NIBL has lower than that. The S.D. and C.V of NIBL has higher than BOK which indicates more inconsistency in their ratios with each compare.

**B) Total Investment to Total Deposit Ratio**

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds at investment in various securities. This ratio of NIBL and BOK are calculated and presentation below.

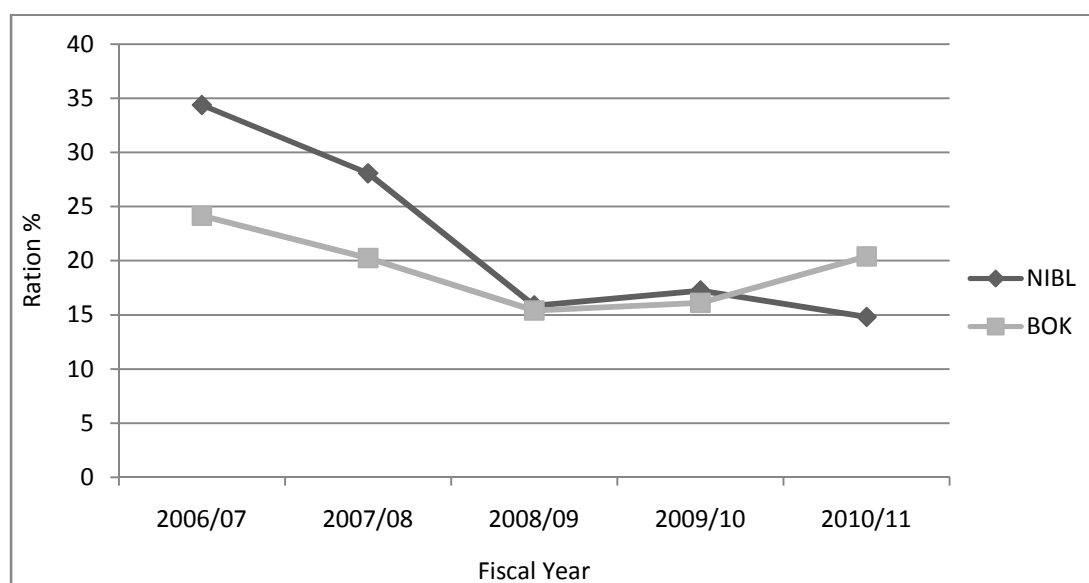
**Table 4.7**  
**Total Investment to Total Deposit Ratio**

(Rs in Millions)

| Fiscal Year | NIBL             |               |               | BOK              |               |               |
|-------------|------------------|---------------|---------------|------------------|---------------|---------------|
|             | Total Investment | Total Deposit | Ratio         | Total Investment | Total Deposit | Ratio         |
| 2006/07     | 6505.7           | 24488.85      | 34.37         | 2992.43          | 12388.93      | 24.15         |
| 2007/08     | 6874.02          | 34452         | 28.07         | 3204.07          | 15833.74      | 20.24         |
| 2008/09     | 8635.53          | 50094.73      | 15.85         | 2783.6           | 18083.98      | 15.39         |
| 2009/10     | 7423.11          | 50138.12      | 17.24         | 3269.2           | 20315.83      | 16.09         |
| 2010/11     | 7423.11          | 50138.12      | 14.81         | 4286.6           | 21018.42      | 20.39         |
| <b>Mean</b> |                  |               | <b>22.068</b> |                  |               | <b>19.25</b>  |
| <b>S.d.</b> |                  |               | <b>8.689</b>  |                  |               | <b>3.577</b>  |
| <b>C.V.</b> |                  |               | <b>0.3937</b> |                  |               | <b>0.1858</b> |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.7**  
**Total Investment to Total Deposit Ratio**



Above table and figure shows that total investment to total deposit ratio of NIBL and BOK. Both the banks have fluctuating decreasing trend in total investment to total deposit ratio. The highest ratio of NIBL is 28.07 percent in FY 2006/07 and lowest ratio is 14.81 percent in FY 2010/11 in the same way the highest ratio of BOK 24.15% percent in FY 2006/07 and lowest ratio is 15.39 percent in FY 2008/09. The ratio of both banks has decreasing form. The mean

ratio of the NIBL and BOK are 22.068% and 19.25% respectively, which shows that NIBL has a higher ratio. It signifies that NIBL has successfully allocated its deposit in investment portfolio. The C.V. of NIBL has higher than BOK which indicate more inconsistent its ratio.

### C) Loan and Advances to Total Assets Ratio

A commercial bank's working fund plays very active 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. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan and advances to total assets of NIBL and BOK as follows.

**Table 4.8**  
**Loan and Advances to Total Assets Ratio**

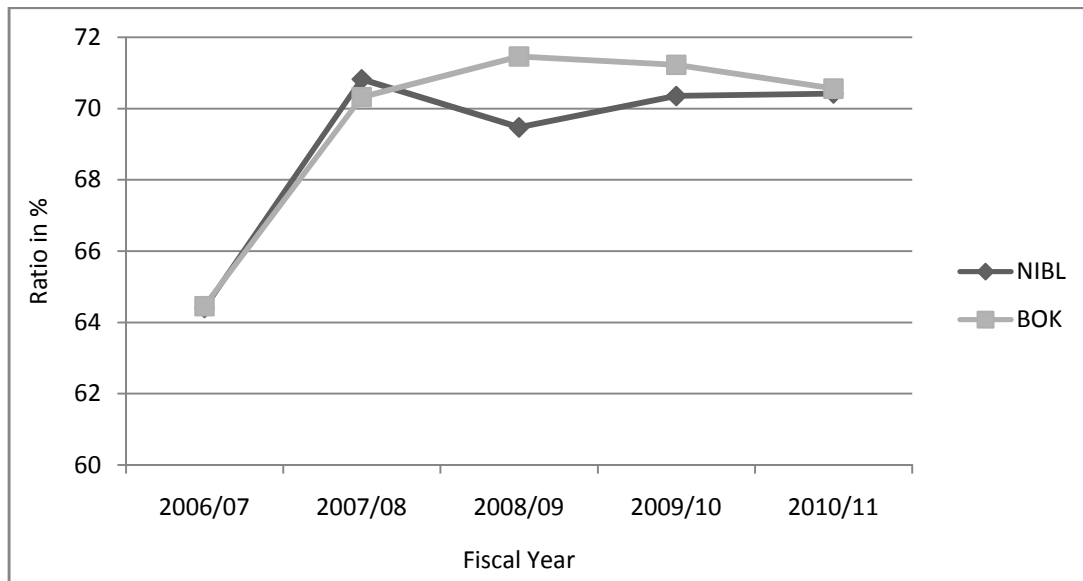
(Rs. in Millions)

| Fiscal Year | NIBL              |              |                  | BOK               |              |                  |
|-------------|-------------------|--------------|------------------|-------------------|--------------|------------------|
|             | Loan and Advances | Total Assets | Ratio in Percent | Loan and Advances | Total Assets | Ratio in Percent |
| 2006/07     | 17769.1           | 27590.84     | 64.4             | 9399.33           | 14581.39     | 64.46            |
| 2007/08     | 27529             | 38873        | 70.82            | 12462.64          | 17721.93     | 70.32            |
| 2008/09     | 36827.16          | 53010        | 69.47            | 14647.3           | 20496        | 71.46            |
| 2009/10     | 40318.31          | 57305.41     | 70.35            | 16664.93          | 23396.19     | 71.23            |
| 2010/11     | 41095.51          | 58356.83     | 70.42            | 17468.19          | 24757.75     | 70.56            |
| Mean        |                   |              | 69.09            |                   |              | 69.61            |
| S.d.        |                   |              | 2.669            |                   |              | 2.914            |
| C.V.        |                   |              | 0.0386           |                   |              | 0.0419           |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.8**

**Loan and Advances to Total Assets Ratio**



Above table and figure shows the loan and advances to total assets ratio of NIBL and BOK during the study period. Loan and advances to total assets of both NIBL and BOK has fluctuating trend. The highest ratio of NIBL is 70.82% in F/Y 2007/08 and lowest is 64.4 in F/Y 2006/07. Similarly the highest ratio of BOK is 71.46% in F/Y 2008/09 and lowest is 64.46% in F/Y 2006/07. The mean ratio of NIBL and BOK are 69.09% and 69.61% respectively. The average ratio of BOK is little higher than NIBL. It reveals that in total assets of BOK has high proportion as loan and advances. BOK has utilized its total assets more efficiently in the form of loan and advances. The lower S.D and C.V. of NIBL than BOK states that it has more uniformity in these ratios throughout the study period than BOK. Both S.D. and C.V. of BOK have higher than the NIBL which indicate inconsistency in its ratio.

**D) Investment on Government Securities to Total Assets Ratio**

It is not possible to convert all collection, deposit and other resources into loan and advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is a less risky investment. Investment on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities for profit maximization

and risk minimization. Higher the ratio, the better the position of fund mobilization into investment on government securities and vice-versa.

**Table 4.9**

**Investment on Government Securities to Total Assets Ratio**

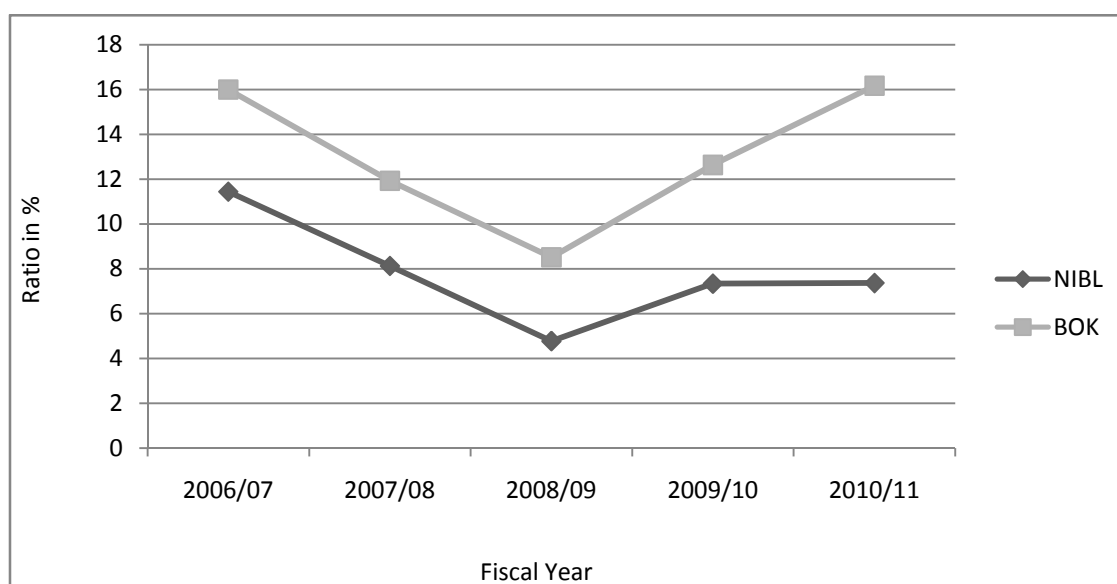
(Rs. in Millions)

| Fiscal Year | NIBL                                |              |                  | BOK                                 |              |                  |
|-------------|-------------------------------------|--------------|------------------|-------------------------------------|--------------|------------------|
|             | Investment on Government Securities | Total Assets | Ratio in Percent | Investment on Government Securities | Total Assets | Ratio in Percent |
| 2006/07     | 3155                                | 27590.84     | 11.43            | 2332.04                             | 14581.39     | 15.99            |
| 2007/08     | 3155                                | 38873        | 8.12             | 2113.22                             | 17721.93     | 11.92            |
| 2008/09     | 2531.3                              | 53010        | 4.77             | 1744.98                             | 20496        | 8.51             |
| 2009/10     | 4201.85                             | 57305.41     | 7.33             | 2954.93                             | 23396.19     | 12.63            |
| 2010/11     | 4294.6                              | 58356.83     | 7.36             | 4002.14                             | 24757.75     | 16.16            |
| <b>Mean</b> |                                     |              | <b>7.802</b>     |                                     |              | <b>13.04</b>     |
| <b>S.d.</b> |                                     |              | <b>2.391</b>     |                                     |              | <b>3.177</b>     |
| <b>C.V.</b> |                                     |              | <b>0.3065</b>    |                                     |              | <b>0.2436</b>    |

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

**Figure 4.9**

**Investment on Government Securities to Total Assets Ratio**



Above table and figure shows that the investment on government treasury bills to Total assets of NIBL and BOK. The both banks have fluctuating trend. The highest ratio of NIBL is 11.43% in 2006/07 and BOK has 16.16% in 2010/11 and the lowest ratio of NIBL and BOK

are 4.77 and 8.51% in 2008/09 respectively. The mean ratio of NIBL and BOK are 7.802% and 13.04% respectively. The ratio of BOK has higher than NIBL. It means BOK has invested more assets in risk free assets than NIBL. In another words NIBL has emphasized more on loan and advances and other short-term investment than investment in govt. securities. There is more variability in the ratio of NIBL. It shows that there is more inconsistency in the ratio of BOK during the study period, which is indicated by higher C.V. of BOK which shows inconsistency in its investment in Govt. securities.

#### **4.1.1.3 Profitability Ratio**

The major performance indicator of any firm is its profit. The objective of investment policy is to earn good return. Profit is the essential part of business activities that helps to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. Profitability ratios are the best indicators of overall efficiency. Here, these ratios presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NIBL and BOK.

##### **A) Return on Loan and Advances**

Every financial institution tries to mobilize their deposits on loan and advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan and advances ratio of selected banks are presented as follows.

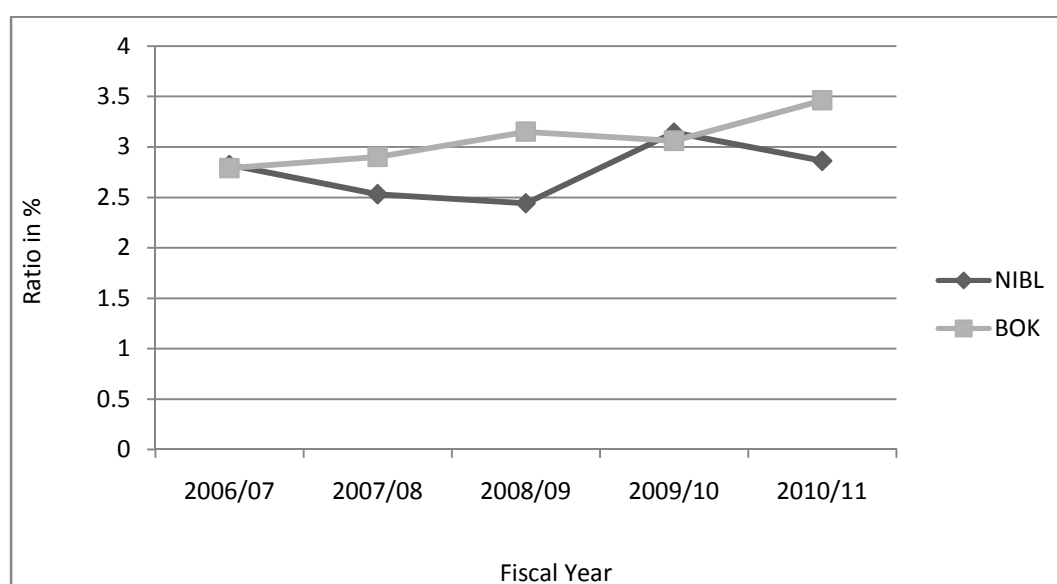
**Table 4.10**  
**Return on Loan and Advances**

(Rs. in Millions)

| Fiscal Year | NIBL       |                   |            | BOK        |                   |            |
|-------------|------------|-------------------|------------|------------|-------------------|------------|
|             | Net Profit | Loan and Advances | Ratio In % | Net Profit | Loan and Advances | Ratio In % |
| 2006/07     | 501.4      | 17769.1           | 2.82       | 262.39     | 9399.33           | 2.79       |
| 2007/08     | 697        | 27529             | 2.53       | 361.49     | 12462.64          | 2.90       |
| 2008/09     | 900.62     | 36827.16          | 2.44       | 461.73     | 14647.3           | 3.15       |
| 2009/10     | 1265.95    | 40318.31          | 3.14       | 509.63     | 16664.93          | 3.06       |
| 2010/11     | 1176.64    | 41095.51          | 2.86       | 605.15     | 17468.19          | 3.46       |
| Mean        |            |                   | 2.758      |            |                   | 3.07       |
| S.d.        |            |                   | 0.279      |            |                   | 0.259      |
| C.V.        |            |                   | 0.1015     |            |                   | 0.0842     |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.10**  
**Return on Loan and Advances**



The table and figure 4.10 shows that return on loan and advances ratio of NIBL and BOK. The ratio of NIBL and BOK have fluctuating trend. The highest ratio of NIBL is 3.14% in the year 2009/10 and lowest ratio is 2.44% in year 2008/09. The mean ratio is 2.758%. Similarly highest ratio of BOK is 3.46% in year 2010/11 and lowest ratio is 2.79% in 2006/07. The

mean ratio of BOK is 3.06%. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances. The average ratio of BOK is little higher than NIBL. Which indicate that return from loan and advance of BOK is higher than NIBL. It can be concluded that BOK has utilized the loan and advance for the profit generation in earning capacity. However both banks seem to have poor performance in order to have returns from loan and advances because return on loan and advances is less than five percent as five percent is benchmarking ratio in this case.

### B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

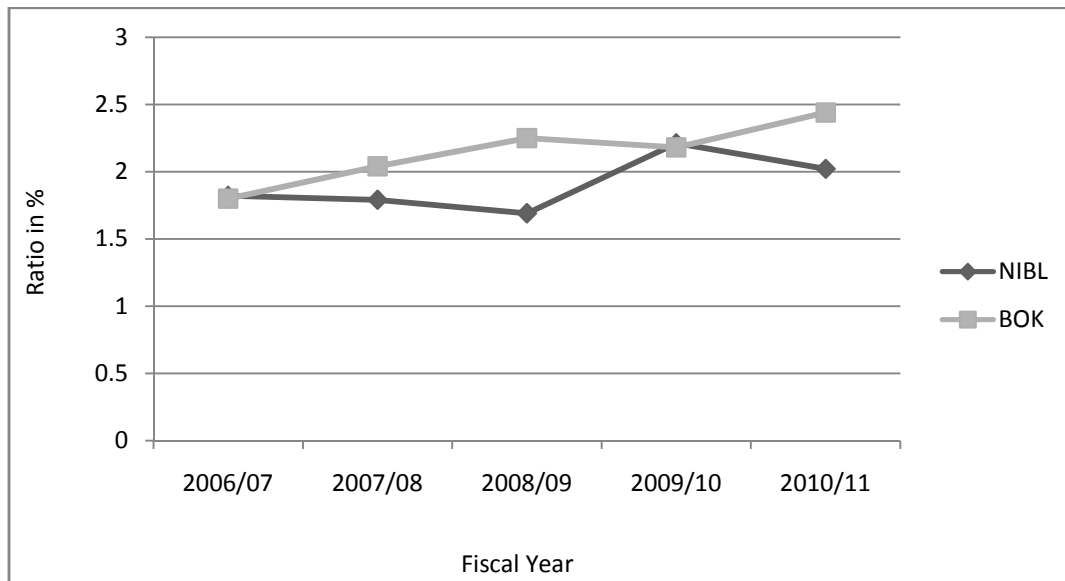
**Table 4.11**  
**Return on Total Assets Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL       |             |            | BOK        |             |            |
|-------------|------------|-------------|------------|------------|-------------|------------|
|             | Net Profit | Total Asset | Ratio In % | Net Profit | Total Asset | Ratio In % |
| 2006/07     | 501.4      | 27590.84    | 1.82       | 262.39     | 14581.39    | 1.80       |
| 2007/08     | 697        | 38873       | 1.79       | 361.49     | 17721.93    | 2.04       |
| 2008/09     | 900.62     | 53010       | 1.69       | 461.73     | 20496       | 2.25       |
| 2009/10     | 1265.95    | 57305.41    | 2.21       | 509.63     | 23396.19    | 2.18       |
| 2010/11     | 1176.64    | 58356.83    | 2.02       | 605.15     | 24757.75    | 2.44       |
| Mean        |            |             | 1.906      |            |             | 2.143      |
| S.d.        |            |             | 0.208      |            |             | 0.241      |
| C.V.        |            |             | 0.1091     |            |             | 0.1126     |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.11**  
**Return on Total Assets Ratio**



Above table and figure shows the return on total assets of NIBL and BOK. This table states the net profit to total assets of selected banks has fluctuating during the study period. BOK seems successful in managing and utilizing the available assets in order to generate revenue since its average ROA is 2.143% of total assets in an average which is higher than that of NIBL of 1.906 percent. The highest ratio of NIBL has 2.21 percent and lowest ratio is 1.67. Similarly highest ratio of BOK is 2.44 and lowest ratio is 1.80 percent. Whereas S.D. and C.V. of BOK have relatively high it indicate less uniformity in the ratios. Anyway return from total asset of BOK is relatively better than NIBL.

**C) Return on Equity**

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn higher profit and thereby, maximizing return on its equity capital. Return on equity measures the profitability of a bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A higher ratio indicates higher success in mobilizing its owned capital and vice-versa. Following table shows the return on equity of NIBL and BOK during the study period.

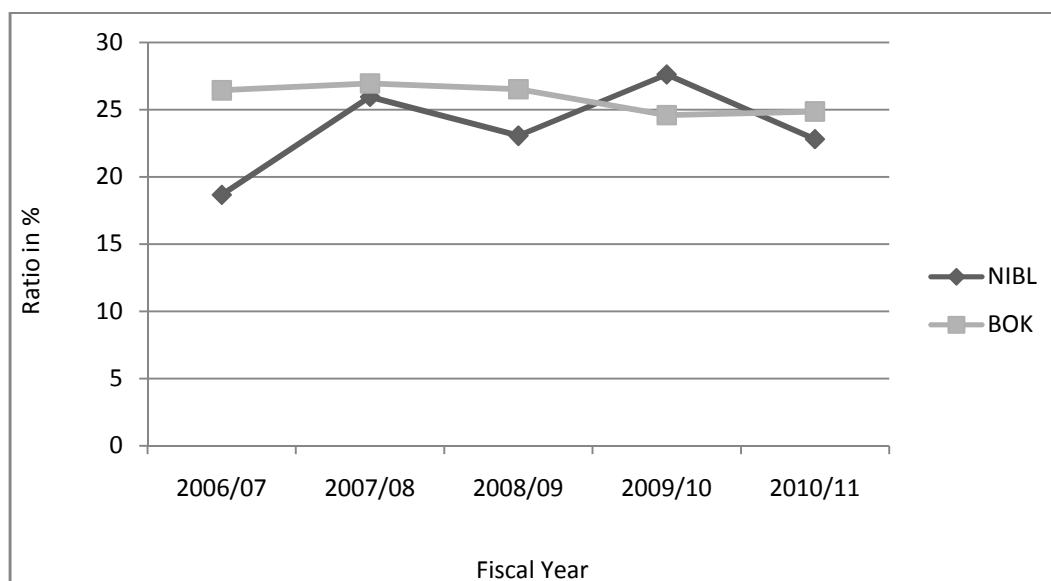
**Table 4.12**  
**Return on Equity Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL       |              |            | BOK        |              |            |
|-------------|------------|--------------|------------|------------|--------------|------------|
|             | Net Profit | Total Equity | Ratio in % | Net Profit | Total Equity | Ratio in % |
| 2006/07     | 501.4      | 2688.73      | 18.65      | 262.39     | 993.27       | 26.42      |
| 2007/08     | 697        | 2686.78      | 25.94      | 361.49     | 1342.07      | 26.93      |
| 2008/09     | 900.62     | 3907.84      | 23.05      | 461.73     | 1741.59      | 26.51      |
| 2009/10     | 1265.95    | 4585.39      | 27.61      | 509.63     | 2073.53      | 24.58      |
| 2010/11     | 1176.64    | 5159.76      | 22.8       | 605.15     | 2435.19      | 24.85      |
| Mean        |            |              | 23.61      |            |              | 25.86      |
| S.d.        |            |              | 3.428      |            |              | 1.067      |
| C.V.        |            |              | 0.1452     |            |              | 0.0413     |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.12**  
**Return on Equity Ratio**



Above table and figure shows return on equity ratio of NIBL and BOK. Above data indicates that NIBL has highly fluctuating whereas BOK as constant to some extends in return on equity ratio. The highest ratio of NIBL is 27.61% in F/Y 2009/10 and lowest ratio is 18.65% in F/Y 2006/07. Similarly highest ratio of BOK is 26.93% in F/Y 2007/08 and lowest ratio is 24.58% in F/Y 2009/10. The average mean ratio of NIBL is 23.61 and BOK is 25.86 percent.

According to mean ratio BOK has generating higher ROE in comparison with NIBL. In brief, it signifies that the shareholders of BOK are getting higher return but in case of NIBL, they are getting lesser. It can be concluded that BOK has better utilized the equity for the profit generation. It proves to be strength for BOK in attracting future investment also while NIBL shows its weakness regarding efficient utilization of its owner's equity in comparison to BOK. NIBL has also relatively more inconsistent throughout the study period due to being its higher C.V than BOK.

#### **D) Interest Earned to Total Assets Ratio**

Interest earned to total assets ratio evaluates how successful the selected banks are at mobilizing their total assets to achieve higher amount of interest. Higher ratio indicates higher interest income of the selected banks. The total interest earned to total assets ratio of NIBL and BOK.

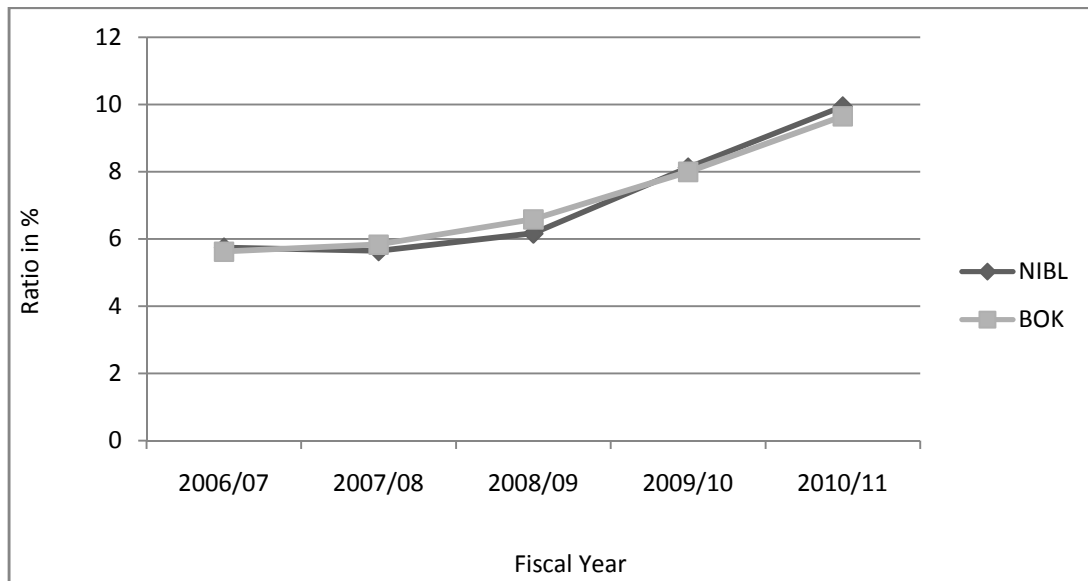
**Table 4.13**  
**Interest Earned to Total Assets Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL            |              |                  | BOK             |              |                  |
|-------------|-----------------|--------------|------------------|-----------------|--------------|------------------|
|             | Interest Earned | Total Assets | Ratio in Percent | Interest Earned | Total Assets | Ratio in Percent |
| 2006/07     | 1584.99         | 27590.84     | 5.74             | 819             | 14581.39     | 5.62             |
| 2007/08     | 2194.27         | 38873        | 5.64             | 1034.16         | 17721.93     | 5.83             |
| 2008/09     | 3267.94         | 53010        | 6.16             | 1347.76         | 20496        | 6.58             |
| 2009/10     | 4653.52         | 57305.41     | 8.12             | 1870.85         | 23396.19     | 7.99             |
| 2010/11     | 5803.44         | 58356.83     | 9.94             | 2386.78         | 24757.75     | 9.64             |
| Mean        |                 |              | 7.12             |                 |              | 7.13             |
| S.d.        |                 |              | 1.869            |                 |              | 1.683            |
| C.V.        |                 |              | 0.2625           |                 |              | 0.2359           |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.13**  
**Interest Earned to Total Assets Ratio**



Above table and figure shows the increased total interest earned to total asset ratio of NIBL and BOK. Both the banks have increasing total interest earned to total asset ratio during studied period. Which indicate both banks doing well in interest earning. The highest ratio of NIBL is 9.94 percent and lowest ratio is 5.64 percent. Similarly highest ratio of BOK is 9.64 percent and lowest ratio is 5.62 percent. The average mean ratio of NIBL and BOK are 7.12 and 7.13 percent respectively. The mean ratio of BOK is little more than that of NIBL. This indicates more interest earning from its asset. In comparison, BOK seems effective in interest earning ratio than NIBL. Moreover, NIBL has inconsistency in the ratios during the study period due to having higher C.V. anyway It can be concluded that both NIBL and BOK has successfully mobilized their fund in interest generating assets.

**E) Total Interest Earned To Total outside Assets Ratio**

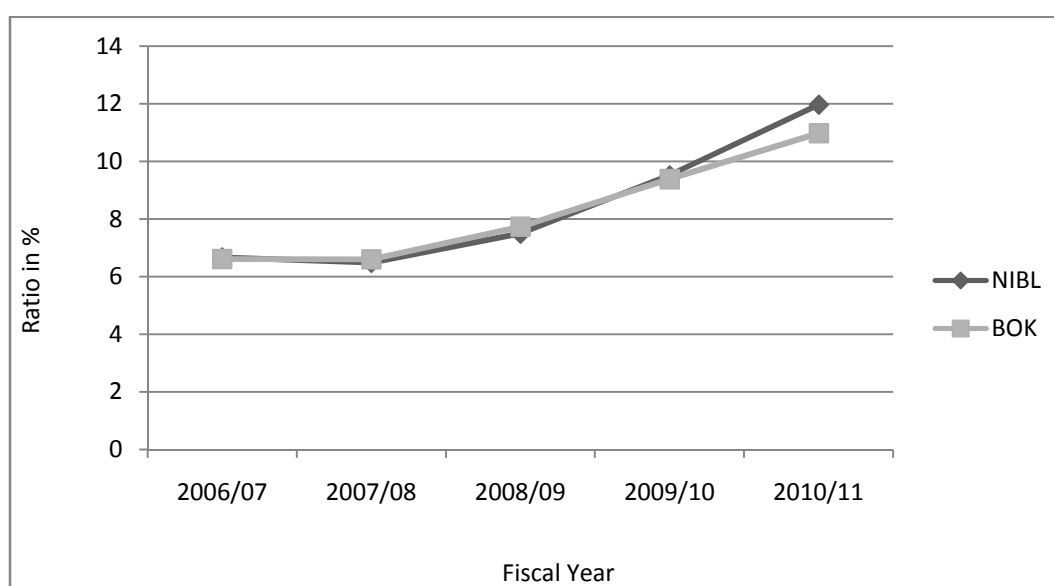
The main assets of commercial banks are its outside assets, which includes loan and advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A higher ratio indicates higher earning on such total assets and vice-versa. The following table exhibits the ratio of total interest earned to total outside assets of NIBL and BOK during the study period.

**Table 4.14****Total Interest Earned To Total Outside Assets Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL            |                      |                  | BOK             |                      |                  |
|-------------|-----------------|----------------------|------------------|-----------------|----------------------|------------------|
|             | Interest Earned | Total outside Assets | Ratio in Percent | Interest Earned | Total outside Assets | Ratio in Percent |
| 2006/07     | 1584.99         | 23792.11             | 6.66             | 819             | 12391.80             | 6.61             |
| 2007/08     | 2194.27         | 33870.67             | 6.48             | 1034.16         | 15666.70             | 6.60             |
| 2008/09     | 3267.94         | 43641.02             | 7.49             | 1347.76         | 17430.90             | 7.73             |
| 2009/10     | 4653.52         | 48953.84             | 9.51             | 1870.85         | 19934.14             | 9.38             |
| 2010/11     | 5803.44         | 48518.62             | 11.96            | 2386.78         | 21754.79             | 10.97            |
| Mean        |                 |                      | 8.42             |                 |                      | 8.259            |
| S.d.        |                 |                      | 2.315            |                 |                      | 1.895            |
| C.V.        |                 |                      | 0.275            |                 |                      | 0.2295           |

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

**Figure 4.14****Total Interest Earned To Total Outside Assets Ratio**

Above table and figure shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank NIBL and BOK are in increasing during the study period. NIBL has highest ratio in the year 2010/11 with 11.96% and lowest in the years 2007/08 with 6.48%. Similarly, BOK has the highest ratio is 10.97% in fiscal

year 2010/11 and the lowest in the year 2007/08 with 6.60%. The mean ratio of NIBL and BOK are 8.42% and 8.259% respectively. Here NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent returns. The C.V. of NIBL is higher than BOK which indicates inconsistency in interest earned to total outside asset ratio.

#### **F) Total interest earned to Total operating income Ratio**

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets. The major sources of income for the bank are interest income.

**Table 4.15**  
**Interest Earned to Operating Income Ratio**

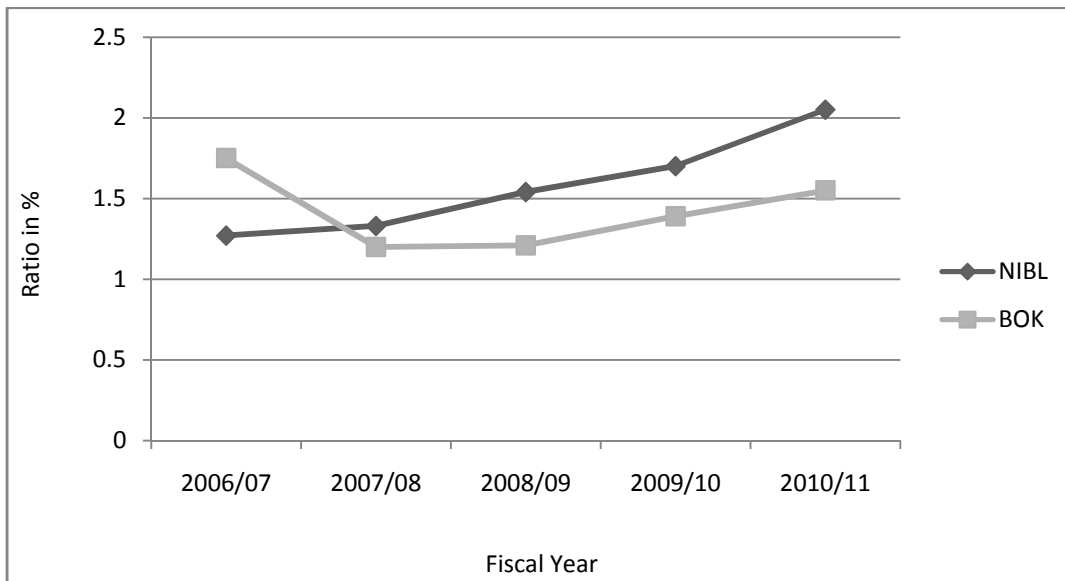
(Rs. in Millions)

| Fiscal Year | NIBL            |                  |        | BOK             |                  |        |
|-------------|-----------------|------------------|--------|-----------------|------------------|--------|
|             | Interest Earned | Operating Income | Ratio  | Interest Earned | Operating Income | Ratio  |
| 2006/07     | 1584.99         | 1246.03          | 1.27   | 819             | 469              | 1.75   |
| 2007/08     | 2194.27         | 1649.62          | 1.33   | 1034.16         | 862.96           | 1.20   |
| 2008/09     | 3267.94         | 2116.66          | 1.54   | 1347.76         | 1114.82          | 1.21   |
| 2009/10     | 4653.52         | 2734.93          | 1.70   | 1870.85         | 1342.7           | 1.39   |
| 2010/11     | 5803.44         | 2833.59          | 2.05   | 2386.78         | 1538.32          | 1.55   |
| Mean        |                 |                  | 1.578  |                 |                  | 1.42   |
| S.d.        |                 |                  | 0.314  |                 |                  | 0.234  |
| C.V.        |                 |                  | 0.1993 |                 |                  | 0.1645 |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.15**

**Interest Earned to Operating Income Ratio**



Above table and figure shows interest earned to operating income ratio of NIBL and BOK. Both banks have increasing its ratio during the study period. The NIBL has higher share of total interest earn in its total operating income. The average mean ratio of NIBL and BOK are 1.578 times and 1.42 times respectively. The higher ratio of NIBL has indicates the high contribution in operating income made by lending and investing activities (core banking activity). BOK has lower ratio, it indicates that high contribution in operating income is not made by lending and investing activities (core banking activity). High contribution in operating income made by lending and investing activities (core banking activity) may not good in long run but in short run it is not so bad. Thus, from short term view, BOK is in good condition. In overall, both banks have managed sound interest earned to operating income ratio. The S.D. and C.V of NIBL is higher than BOK. So the ratio of NIBL is more inconsistency than BOK.

**4.1.1.4 Risk Ratio**

Risk and uncertainty is a part of business. All the business activities are influenced by risk, so business organizations cannot achieve a good return as per their desires. The risk in management of banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks have to accept the risk thoughtfully and manage it efficiently. A bank has to have idea of the level of

risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the NIBL and BOK.

### A) Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total Loan and Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of non-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

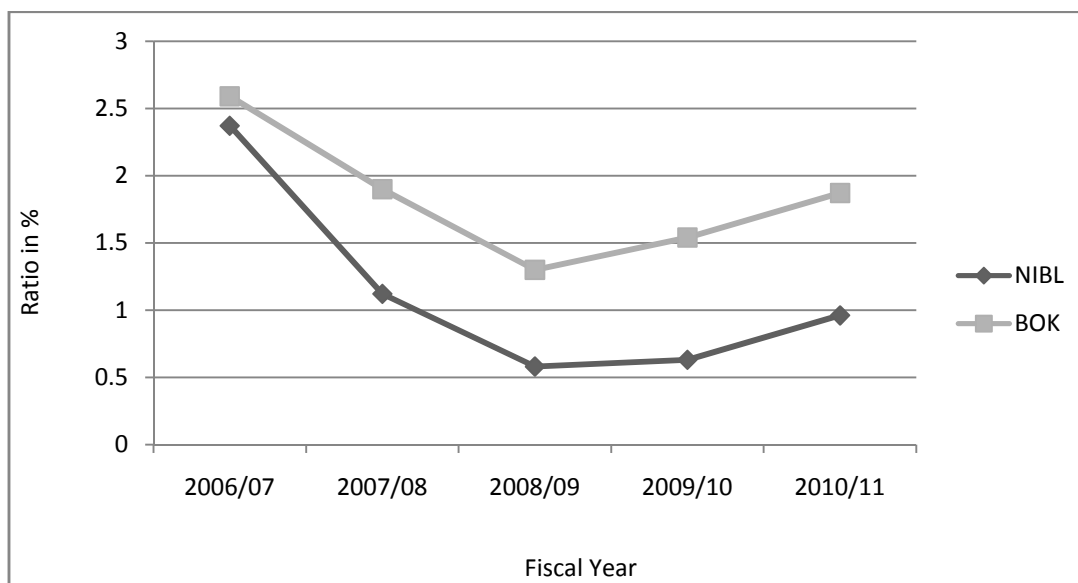
**Table 4.16**  
**Credit Risk Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL                |            |        | BOK                 |            |        |
|-------------|---------------------|------------|--------|---------------------|------------|--------|
|             | Non-Performing Loan | Total Loan | Ratio  | Non-Performing Loan | Total Loan | Ratio  |
| 2006/07     | 421.97              | 17769.1    | 2.37   | 243.3               | 9399.33    | 2.59   |
| 2007/08     | 309.47              | 27529      | 1.12   | 236.9               | 12462.64   | 1.90   |
| 2008/09     | 213.91              | 36827.16   | 0.58   | 190.32              | 14647.3    | 1.299  |
| 2009/10     | 254.03              | 40318.31   | 0.63   | 257.22              | 16664.93   | 1.54   |
| 2010/11     | 395.28              | 41095.51   | 0.96   | 326.33              | 17468.19   | 1.87   |
| Mean        |                     |            | 1.132  |                     |            | 1.839  |
| S.d.        |                     |            | 0.728  |                     |            | 0.486  |
| C.V.        |                     |            | 0.6429 |                     |            | 0.2642 |

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

**Figure 4.16**  
**Credit Risk Ratio**



Above table shows that NPL to total loan and advances of NIBL and BOK are in decreasing and increasing at last. Decreasing trend is the good sign of efficient credit management. The mean non-performing loan to total loan and advances ratio of NIBL and BOK are 1.132% and 1.839% respectively during the study period. The ratio indicates that BOK has little higher credit risk than NIBL. These ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, NIBL is more efficient at operating credit management than BOK. In another words, BOK is less efficient at operating credit management than NIBL. The NIBL bank has efficiently used the total loan and advances than that of BOK in credit risk aspect. Anyway both NIBL and BOK is more successful in loan recovery because it has lower non performing loan in total loan and advances. The ratio of NIBL is inconsistency than BOK due to having higher C.V. so far.

**B) Liquidity Risk Ratio**

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets, they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity in need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk.

Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below.

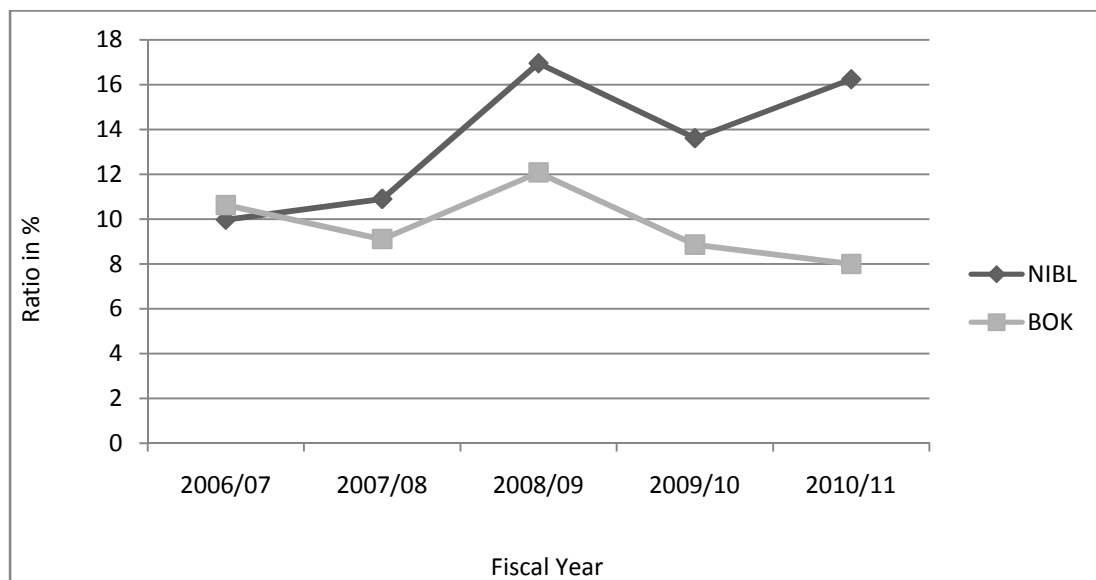
**Table 4.17**  
**Liquidity Risk Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL                  |               |        | BOK                   |               |        |
|-------------|-----------------------|---------------|--------|-----------------------|---------------|--------|
|             | Cash and bank balance | Total Deposit | Ratio  | Cash and bank balance | Total Deposit | Ratio  |
| 2006/07     | 2441.514              | 24488.85      | 9.97   | 1315.9                | 12388.93      | 10.62  |
| 2007/08     | 3754.94               | 34452         | 10.9   | 1440.47               | 15833.74      | 9.097  |
| 2008/09     | 7918                  | 46698         | 16.95  | 2182.11               | 18083.98      | 12.07  |
| 2009/10     | 6815.89               | 50094.73      | 13.61  | 1798.37               | 20315.83      | 8.852  |
| 2010/11     | 8140.37               | 50138.12      | 16.24  | 1678.93               | 21018.42      | 7.99   |
| Mean        |                       |               | 13.534 |                       |               | 9.725  |
| S.d.        |                       |               | 3.108  |                       |               | 1.6175 |
| C.V.        |                       |               | 0.2296 |                       |               | 0.1663 |

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

**Figure 4.17**  
**Liquidity Risk Ratio**



Above table and figure shows cash and bank balance to total deposits ratio of the NIBL and BOK. The ratio of NIBL and BOK have fluctuating trend. The highest ratio of NIBL is 16.95% in F/Y 2008/09 and lowest ratio is 9.97% in F/Y 2006/07. Similarly highest ratio of BOK is 12.07% in F/Y 2008/09 and lowest ratio is 7.99% in F/Y 2010/11 respectively. The average mean ratio of NIBL is 13.543% which is higher than that of BOK of 9.725%. It signifies that NIBL has sound liquid fund to make immediate payment to the depositors. So BOK has lower liquidity position than NIBL. But the lower C.V. of BOK indicates more consistency in its ratio than NIBL.

### C) Asset Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as follows:

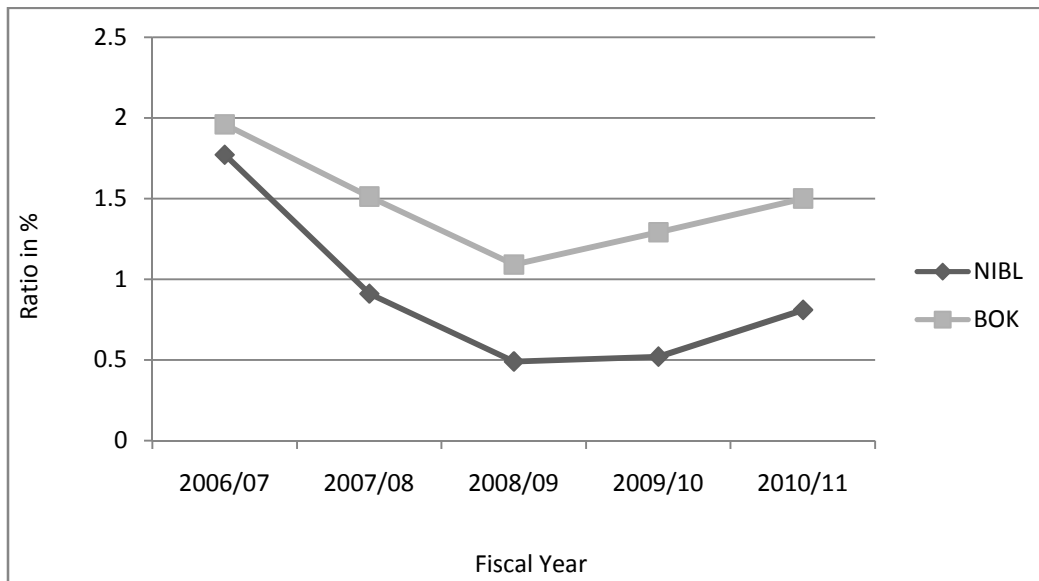
**Table 4.18**  
**Asset Risk Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL   |               |            | BOK    |               |            |
|-------------|--------|---------------|------------|--------|---------------|------------|
|             | NPL    | Outside Asset | Ratio In % | NPL    | Outside Asset | Ratio In % |
| 2006/07     | 421.97 | 23792.11      | 1.77       | 243.3  | 12391.80      | 1.96       |
| 2007/08     | 309.47 | 33870.67      | 0.91       | 236.9  | 15666.70      | 1.512      |
| 2008/09     | 213.91 | 43641.02      | 0.49       | 190.32 | 17430.90      | 1.09       |
| 2009/10     | 254.03 | 48953.84      | 0.52       | 257.22 | 19934.14      | 1.29       |
| 2010/11     | 395.28 | 48518.62      | 0.81       | 326.33 | 21754.79      | 1.50       |
| Mean        |        |               | 0.90       |        |               | 1.471      |
| S.d.        |        |               | 0.519      |        |               | 0.3244     |
| C.V.        |        |               | 0.5767     |        |               | 0.2205     |

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

**Figure 4.18**  
**Asset Risk Ratio**



Above table shows that non-performing asset to total outside asset ratio of NIBL and BOK. Both banks have decreasing trend and increasing at last. Decreasing trend is the good sign of efficient asset management. The highest ratio of NIBL is 1.77% and lowest 0.49%. Similarly highest ratio of BOK is 1.96% and lowest is 1.09%. The average mean non-performing asset to total outside asset ratio of NIBL and BOK are 0.90% and 1.471% during the study period. The BOK has little higher asset risk ratio than NIBL. These Ratios indicate the more efficient operating of asset management of both banks. However, in comparison, NIBL is more efficient in asset management than BOK. It is even less than 1 percent. In another words, NIBL is less efficient at asset management than BOK. The ratio of BOK is consistency in its ratio than NIBL due to having higher C.V.

#### **4.1.1.5 Other Ratios**

##### **A) Earnings Per Share**

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earnings per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

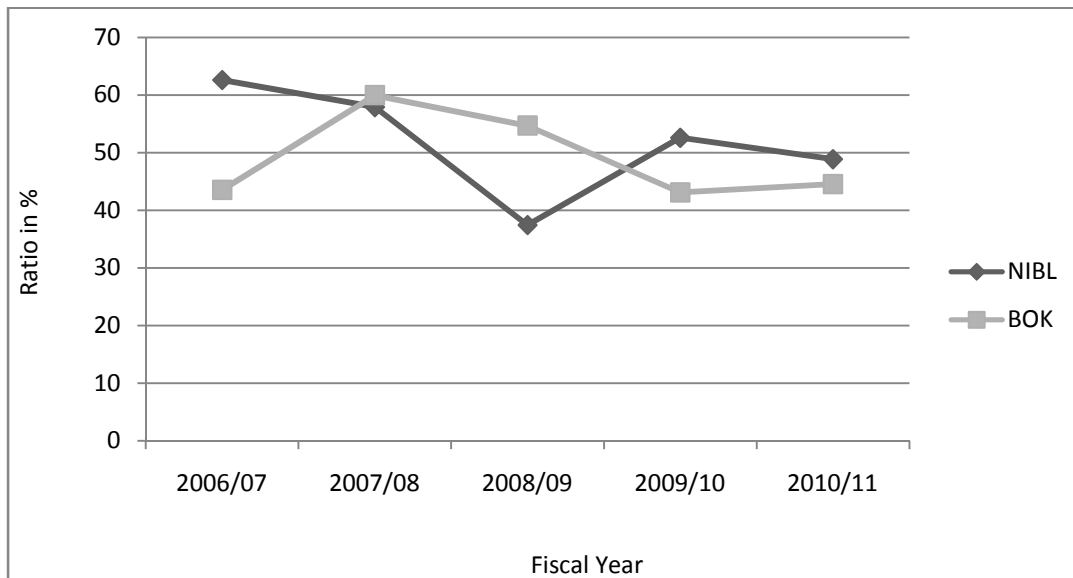
**Table 4.19**  
**Earnings Per Share**

(Rs. in Millions)

| Fiscal Year | NIBL       |              |            | BOK        |              |            |
|-------------|------------|--------------|------------|------------|--------------|------------|
|             | Net Profit | Total Equity | Ratio In % | Net Profit | Total Equity | Ratio In % |
| 2006/07     | 501.4      | 8013526      | 62.57      | 262.39     | 6031413      | 43.50      |
| 2007/08     | 697        | 12039154     | 57.89      | 361.49     | 6031413      | 59.94      |
| 2008/09     | 900.62     | 24070689     | 37.42      | 461.73     | 8443979      | 54.68      |
| 2009/10     | 1265.95    | 24090977     | 52.55      | 509.63     | 11821571     | 43.08      |
| 2010/11     | 1176.64    | 30113721.25  | 48.84      | 605.15     | 13594807     | 44.51      |
| Mean        |            |              | 51.854     |            |              | 49.142     |
| S.d.        |            |              | 9.607      |            |              | 7.7023     |
| C.V.        |            |              | 0.1853     |            |              | 0.1567     |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.19**  
**Earnings Per Share**



Above table and figure 4.19 shows that earning price per share of NIBL and BOK. Both NIBL and BOK have fluctuating form of its EPS. The average EPS of NIBL is little higher than BOK. While observing their ratios NIBL is better mobilizing it resources to get more earning per share (EPS) although both banks have fluctuating its EPS. The highest EPS of NIBL is 62.57 and lowest is 37.42 percent. Similarly highest EPS of BOK is 69.94 and

lowest is 43.08 percent. The average EPS of NIBL and BOK are 51.854 and 49.142. The higher mean indicate successful to generating higher EPS of NIBL. The S.D and C.V. of NIBL is higher than BOK which indicate inconsistency in its EPS.

### **B) Market Price per Share**

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

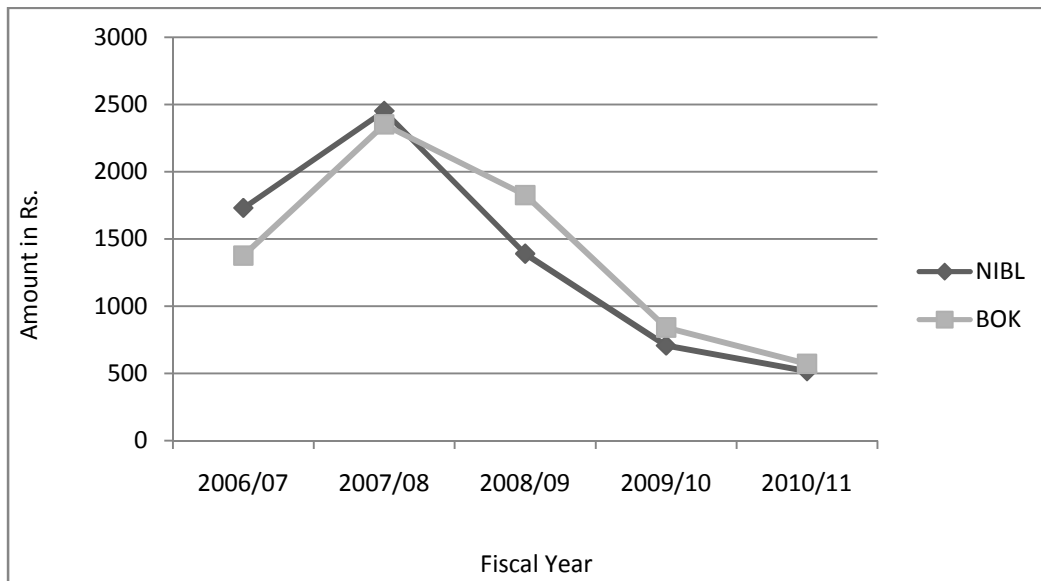
**Table 4.20**  
**Market Price Per Share**

(Amount in Rs.)

| <b>Fiscal Year</b> | <b>NIBL</b> | <b>BOK</b> |
|--------------------|-------------|------------|
|                    | <b>MPS</b>  | <b>MPS</b> |
| 2006/07            | 1729        | 1375       |
| 2007/08            | 2450        | 2350       |
| 2008/09            | 1388        | 1825       |
| 2009/10            | 705         | 840        |
| 2010/11            | 515         | 570        |
| Mean               | 1357.4      | 1392       |
| S.d.               | 785.50      | 722.14     |
| C.V.               | 0.5787      | 0.5188     |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.20**  
**Market Price Per Share**



Above table and figure shows market price of the share of NIBL and BOK. Both bank NIBL and BOK has decreasing its share price from second fiscal year 2007/08 during the study period. It indicates that recession in share market start from F/Y 2007/08. This tends low performance of company and low expectation from company. The highest MPS of NIBL is Rs 2450 and lowest is Rs 515. Similarly highest MPS of BOK is Rs 2350 and lowest is Rs 570. Average mean price of BOK is higher than that of NIBL i.e. 1392 > 1357 Rupee. It indicates that shareholder of BOK are getting higher price. The S.D. and C.V. of NIBL have higher which indicate high fluctuation in its share price than BOK.

### **C) Price Earnings Ratio**

Price earnings ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earnings ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earnings ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

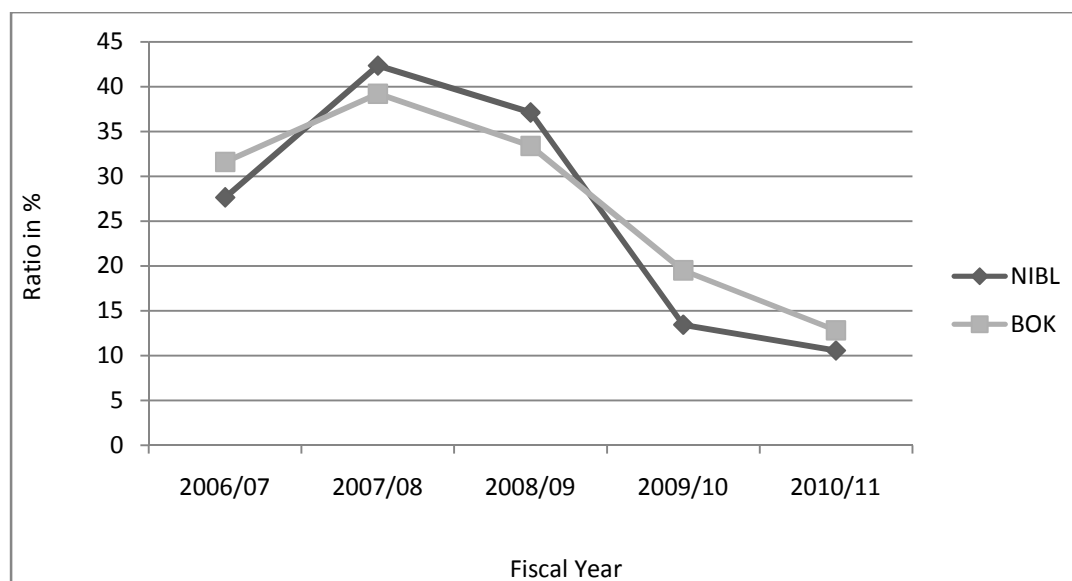
**Table 4.21**  
**Price Earnings Ratio**

(Rs. in Millions)

| Fiscal Year | NIBL        |              |                   | BOK         |              |                   |
|-------------|-------------|--------------|-------------------|-------------|--------------|-------------------|
|             | MPS (in Rs) | EPS (in Rs ) | PE/Ratio In times | MPS (in Rs) | EPS (in Rs ) | PE/Ratio In times |
| 2006/07     | 1729        | 62.57        | 27.63             | 1375        | 43.5         | 31.609            |
| 2007/08     | 2450        | 57.89        | 42.33             | 2350        | 59.94        | 39.206            |
| 2008/09     | 1388        | 37.42        | 37.1              | 1825        | 54.68        | 33.376            |
| 2009/10     | 705         | 52.55        | 13.42             | 840         | 43.08        | 19.499            |
| 2010/11     | 515         | 48.84        | 10.55             | 570         | 44.51        | 12.806            |
| Mean        |             |              | 26.21             |             |              | 27.299            |
| S.d.        |             |              | 14.047            |             |              | 10.819            |
| C.V.        |             |              | 0.536             |             |              | 0.3963            |

*Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)*

**Figure 4.21**  
**Price Earnings Ratio**



Above table and figure shows that price earnings ratio earning of NIBL and BOK. The P E ratio NIBL and BOK are decreasing from F/Y 2007/08. From the mean point of view, mean ratio of the NIBL and BOK are 26.21 and 27.299 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 26.21 in NIBL and Rs 27.299 in BOK. Looking the mean ratio we conclude investors of BOK are getting better profitability because BOK

has higher price earning ration. But from the long term view and sustainable fair price, investor of both BOK and NIBL will get better profitability and they will be in safe side a little bit in comparison with NIBL. The S.D and C.V of NIBL is also high than the BOK it indicate its contradiction to invest in NIBL rather than the BOK. Anyway both banks are measure as almost equally.

## **4.2 Statistical Analysis**

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

### **4.2.1 Coefficient of Correlation Analysis**

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan and advances and net profit NIBL and BOK using Karl Persons coefficient of correlation, value of coefficient of determination ( $R^2$ ) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

#### **A) Correlation Coefficient between Deposit and Loan and Advances**

Deposit have played very important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

**Table 4.22**  
**Correlation between Deposit and Loan and Advances**

| Name of Banks | Evaluation Criteria |                |        |         | Remarks     |
|---------------|---------------------|----------------|--------|---------|-------------|
|               | r                   | r <sup>2</sup> | P.Er.  | 6 P.Er. |             |
| NIBL          | 0.998               | 0.996          | 0.0012 | 0.0072  | Significant |
| BOK           | 0.999               | 0.998          | 0.0006 | 0.0036  | Significant |

*Source: Through SPSS Data Editor*

In above table 4.22, it is found that coefficient of correlation between deposits and loan and advances of NIBL and BOK are 0.998 and 0.999. It shows that both have the positive relationship between these two variables. It refers that deposit and loan and advances of NIBL and BOK moves together very closely. Moreover, the coefficient of determination of NIBL is 0.996. It means 99.6 percent of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of BOK is 0.998. It refers that 99.8 percent variance in loan and advances are affected by total deposit. Least is determined by other factor. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P. Err. In other words, there is significant relationship between deposits and loan and advances of NIBL and BOK.

**B) Coefficient of Correlation between Total Deposits and Total Investment**

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y). The following table shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination ( $R^2$ ) of NIBL and BOK during the study period.

**Table 4.23**

**Correlation between Deposit and Total Investment**

| Name of Banks | Evaluation Criteria |                |        |          |               |
|---------------|---------------------|----------------|--------|----------|---------------|
|               | r                   | r <sup>2</sup> | P.Er.  | 6 P. Er. | Remarks       |
| NIBL          | 0.812               | 0.659          | 0.1028 | 0.6166   | Significant   |
| BOK           | 0.59                | 0.3481         | 0.1966 | 1.1799   | Insignificant |

*Source: Through SPSS Data Editor*

The table 4.22 shows the coefficient of correlation between total deposit and total investment of NIBL and BOK. The correlation of NIBL is 0.812. It shows the high degree of positive correlation. In addition, coefficient of determination of NIBL is 0.659, It means only 65.9 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P. Er. It refers that there is significant relationship between total deposit and total investment of NIBL.

Similarly, correlation coefficient between total deposit and total investment of BOK is positive by 0.59. The value of coefficient of determination is 0.3481 this refers that only 34.815 percent of the variation in total investment is explained by total deposit least are determined by other factor. The correlation coefficient is insignificant because the correlation coefficient is lower than 6 P. Er. It refers that there is insignificant relationship between total deposit and total investment of BOK.

From the above analysis, the conclusion can be drawn in the case of NIBL and BOK that NIBL has high degree positive correlation where as BOK has low degree of positive correlation. The relationship between deposit and investment of NIBL is significant where BOK has insignificant. This indicates that NIBL is successful to mobilize its deposit in proper way in comparison to BOK.

**C) Co-efficient of Correlation between Loan and Advance and Net Profit**

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NIBL and BOK during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the

variation of net profit to loan and advance through the coefficient of determination. The following table shows the 'r', R<sup>2</sup>, P.Er. and 6 P. Er. between those variables of NIBL and BOK for the study period.

**Table 4.24**  
**Correlation between Loan and advance and Net profit**

| Name of Banks | Evaluation Criteria |                |         |         | Remarks     |
|---------------|---------------------|----------------|---------|---------|-------------|
|               | R                   | r <sup>2</sup> | P.Er.   | 6 P.Er. |             |
| NIBL          | 0.951               | 0.904          | 0.0288  | 0.1730  | Significant |
| BOK           | 0.984               | 0.9682         | 0.00958 | 0.0575  | Significant |

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between loan & advance and net profit is 0.951 of NIBL. It refers that there is positive correlation between these two variables. Here, 90.4 percent of net profit is contributed by loan and advance as its coefficient of determination is 0.904 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er.

Likewise BOK also has positive correlation between loan & advance and net profit by 0.984. The coefficient of determination is 0.9682 which indicates that 96.82 percent variability in net profit is explained by loan and advance. The correlation coefficient is higher than 6 P.Er. So relationship between loan and advance and net profit is significant for BOK. It refers that there is significant relationship between total deposit and total investment of BOK. In calculation, both banks NIBL and BOK have significant relationship between loan and advance and net profit.

#### **D) Coefficient of Correlation between Total Deposit and Net Profit**

Coefficient of correlation between total deposit and net profit measures the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and net profit is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used to get proper net profit or not. The table shows the value of r, r<sup>2</sup>, probable Error (P.Err) and 6 P.Er. between total deposit and net profit of NIBL and BOK.

**Table 4.25**

**Correlation between Total Deposit and Net Profit**

| Name of Banks | Evaluation Criteria |                |        |         |             |
|---------------|---------------------|----------------|--------|---------|-------------|
|               | r                   | r <sup>2</sup> | P.Er.  | 6 P.Er. | Remarks     |
| NIBL          | 0.948               | 0.899          | 0.0305 | 0.1833  | Significant |
| BOK           | 0.979               | 0.9584         | 0.0125 | 0.0752  | Significant |

*Source: Through SPSS Data Editor*

The table shows the correlation coefficient between total deposit and net profit of NIBL and BOK. The correlation coefficient between total deposit and net profit of NIBL is 0.948, which implies there is positive correlation between total deposit and net profit. In addition, coefficient of determination of NIBL is 0.899. It means 89.9 percent of profit is contributed by total deposit. The correlation is significant at all due to coefficient of correlation is higher than 6 P Err. On the other hand BOK has also positive correlation between total deposit and net profit by 0.979. The coefficient of determination of BOK is 0.9548. It means 95.84 percent of profit is contributed by total deposit. This relationship is significant as its correlation coefficient is higher than 0.0752. Thus it can be concluded that the degree of relationship between total deposit and net profit of both banks NIBL and BOK have significant.

**4.2.2 Time Series Analysis (Trend Analysis)**

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

**A) Trend Analysis of Total Deposit**

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of NIBL and BOK for further eight year

$$Y = a + bx$$

Where,

Y= dependent variable

a=Y-intercept

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where  $x = X - \text{Middle year}$

Where as

$$Y_c = 40486.32 + 6345 * X \text{ of NIBL}$$

$$Y_c = 17528.18 + 2174.107 * X \text{ of BOK}$$

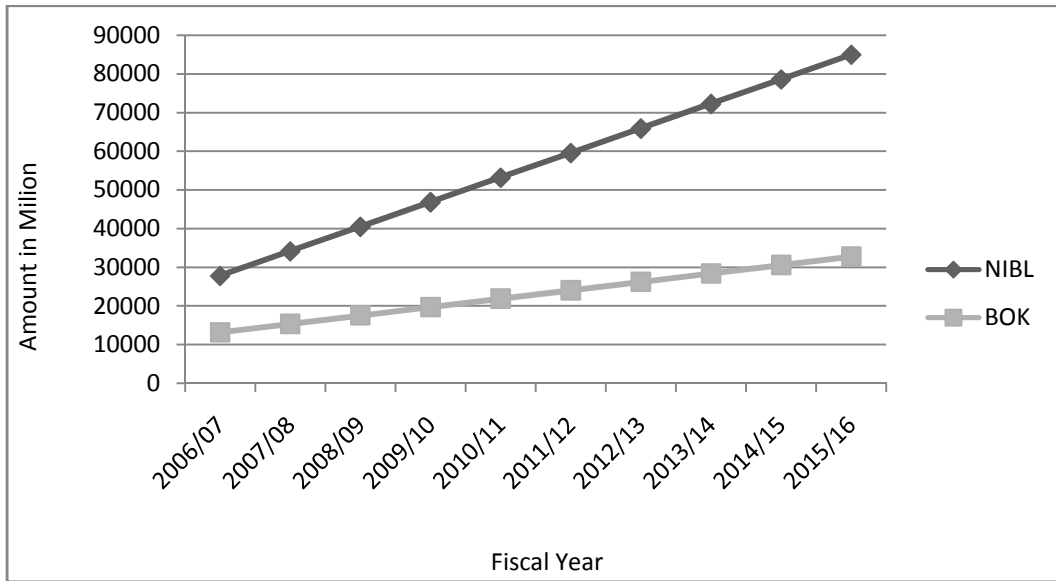
**Table 4.26**  
**Trend Analysis of Total Deposit of NIBL and BOK**

| <b>Fiscal Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|-----------------------|-------------|------------|
| 2006/07               | 27794.8     | 13179.97   |
| 2007/08               | 34140.5     | 15354.07   |
| 2008/09               | 40486.3     | 17528.18   |
| 2009/10               | 46832.1     | 19702.29   |
| 2010/11               | 53177.9     | 21876.39   |
| 2011/12               | 59523.7     | 24050.5    |
| 2012/13               | 65869.4     | 26224.61   |
| 2013/14               | 72215.2     | 28398.72   |
| 2014/15               | 78561       | 30572.82   |
| 2015/16               | 84906.8     | 32746.93   |

Source: Source: Appendix - 1

**Figure 4.22**

**Trend Line of Total Deposit of NIBL and BOK**



Above table and figure shows that trend of total deposit of NIBL and BOK. Both Banks is in increasing trend. The rate of increment of total deposit for NIBL seems to be higher than that of BOK. The actual trend value of total deposit for NIBL is more than that of BOK. The trend analysis has projected deposit amount in fiscal year FY 2011/12 to FY 2015/16. From the above trend analysis it is clear that NIBL has higher position in collecting deposit than BOK.

**B) Trend Analysis of Loan and Advances**

Here, the trend values of loan and advances Between NIBL and BOK have been calculated for further five year. The following Table shows the actual and trend values of NIBL and BOK.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where

$$Y_c = 32707.82 + 5944.213 * X \text{ of NIBL}$$

$$Y_c = 14128.48 + 2034.001 * X \text{ of BOK}$$

**Table 4.27**

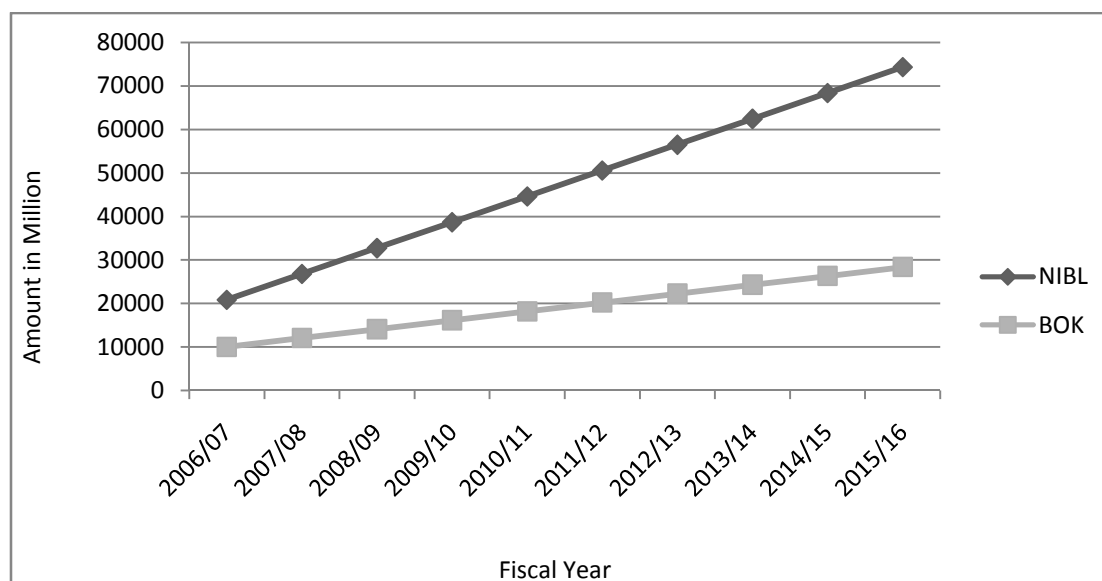
**Trend Analysis of Total Loan and Advance of NIBL and BOK**

| <b>Fiscal Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|-----------------------|-------------|------------|
| 2006/07               | 20819.4     | 10060.48   |
| 2007/08               | 26763.6     | 12094.48   |
| 2008/09               | 32707.8     | 14128.48   |
| 2009/10               | 38652       | 16162.48   |
| 2010/11               | 44596.2     | 18196.48   |
| 2011/12               | 50540.5     | 20230.48   |
| 2012/13               | 56484.7     | 22264.48   |
| 2013/14               | 62428.9     | 24298.49   |
| 2014/15               | 68373.1     | 26332.49   |
| 2015/16               | 74317.3     | 28366.49   |

Source: Appendix - 2

**Figure 4.23**

**Trend Line of Total Loan and Advance of NIBL and BOK**



Above table and figure depicts that trend of loan and advances of NIBL and BOK. Both Banks has in increasing trend. The increasing trend of NIBL is higher and aggressive than BOK. The value of loan and advances for BOK is quite fluctuating in relation to NIBL. The trend projected for father five year FY 2011/12 to FY 2015/16 From the above analysis, it is

clear that both NIBL and BOK is mobilizing its collected deposits and other funds in the form of loan and advances. But above table and figure shows NIBL has highly mobilizing loan and advances than the BOK.

**C) Trend Analysis of Total Investment**

Under this topic has been made to analyze trend analysis total investment of NIBL and BOK.

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$Y_c = 7362.97 + 478.545 * X \text{ of NIBL}$$

$$Y_c = 3307.18 + 265.347 * X \text{ of BOK}$$

**Table 4.28**

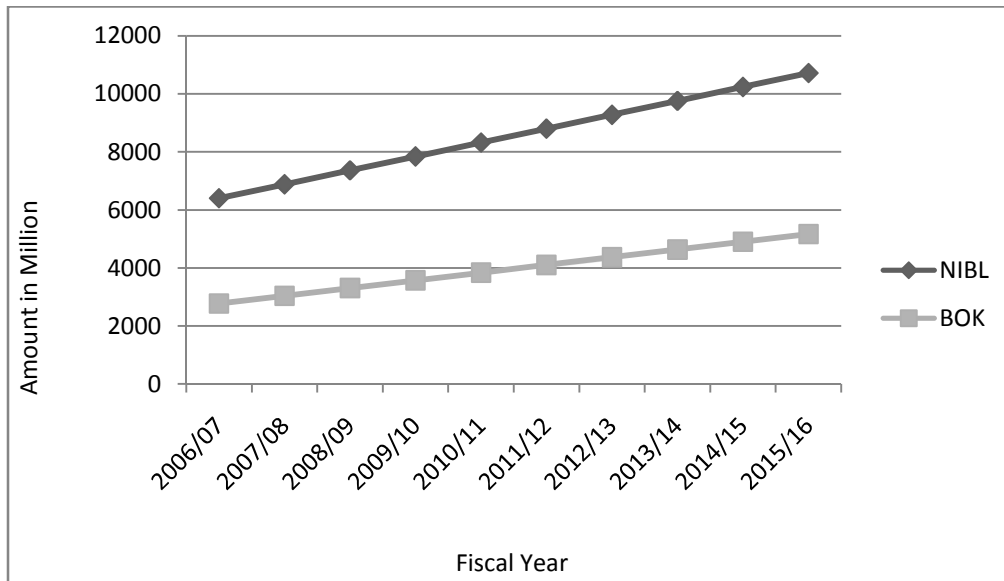
**Trend Analysis of Total Investment Between NIBL and BOK**

| <b>Fiscal Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|-----------------------|-------------|------------|
| 2006/07               | 6405.88     | 2776.486   |
| 2007/08               | 6884.43     | 3041.833   |
| 2008/09               | 7362.97     | 3307.18    |
| 2009/10               | 7841.52     | 3572.527   |
| 2010/11               | 8320.06     | 3837.874   |
| 2011/12               | 8798.61     | 4103.221   |
| 2012/13               | 9277.15     | 4368.568   |
| 2013/14               | 9755.7      | 4633.915   |
| 2014/15               | 10234.2     | 4899.262   |
| 2015/16               | 10712.8     | 5164.609   |

Source: Appendix -3

**Figure 4.24**

### Trend Line of Total Investment between NIBL and BOK



Above table and figure shows the trend of total investment between NIBL and BOK. The NIBL has highly increasing trend where as BOK has lowery increasing trend in making investment. The trend shows that NIBL has higher increasing trend than BOK of total investment. The trend of total investment projected to further five year. The forecasted trend projected that the NIBL and Bok has positive increment rate in total investment. The figure indicates that NIBL has highly mobilized the total investment rather than BOK.

#### E) Trend Analysis of Net Profit

Net profit is the final income of bank after deducting all expenses. Here, the trend values of net profit of NIBL and BOK have been calculated for five years FY 206/07 to FY 2010/11 and forecasting further next five year till FY 2015/16.

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

$$Yc = 908.32 + 191.943 * X \text{ of NIBL}$$

$$Yc = 440.078 + 83.366 * X \text{ of BOK}$$

**Table 4.29**

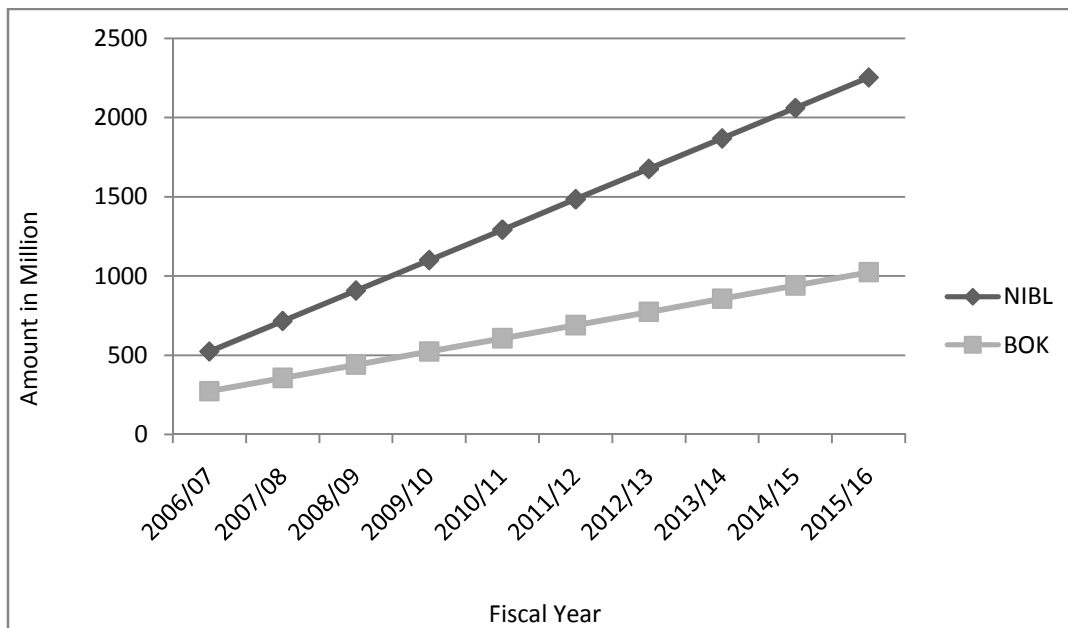
**Trend Analysis of Net Profit Between NIBL and BOK**

| <b>Fiscal Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|-----------------------|-------------|------------|
| 2006/07               | 524.434     | 273.346    |
| 2007/08               | 716.377     | 356.712    |
| 2008/09               | 908.32      | 440.078    |
| 2009/10               | 1100.26     | 523.444    |
| 2010/11               | 1292.21     | 606.81     |
| 2011/12               | 1484.15     | 690.176    |
| 2012/13               | 1676.09     | 773.542    |
| 2013/14               | 1868.04     | 856.908    |
| 2014/15               | 2059.98     | 940.274    |
| 2015/16               | 2251.92     | 1023.64    |

Source: Appendix - 4

**Figure 4.25**

**Trend Line of Net Profit between NIBL and BOK**



The above table and figure reveals the trend line of Net profit of NIBL and BOK. Net profit of both banks NIBL and BOK forecasted in increasing trend. The trend of increasing value of net profit of NIBL is higher than BOK. The net profit of NIBL and BOK has been increasing

every year by Rs. 191.943 million and Rs. 83.366 million respectively. The increment rate of net profit of NIBL is little higher than BOK. The trend of Net profit projected to FY 2015/16 further five year. In conclusion, NIBL is doing better in order to generate net profit during the projected study period although both NIBL and BOK have increasing trend.

### **4.3 Major Findings of the Study**

From the above research, the researcher has enlisted the major findings in a summarized manner so that a complete picture of the data presentation and analysis can be presented following findings are drawn on the financial performance of the selected commercial banks.

- J Generally banks have to maintain standard current assets. The current ratio of NIBL and BOK has a fluctuating trend. The average current ratio of NIBL and BOK are 1.28 and 1.055. The liquidity position of NIBL is higher than BOK as it higher means ratio indicates. So, NIBL is sound in meeting short-term obligation than BOK. Both banks have moderate liquidity position because the ratio is more than 1:1 ratio.
- J The average cash and bank balance to total deposit ratio of NIBL and BOK are 13.534 and 9.725 percent. NIBL has higher ratio than the BOK, which shows its greater ability to pay depositors money. Liquidity position of NIBL is good.
- J The cash and bank balance to current assets ratio of NIBL and BOK are fluctuating. The mean ratio of NIBL is higher than BOK. The higher mean ratio shows that NIBL's liquidity position is better than that of BOK.
- J The investments on government securities to current assets ratio of NIBL and BOK have fluctuating. The mean ratio of NIBL is lower than BOK. It means BOK has invested more money in risk free assets than NIBL. For minimization of investment risk, NIBL should divert its investment in govt. securities.
- J The investment on government securities to total investment ratio of NIBL and BOK are fluctuating. The mean ratio of BOK is higher than the mean ratio of NIBL. It indicates that BOK has more invest in risk free from its total investment. The total investment of BOK is risk less than the NIBL. So, NIBL should divert its investment in govt. securities.
- J The loan and advances to total deposit ratio of both bank NIBL and BOK has increasing form. The BOK has higher ratio than that of NIBL. It indicates the better mobilization

of deposit by BOK as loan and advance. It reveals that the deposit of BOK is quickly converted in to loan and advances to earn income.

- J The total investment to total deposit ratio NIBL and BOK both the banks have decreasing form. Which indicate investment from deposit is decreasing. The mean ratio of the NIBL and BOK are 22.068% and 19.25%, which shows that NIBL has a higher ratio. It signifies that NIBL has successfully allocated its deposit in investment portfolio.
- J The loan and advances to total assets ratio NIBL and BOK has fluctuating. The mean ratio of BOK has little higher ratio than NIBL. It reveals that in total assets of BOK has little high proportion as loan and advances. Anyway both banks have utilized its total assets more efficiently in the form of loan and advances.
- J The investment on government treasury bills to total assets NIBL and BOK have increasing form at last. The mean ratio of BOK has higher than NIBL. It means BOK has invested more assets in risk free assets than NIBL. In another words NIBL has emphasized more on lending and other short-term investment and lending than investment in govt. securities.
- J The return on loan and advances ratio of NIBL and BOK has fluctuating form. The average ratio of BOK is little higher than NIBL. Which indicate that return from loan and advance of BOK is higher than NIBL. NIBL has utilized the loan and advance for the profit generation in earning capacity.
- J The NIBL and BOK both banks have fluctuating trend of return on its total assets. However, BOK seems successful in managing and utilizing the available assets in order to generate revenue since its average ROA is higher than that of NIBL.
- J Return on equity ratio of NIBL and BOK have fluctuating. The average mean ratio of BOK has little higher than NIBL. So BOK is generating higher ROE in comparison with NIBL. The shareholders of BOK are getting higher return than NIBL.
- J Both NIBL and BOK banks have increasing total interest earned to total asset ratio, which indicate both banks doing well in interest earning. The mean ratio of NIBL and BOK are almost equal. So both NIBL and BOK seem to be effective in interest earning ratio. Both banks performing best in this regards.
- J The interest earned to total outside assets ratio of both bank NIBL and BOK are in increasing form. The mean ratio of NIBL has little higher than BOK. So NIBL seems to

be more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent returns.

- J Interest earned to operating income ratio of NIBL and BOK banks have increasing form. The NIBL has little higher than BOK. The higher ratio of NIBL indicates the high contribution in operating income made by lending and investing activities (core banking activity). But the ratio of BOK is more consistency than NIBL.
- J The NPL to total loan and advances of NIBL and BOK are in decreasing and increasing at last. Decreasing trend is the good sign of efficient credit management. The mean ratio of NIBL and BOK are 1.132% and 1.839%. These ratios indicate that ratio of BOK is little higher. These ratios indicate more efficient operating of credit management of both banks according to NRB directives. However, NIBL is more efficient at operating credit management than BOK.
- J The liquidity risk ratio of the NIBL and BOK are in fluctuating. The average mean ratio of NIBL is greater than that of BOK. It signifies that NIBL has sound liquid fund to make immediate payment to the depositors. The BOK has higher liquidity risk than NIBL.
- J The non-performing asset to total outside asset ratio of NIBL and BOK are decreasing and increasing at last. Decreasing trend is the good sign of efficient asset management. The average ratio of BOK is higher than NIBL. These ratios indicate that NIBL has more efficient in operating of asset management than BOK. In comparison, NIBL is more efficient in asset management than BOK.
- J The earning price per share of both NIBL and BOK has fluctuating form. The average EPS of NIBL and BOK are 51.854 and 49.512. The EPS of NIBL seems little higher than BOK which indicate successful to generating higher EPS. Anyway both banks have performing well. But BOK has consistency in its EPS than NIBL.
- J Market price of the share of both bank NIBL and BOK has decreasing its share price from second fiscal year. This tends low performance and expectation from company. The highest MPS of NIBL is 2450 and lowest is 515 similarly highest MPS of BOK is 2350 and lowest is 570. Average mean price of BOK is little higher than that of NIBL. It indicates that shareholder of BOK are getting higher price.
- J The price earnings ratio of NIBL and BOK are fluctuating decreasing form. The mean ratio of the NIBL and BOK are 26.21 and 27.299 times. It indicates that for getting Rs 1

as earning, it should invest Rs 26.21 in NIBL and Rs 27.299 in BOK. The BOK are getting better profitability because BOK they are selling their shares in high price. But from the long term view and sustainable fair price, both banks are equal.

- J The coefficient of correlation between deposits and loan and advances of NIBL and BOK are positive by 0.998 and 0.999. The relationship between deposits and lending of NIBL and BOK are significant.
- J The correlation between total deposit and total investment of NIBL and BOK. The correlation of NIBL has high and BOK has normal. The relationship between total deposit and investment of NIBL is significant whereas insignificant relationship of BOK.
- J The correlation between loan & advance and net profit of NIBL and BOK are 0.951 and 0.984. It is positive correlation between these two variables. Both NIBL and BOK have significant relationship between loan and advance and net profit.
- J The correlation between total deposit and net profit of NIBL and BOK are 0.948 and 0.979. Both banks have positive correlation. The NIBL and BOK both banks have significant relationship. Thus it can be concluded that the degree of relationship between total deposit and net profit of NIBL and BOK are significant.
- J The trend of total deposit of NIBL and BOK banks is in increasing. The rate of increment of total deposit for NIBL seems to be higher than that of BOK. NIBL has higher position in collecting deposit than BOK. Similarly the trend of loan and advances between NIBL and BOK also increasing trend. The increasing trend of NIBL is higher and aggressive than BOK. It is clear that both NIBL and BOK is mobilizing its collected deposits and other funds in the form of loan and advances. The trend projected to further five year F/Y 2015/16.
- J The trends of total investment of NIBL and BOK have increasing trend. The increment of NIBL has higher than BOK. Which indicate investment of NIBL will be foster in future. Similarly the trend of Net profit of NIBL and BOK are increasing trend. The trend of increasing value of net profit of NIBL is higher than BOK. The net profit of NIBL and BOK has been increasing every year by Rs. 191.943 million and Rs. 83.366 million respectively. The increment rate of net profit of NIBL is higher than BOK. NIBL is doing better in order to generate net profit during the projected study period although both NIBL and BOK have increasing trend.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

This research has been carrying out to evaluate the investment policy of commercial banks. The research is about the investment policy of NIBL and BOK. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Reference of this research would be beneficial for the management of the bank and other stakeholder.

#### **5.1 Summary**

This research has been analyzed the investment policy of commercial banks. Here two banks have been selected as sample of the study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation. This study mainly based in secondary data, with include published annual report and other publication of banks. Other related information was collected from the concerned banks, NRB, NEPSE, Securities Board of Nepal and different websites. The data have been analyzed by using financial and statistical tools.

The research is about comparative investment policy of NIBL and BOK banks. The researcher has identified that research problem and set objectives to solve research problems about financial analysis of selected commercial banks as described in introduction chapter. The main objective of the study is to analyze the investment policy of sample banks. The specific objectives of the study are: to evaluate the liquidity, asset management, profitability, risk position and other ratios of the banks, to assess investment lending policy NIBL and BOK, to find out relationship between total deposits and loan & advances, total investment, and Net profit of NIBL and BOK and analyze the trend of deposits, Investment, Loan & advances and Net profit for next five years of NIBL and BOK. The research is based on secondary source of data. There related literatures have been reviewed for more effective. This section includes conceptual review and review of related studies. In conceptual review

includes concept of banks, financial statement, financial analysis, need and objective of financial analysis, process, type and significance of financial analysis. In the review of related studies includes review of books, journal and articles and review of previous thesis as well.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists current ratio, liquidity ratio, assets management ratio, profitability ratio, activity ratio and other ratios. Other ratio includes EPS, MPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Investment and lending of commercial banks is a very risky factor. For this, investment policy of commercial banks have been in consideration while investment, mobilization of fund and use of resources. A healthy development of any commercial bank depends upon its good investment policy. A good investment policy of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality investment and lending.

Investment means to trade current funds some expected future stream of payments of benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return interest is expected because of uncertainty involved in expected future cash flows. An investment (credit or other investment) is the most important

function of commercial banks. It is the long term commitment of bank in the uncertain and risky environment. It is a very challenging task of commercial banks. So a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investible funds.

Investment management of banks is guided by the investment policy adopted by the bank. Investment policies can be varied bank to bank. Few banks accept higher risk investment and other are more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank to efficient and profitable by inherent risk. Various authors have expressed their view regarding investment policies of commercial banks, then formulation and implementation differently.

## **5.2 Conclusions**

This research is done with the major objective of investment policy of NIBL and BOK. Here make analyze the financial analysis in terms of liquidity, asset management, profitability and lending efficiency and other various ratio of sample banks as well as relevant financial and statistical ratios. Following conclusion has been drawn from the study.

For the analysis of investment policy the liquidity of bank play vital role. Generally banks have to maintain standard current assets. The current ratio of NIBL and BOK has a fluctuating. The liquidity position of NIBL is higher than BOK as it higher means ratio indicates. NIBL is sound in meeting short-term obligation than BOK. Both banks have moderate liquidity position because the ratio is more than 1:1 ratio. The average cash and bank balance to total deposit ratio of NIBL has higher ratio than the BOK, which shows its greater ability to pay depositors money. The cash and bank balance to current assets ratio of NIBL and BOK are fluctuating. The mean ratio of NIBL is higher than BOK. The investments on government securities to current assets ratio of NIBL and BOK have fluctuating. BOK has invested more money in risk free assets than NIBL. The investment on government securities to total investment ratio of BOK is higher than the mean ratio of NIBL. It indicates that BOK has more invest in risk free from its total investment. The loan and advances to total deposit ratio of both bank NIBL and BOK has increasing. The BOK has higher ratio than that of NIBL. It indicates the better mobilization of deposit by BOK as loan

and advance. The total investment to total deposit ratio NIBL has a higher than BOK. It signifies that NIBL has successfully allocated its deposit in investment portfolio. The loan and advances to total assets ratio NIBL and BOK has fluctuating. The higher mean ratio of BOK indicates little high proportion as loan and advances. The investment on government treasury bills to total assets NIBL and BOK have increasing at last. The mean ratio of BOK has higher It means BOK has invested more assets in risk free assets than NIBL. The return on loan and advances ratio of NIBL and BOK has fluctuating. The return from loan and advance of BOK is higher than NIBL. The BOK seems successful in managing and utilizing the available assets in order to generate revenue since its average return on its total assets is higher than that of NIBL. Return on equity ratio of BOK has little higher than NIBL. So BOK is generating higher ROE in comparison with NIBL. NIBL and BOK banks have increasing total interest earned to total asset ratio. Both banks seem to be effective in interest earning ratio. The interest earned to total outside assets ratio of both bank NIBL and BOK are in increasing. NIBL seems to be more efficiency in generating total interest through well utilizations of outside assets. Interest earned to operating income ratio of NIBL and BOK banks have increasing. The higher ratio of NIBL indicates the high contribution in operating income made by lending and investing activities. The NPL to total loan and advances of NIBL and BOK are in decreasing and increasing at last. The average ratio of NIBL and BOK are 1.132% and 1.839%. The ratio of BOK is little higher which indicate high credit risk. The average liquidity ratio of NIBL is greater than BOK. It signifies that NIBL has sound liquid fund to make immediate payment to the depositors. The BOK has higher liquidity risk than NIBL. The non-performing asset to total outside asset ratio of NIBL and BOK are decreasing and increasing at last. The average ratio of BOK is higher than NIBL. This indicates NIBL has more efficient in operating of asset management than BOK. In comparison, NIBL is more efficient in asset management than BOK. The earning price per share of both NIBL and BOK has fluctuating. The average EPS of NIBL and BOK are 51.854 and 49.512. The EPS of NIBL seems little higher than BOK which indicate successful to generating higher EPS. Market price of the share of both bank NIBL and BOK has decreasing its share price from second fiscal year. The average market price of BOK is little higher than that of NIBL. It indicates that shareholder of BOK are getting higher price. The price earnings ratio of NIBL and BOK are fluctuating decreasing form. The mean ratio of the NIBL and BOK are 26.21 and 27.299 times. It indicates that for getting Rs 1 as earning, it should invest Rs 26.21 in

NIBL and Rs 27.299 in BOK. The BOK is getting better profitability because BOK they are selling their shares in high price.

The correlation between deposits and loan and advances of NIBL and BOK are positive by 0.998 and 0.999. The relationship between deposits and lending of NIBL and BOK are significant. The correlation between total deposit and total investment of NIBL has high and BOK has normal. The relationship between total deposit and investment of NIBL is significant whereas insignificant relationship of BOK. The correlation between loan & advance and net profit of NIBL and BOK are 0.951 and 0.984. It is positive correlation between these two variables. Both NIBL and BOK have significant relationship between loan and advance and net profit. The correlation between total deposit and net profit of NIBL and BOK are positive. The NIBL and BOK both banks have significant relationship. Thus it can be concluded that the degree of relationship between total deposit and net profit of NIBL and BOK are significant. The trend of total deposit of NIBL and BOK banks is increasing. The rate of increment of total deposit for NIBL seems to be higher than that of BOK. NIBL has higher position in collecting deposit than BOK. The trend of loan and advances between NIBL and BOK also increasing trend. The increasing trend of NIBL is higher and aggressive than BOK. It is clear that both NIBL and BOK is mobilizing its collected deposits and other funds in the form of loan and advances. The trend projected to further five year F/Y 2015/16. The trends of total investment of NIBL and BOK have increasing trend. The increment of NIBL has higher than BOK. Which indicate investment of NIBL will be foster in future. Similarly the trend of Net profit of NIBL and BOK are increasing trend. The net profit of NIBL and BOK has been increasing every year by Rs. 191.943 million and Rs. 83.366 million. The increment rate of net profit of NIBL is higher than BOK. NIBL is doing better in order to generate net profit during the projected study period although both NIBL and BOK have increasing trend.

### **5.3 Recommendations**

- ) Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the investment policy of NIBL and BOK effective and efficient way. This would help to draw some outline and make reforms in the respective banks.

- J Generally, banks have to maintained liquid assets. The current ratio of the two banks, NIBL and BOK is little lower than standard ratio because both bank having lower than 1:1.5. This can be regarded as normal liquidity position. BOK has lower than NIBL. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. So, it is recommended to maintain sound liquidity position to NIBL and BOK.
- J Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NIBL and BOK.
- J Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks NIBL and BOK have made some amount of fund in Government securities. But NIBL has found little lower. So it's recommended to NIBL invests more funds in Government securities instead risky lending.
- J To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found that loan & advances to total deposit ratio of BOK has higher ratio than that of NIBL. It means NIBL has not properly used their existing fund as loan & advances. So NIBL is recommended to follow liberal lending policy and to invest more deposit in loan & advances.
- J The NPL to total loan and advances of NIBL and BOK are in decreasing and increasing at last. Decreasing trend is the good sign of efficient credit management. The mean ratio of NIBL and BOK are 1.132% and 1.839%. These ratios indicate that ratio of BOK is little higher. These ratios indicate more efficient operating of credit management of both banks according to NRB directives. However, NIBL is more efficient at operating credit management than BOK.
- J NIBL and BOK have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

- J EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks sound financial position that would help them satisfy their stakeholders. So both bank recommended increasing in this regards.
- J Interest earning is main source of bank. The interest earned to total outside assets ratio of both bank NIBL and BOK are in increasing. Its good sign. The mean ratio of NIBL has little higher than BOK. Here NIBL seems to have more efficiency in generating total interest through well utilizations. Anyway both banks recommended continuing increasing in this regards.
- J Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
- J Political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.
- J Banks should develop an innovative approach to marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. Banks are also required to explore new market areas. For this purpose, it is recommended to form a strong market department in central level, which deals with the banking products, places, price and promotion.
- J Keeping all these in consideration, NIBL has better performance than BOK. But both banks are doing well. So both banks should keep up with its growth trend to give strong competition to other banks. In the light of growing competition in the banking sector, both bank NIBL and BOK should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the purposive customers.

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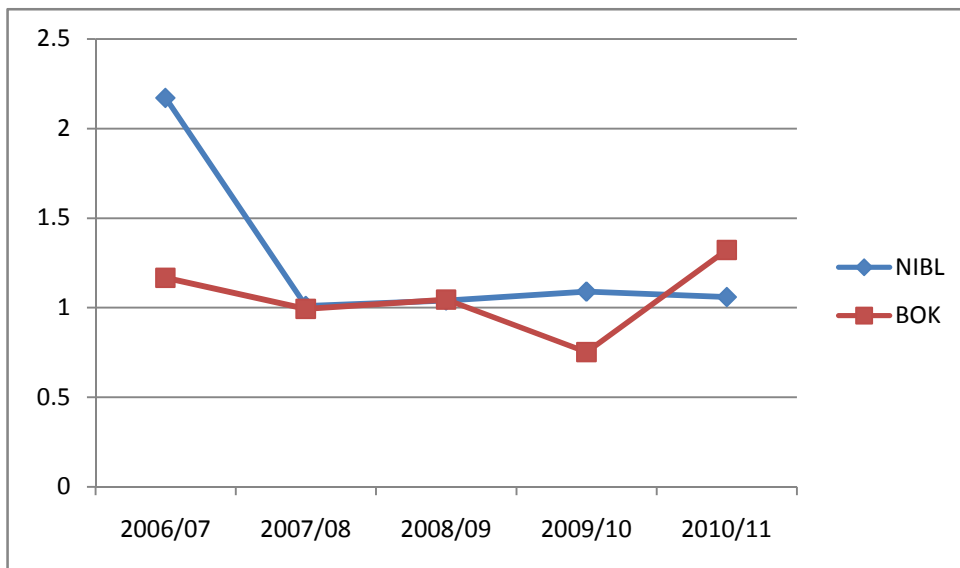
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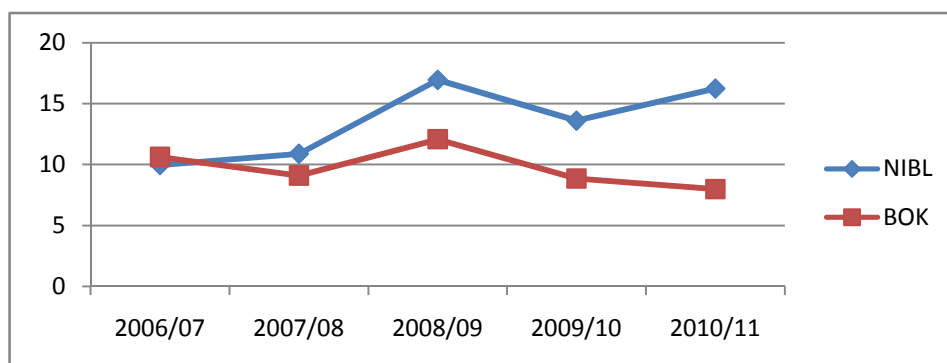
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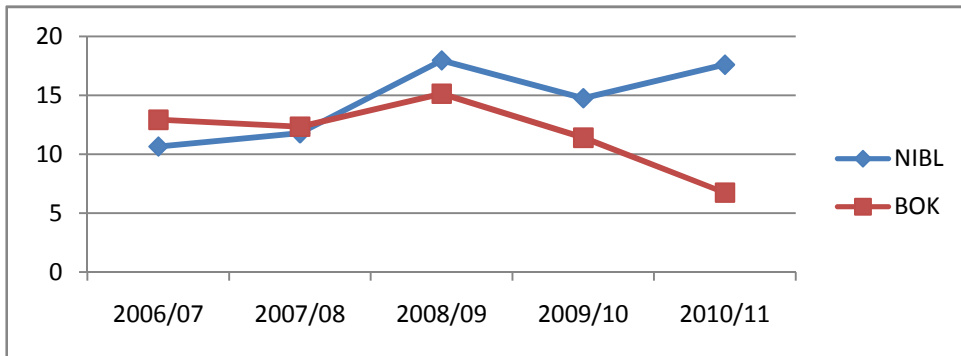
| Fiscal Year | NIBL           |                | BOK |
|-------------|----------------|----------------|-----|
|             | Ratio in Times | Ratio in Times |     |
| 2006/07     | 2.17           | 1.166          |     |
| 2007/08     | 1.01           | 0.993          |     |
| 2008/09     | 1.04           | 1.044          |     |
| 2009/10     | 1.09           | 0.752          |     |
| 2010/11     | 1.06           | 1.321          |     |



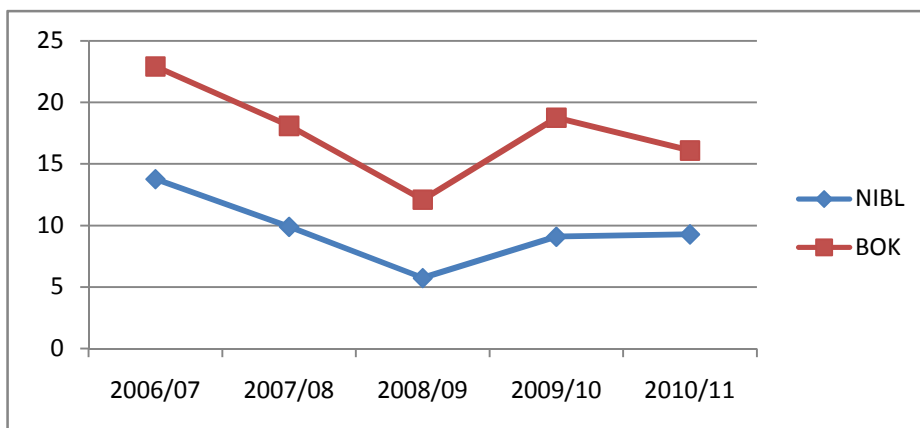
| Fiscal Year | NIBL             |                  | BOK |
|-------------|------------------|------------------|-----|
|             | Ratio in Percent | Ratio in Percent |     |
| 2006/07     | 9.97             | 10.62            |     |
| 2007/08     | 10.9             | 9.097            |     |
| 2008/09     | 16.95            | 12.07            |     |
| 2009/10     | 13.61            | 8.852            |     |
| 2010/11     | 16.24            | 7.988            |     |



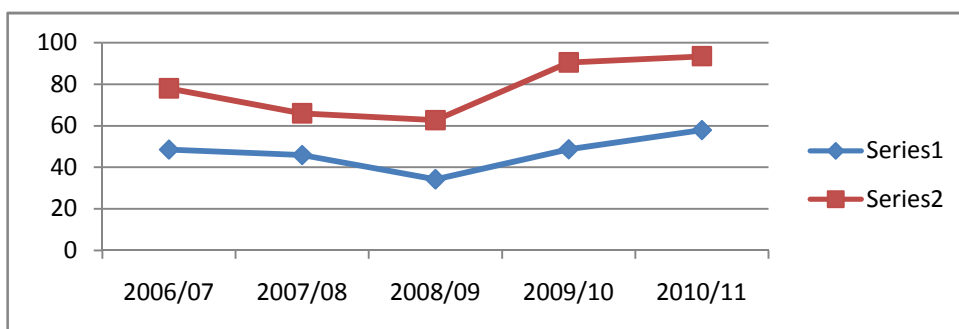
| Fiscal Year | NIBL  |                  | BOK |
|-------------|-------|------------------|-----|
|             | Ratio | Ratio in Percent |     |
| 2006/07     | 10.65 | 12.92            |     |
| 2007/08     | 11.78 | 12.33            |     |
| 2008/09     | 17.95 | 15.12            |     |
| 2009/10     | 14.75 | 11.4             |     |
| 2010/11     | 17.59 | 6.75             |     |



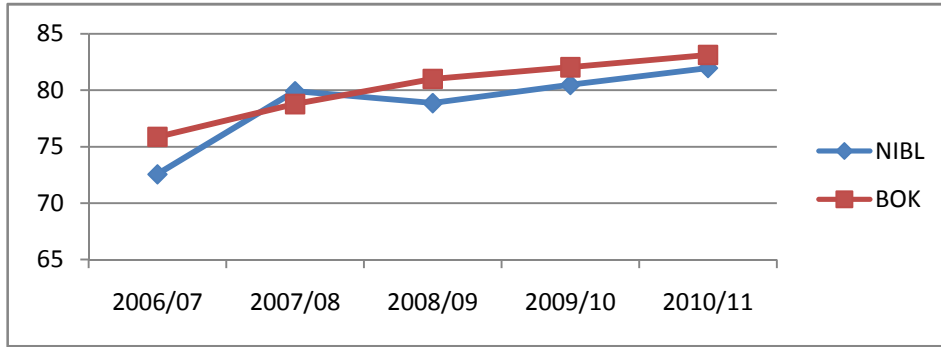
| Fiscal Year | NIBL  |            | BOK |
|-------------|-------|------------|-----|
|             | Ratio | Ratio In % |     |
| 2006/07     | 13.76 | 22.9       |     |
| 2007/08     | 9.89  | 18.08      |     |
| 2008/09     | 5.74  | 12.09      |     |
| 2009/10     | 9.09  | 18.74      |     |
| 2010/11     | 9.28  | 16.08      |     |



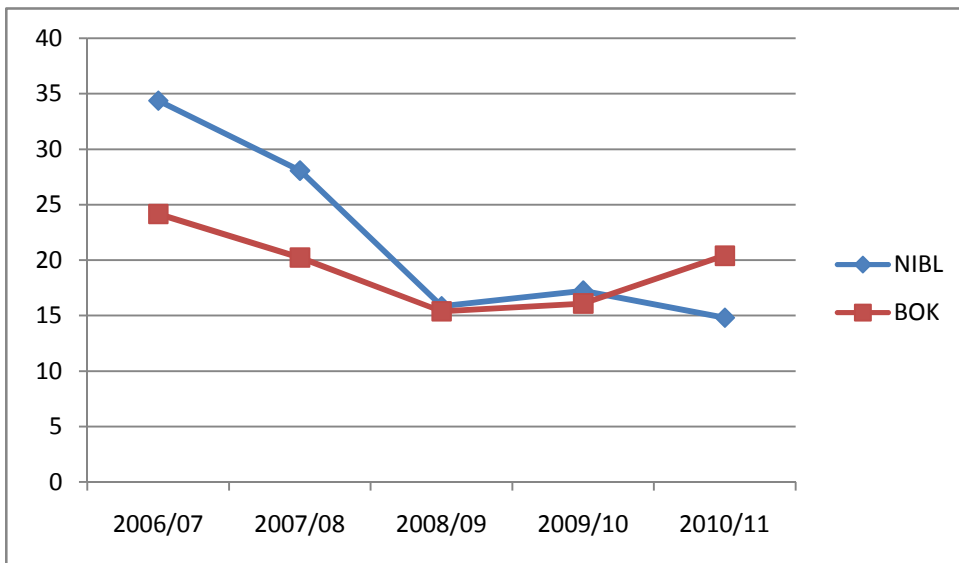
| Fiscal Year | NIBL  |            | BOK |
|-------------|-------|------------|-----|
|             | Ratio | Ratio in % |     |
| 2006/07     | 48.5  | 77.93      |     |
| 2007/08     | 45.9  | 65.95      |     |
| 2008/09     | 34.21 | 62.69      |     |
| 2009/10     | 48.66 | 90.39      |     |
| 2010/11     | 57.85 | 93.36      |     |



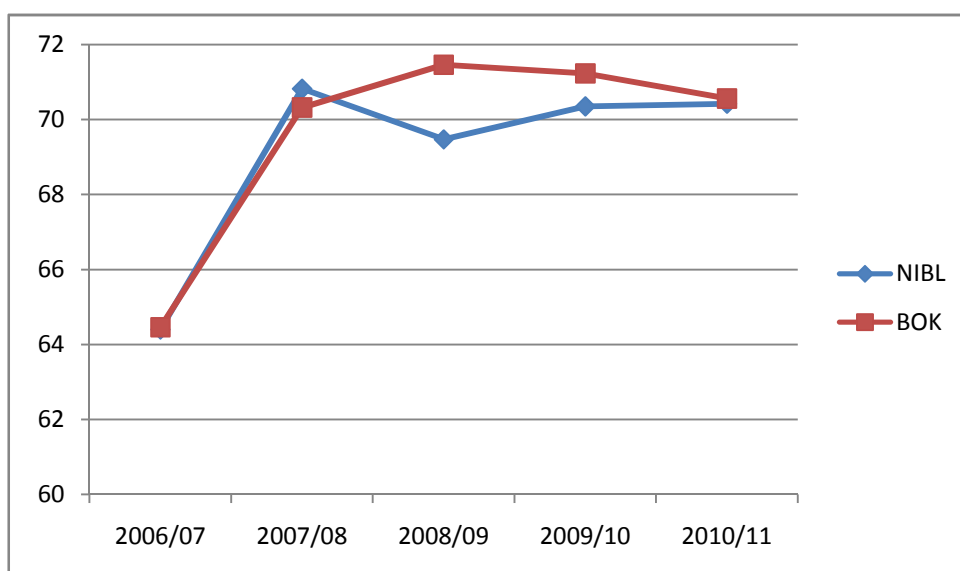
| Fiscal Year | NIBL             |                  | BOK |
|-------------|------------------|------------------|-----|
|             | Ratio in Percent | Ratio in Percent |     |
| 2006/07     | 72.56            | 75.87            |     |
| 2007/08     | 79.91            | 78.77            |     |
| 2008/09     | 78.86            | 80.99            |     |
| 2009/10     | 80.48            | 82.03            |     |
| 2010/11     | 81.96            | 83.11            |     |

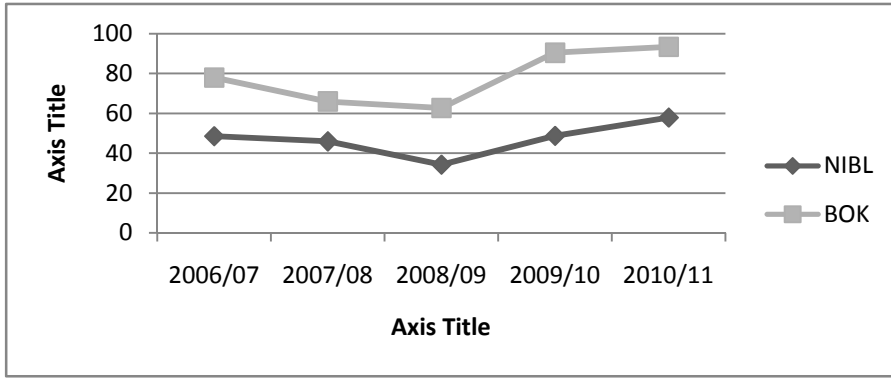


| Fiscal Year | NIBL  |       | BOK |
|-------------|-------|-------|-----|
|             | Ratio | Ratio |     |
| 2006/07     | 34.37 | 24.15 |     |
| 2007/08     | 28.07 | 20.24 |     |
| 2008/09     | 15.85 | 15.39 |     |
| 2009/10     | 17.24 | 16.09 |     |
| 2010/11     | 14.81 | 20.39 |     |

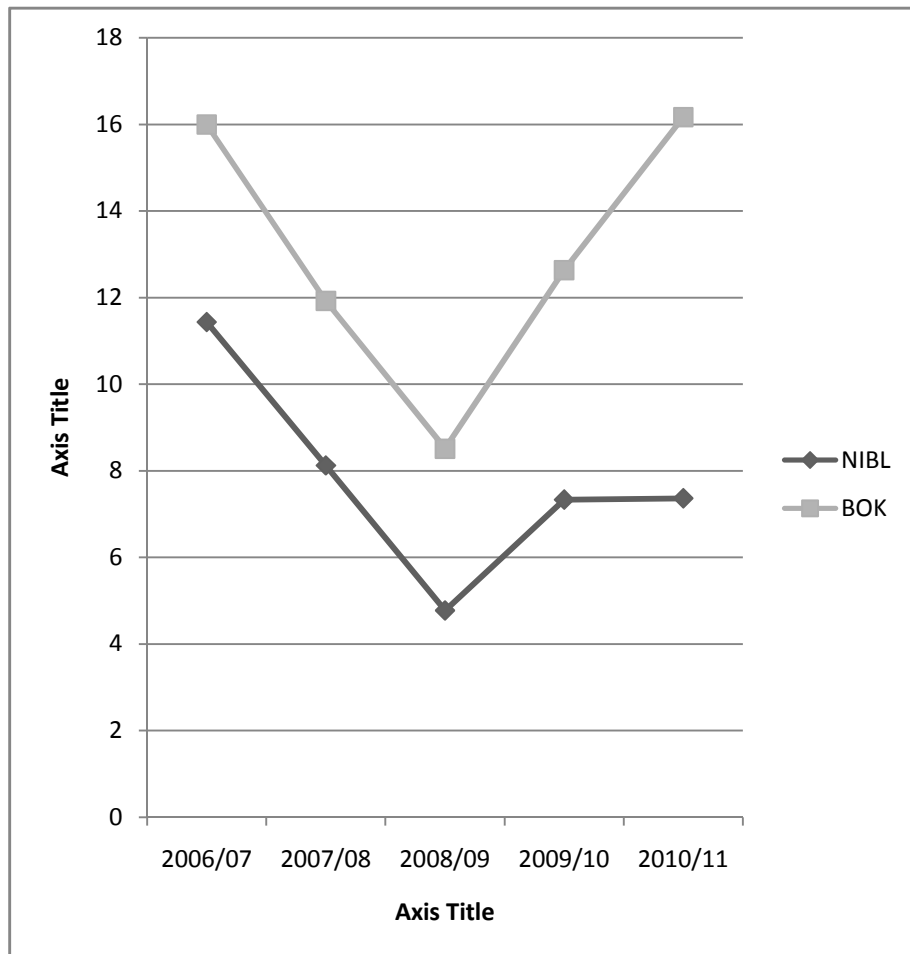


| Fiscal Year | NIBL             |                  | BOK |
|-------------|------------------|------------------|-----|
|             | Ratio in Percent | Ratio in Percent |     |
| 2006/07     | 64.4             | 64.46            |     |
| 2007/08     | 70.82            | 70.32            |     |
| 2008/09     | 69.47            | 71.46            |     |
| 2009/10     | 70.35            | 71.23            |     |
| 2010/11     | 70.42            | 70.56            |     |

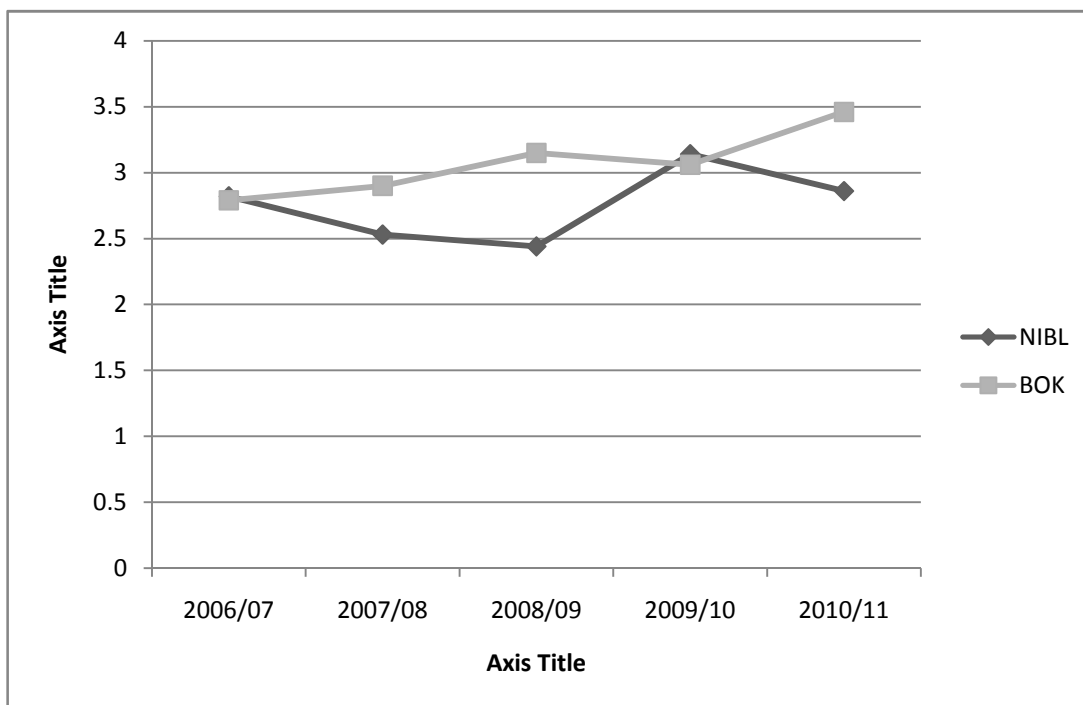




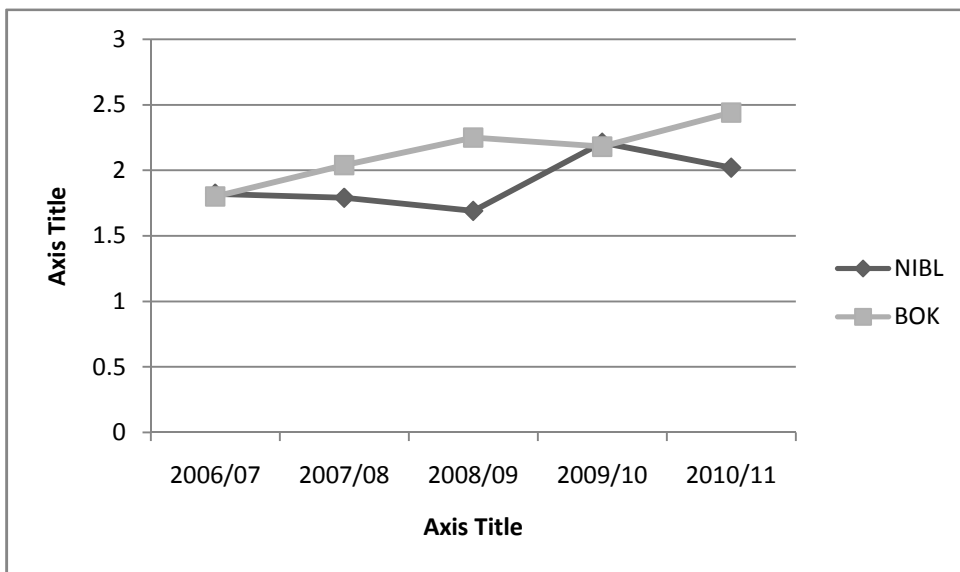
|         | NIBL  | BOK   |
|---------|-------|-------|
| 2006/07 | 48.5  | 77.93 |
| 2007/08 | 45.9  | 65.95 |
| 2008/09 | 34.21 | 62.69 |
| 2009/10 | 48.66 | 90.39 |
| 2010/11 | 57.85 | 93.36 |



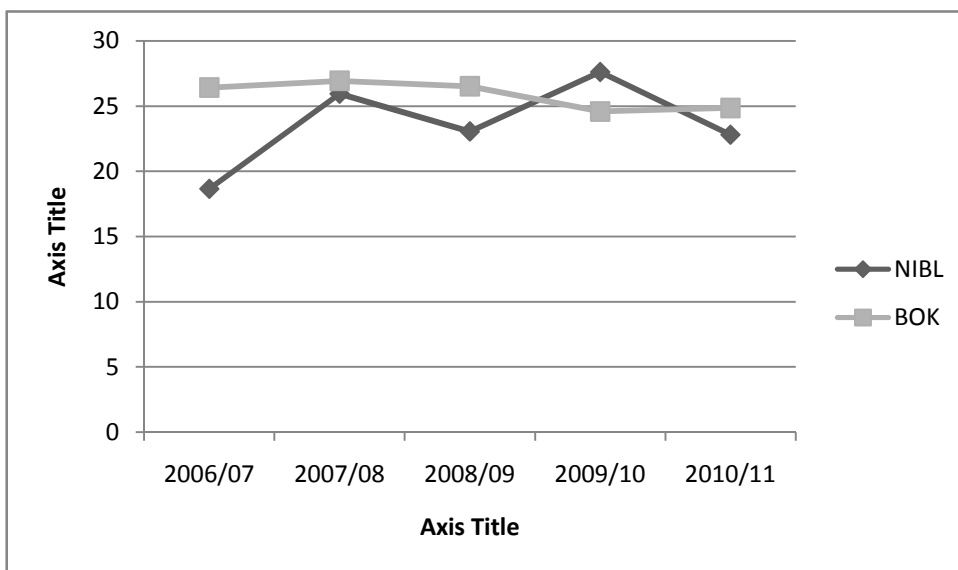
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 11.43       | 15.99      |
| 2007/08 | 8.12        | 11.92      |
| 2008/09 | 4.77        | 8.51       |
| 2009/10 | 7.33        | 12.63      |
| 2010/11 | 7.36        | 16.16      |



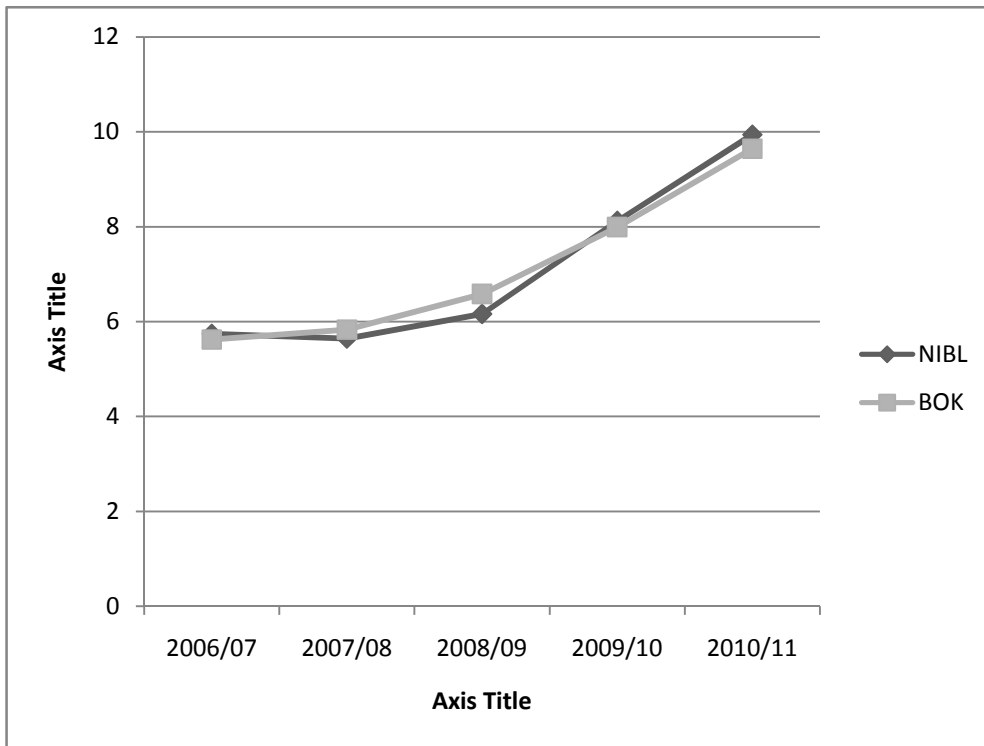
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 2.82        | 2.79       |
| 2007/08 | 2.53        | 2.9        |
| 2008/09 | 2.44        | 3.15       |
| 2009/10 | 3.14        | 3.06       |
| 2010/11 | 2.86        | 3.46       |



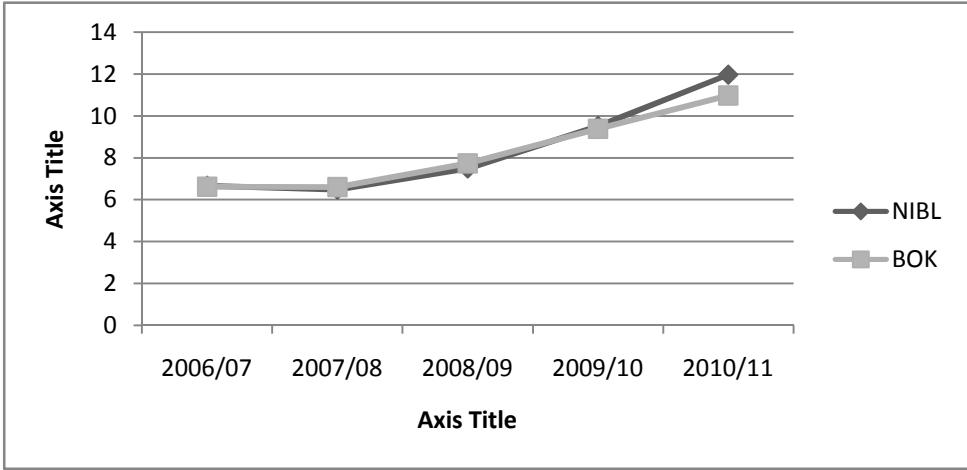
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 1.82        | 1.8        |
| 2007/08 | 1.79        | 2.04       |
| 2008/09 | 1.69        | 2.25       |
| 2009/10 | 2.21        | 2.18       |
| 2010/11 | 2.02        | 2.44       |



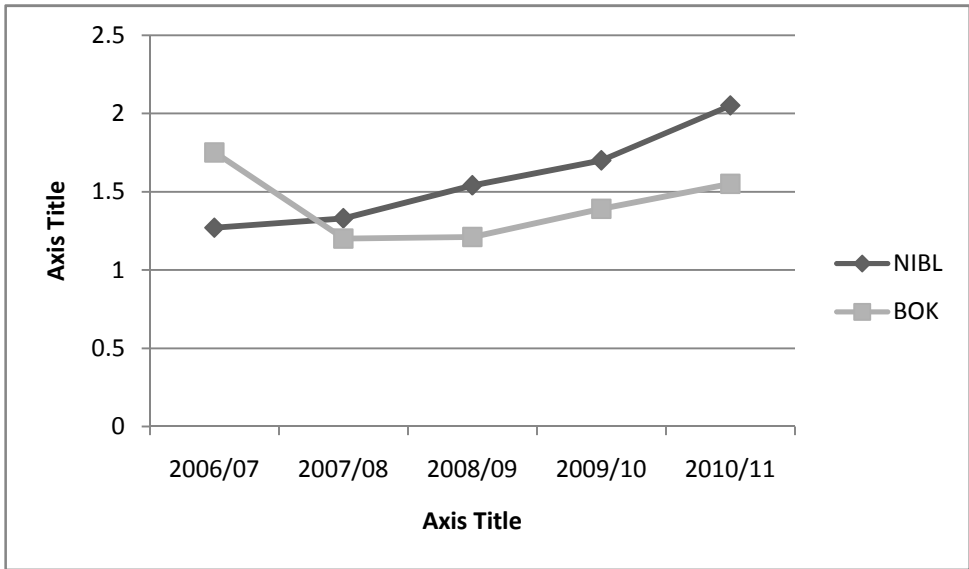
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 18.65       | 26.42      |
| 2007/08 | 25.94       | 26.93      |
| 2008/09 | 23.05       | 26.51      |
| 2009/10 | 27.61       | 24.58      |
| 2010/11 | 22.8        | 24.85      |



|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 5.74        | 5.62       |
| 2007/08 | 5.64        | 5.83       |
| 2008/09 | 6.16        | 6.58       |
| 2009/10 | 8.12        | 7.99       |
| 2010/11 | 9.94        | 9.64       |



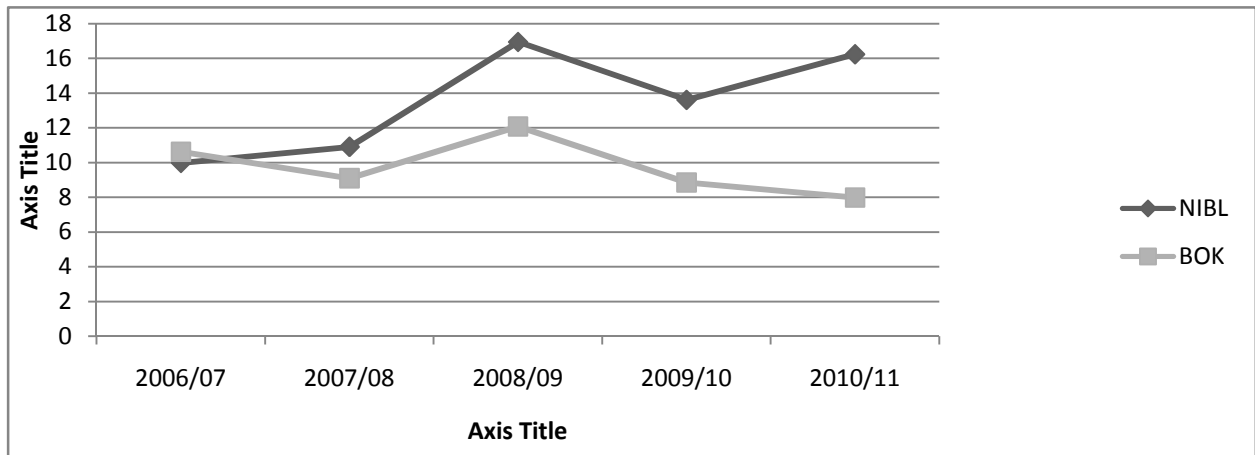
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 6.66        | 6.61       |
| 2007/08 | 6.48        | 6.6        |
| 2008/09 | 7.49        | 7.73       |
| 2009/10 | 9.51        | 9.38       |
| 2010/11 | 11.96       | 10.97      |



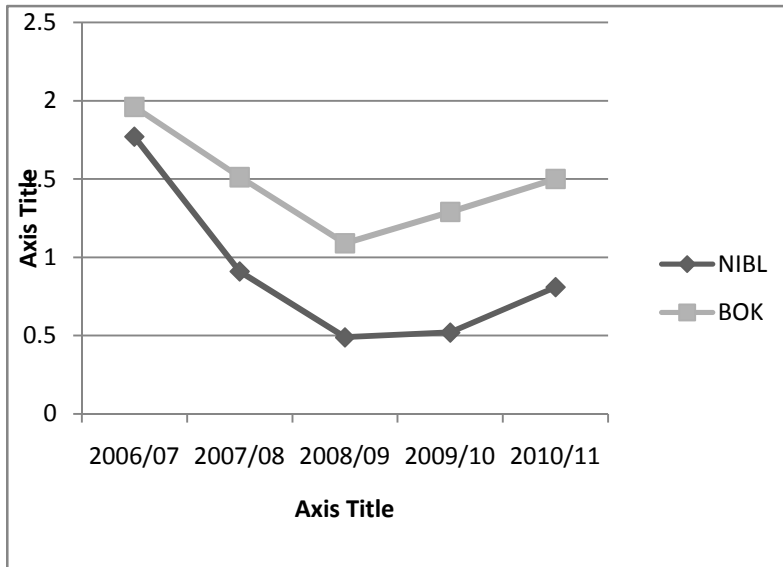
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 1.27        | 1.75       |
| 2007/08 | 1.33        | 1.2        |
| 2008/09 | 1.54        | 1.21       |
| 2009/10 | 1.7         | 1.39       |
| 2010/11 | 2.05        | 1.55       |



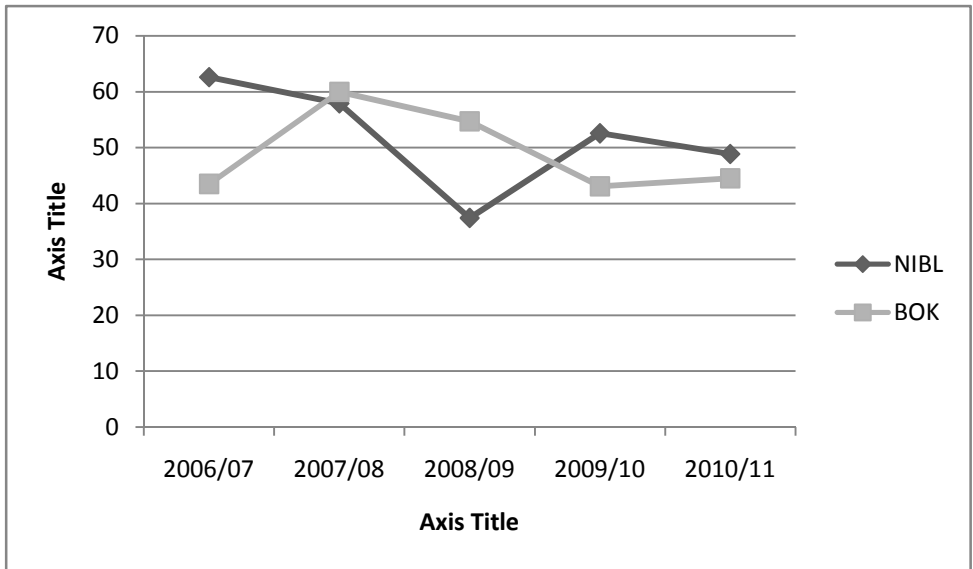
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 2.37        | 2.59       |
| 2007/08 | 1.12        | 1.9        |
| 2008/09 | 0.58        | 1.299      |
| 2009/10 | 0.63        | 1.54       |
| 2010/11 | 0.96        | 1.87       |



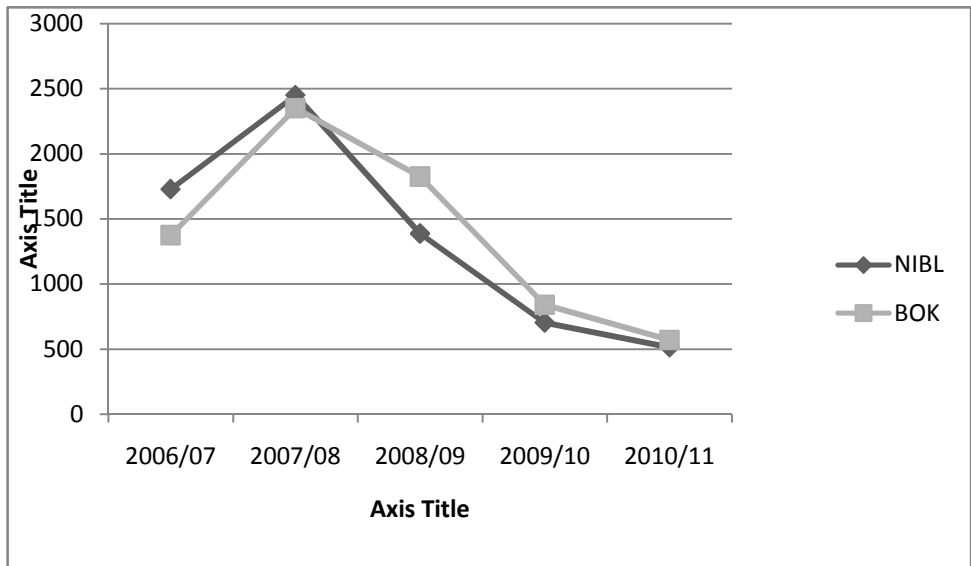
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 9.97        | 10.62      |
| 2007/08 | 10.9        | 9.097      |
| 2008/09 | 16.95       | 12.07      |
| 2009/10 | 13.61       | 8.852      |
| 2010/11 | 16.24       | 7.99       |



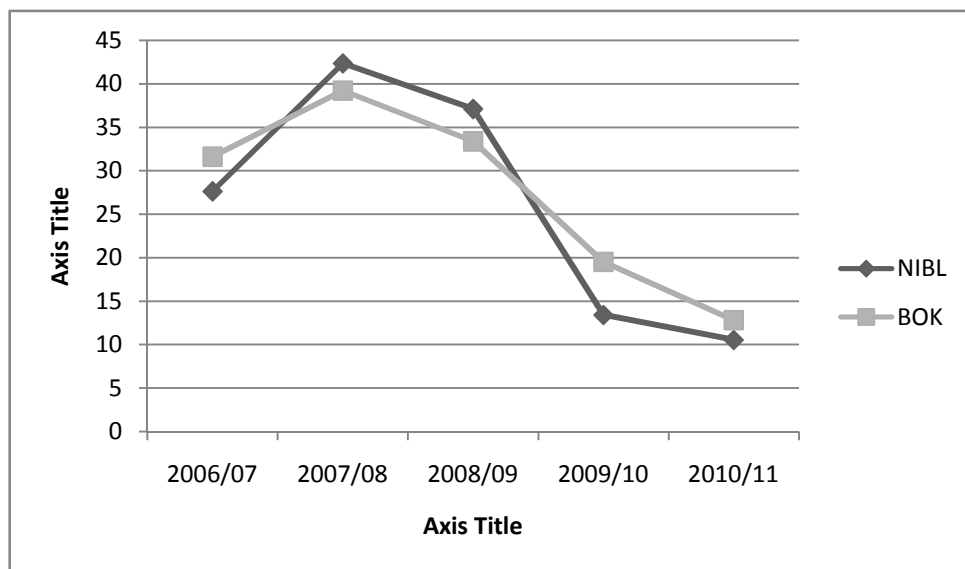
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 1.77        | 1.96       |
| 2007/08 | 0.91        | 1.512      |
| 2008/09 | 0.49        | 1.09       |
| 2009/10 | 0.52        | 1.29       |
| 2010/11 | 0.81        | 1.5        |



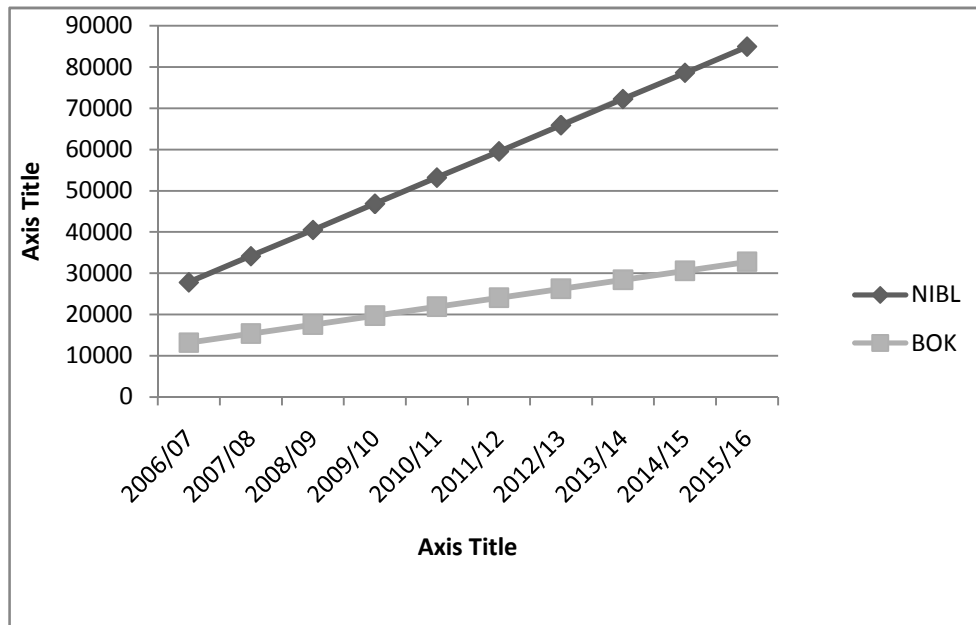
|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 62.57       | 43.5       |
| 2007/08 | 57.89       | 59.94      |
| 2008/09 | 37.42       | 54.68      |
| 2009/10 | 52.55       | 43.08      |
| 2010/11 | 48.84       | 44.51      |



|         | <b>NIBL</b> | <b>BOK</b> | <b>BOK</b> |
|---------|-------------|------------|------------|
| 2006/07 | 1729        | 1375       |            |
| 2007/08 | 2450        | 2350       |            |
| 2008/09 | 1388        | 1825       |            |
| 2009/10 | 705         | 840        |            |
| 2010/11 | 515         | 570        |            |

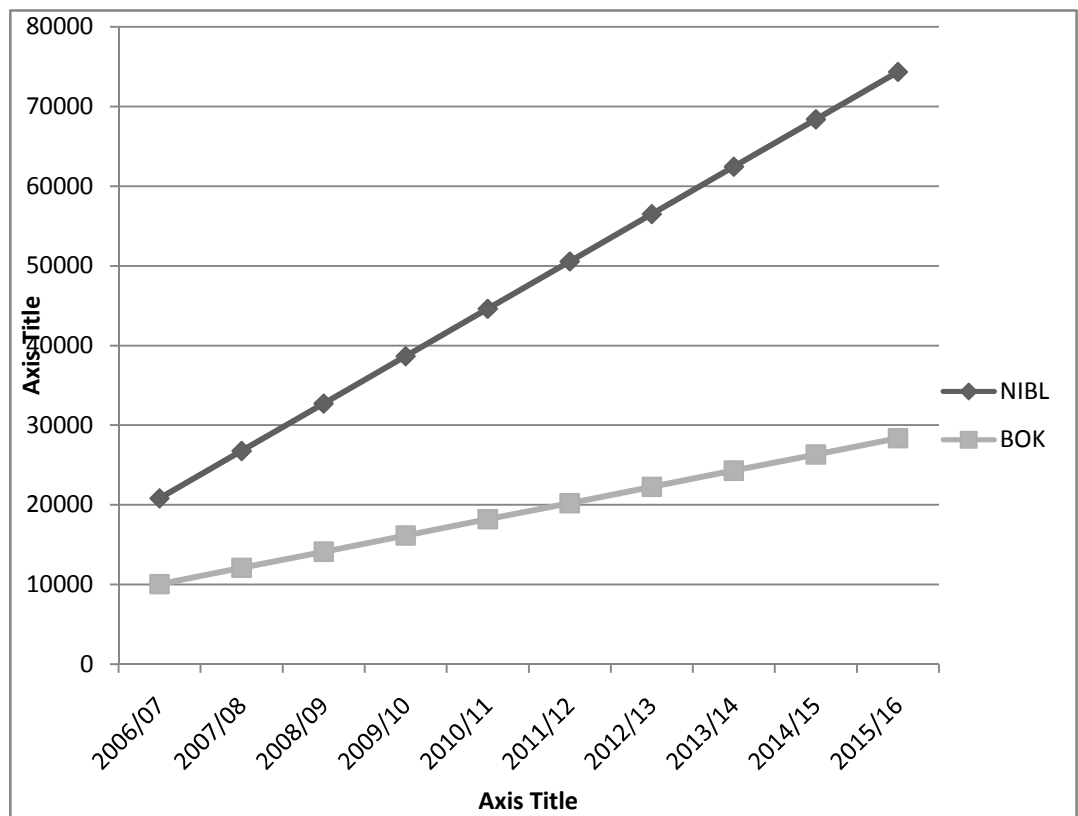


|         | <b>NIBL</b> | <b>BOK</b> |
|---------|-------------|------------|
| 2006/07 | 27.63       | 31.609     |
| 2007/08 | 42.33       | 39.206     |
| 2008/09 | 37.1        | 33.376     |
| 2009/10 | 13.42       | 19.499     |
| 2010/11 | 10.55       | 12.806     |



| <b>Fiscal Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|-----------------------|-------------|------------|
| 2006/07               | 27794.8     | 13180      |
| 2007/08               | 34140.5     | 15354.1    |
| 2008/09               | 40486.3     | 17528.2    |
| 2009/10               | 46832.1     | 19702.3    |

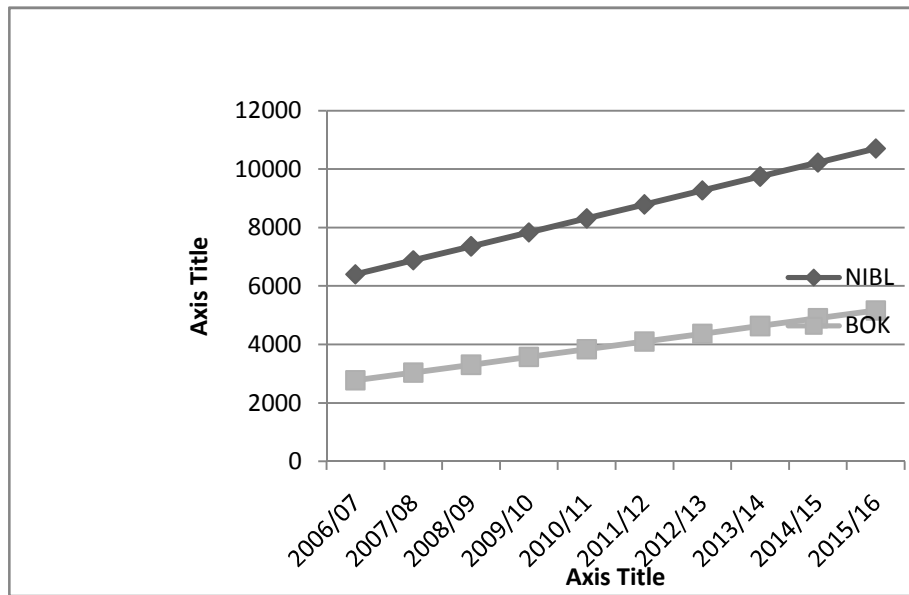
|         |         |         |
|---------|---------|---------|
| 2010/11 | 53177.9 | 21876.4 |
| 2011/12 | 59523.7 | 24050.5 |
| 2012/13 | 65869.4 | 26224.6 |
| 2013/14 | 72215.2 | 28398.7 |
| 2014/15 | 78561   | 30572.8 |
| 2015/16 | 84906.8 | 32746.9 |



| <b>Fiscal Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|-----------------------|-------------|------------|
| 2006/07               | 20819.4     | 10060.5    |
| 2007/08               | 26763.6     | 12094.5    |
| 2008/09               | 32707.8     | 14128.5    |
| 2009/10               | 38652       | 16162.5    |

|         |         |         |
|---------|---------|---------|
| 2010/11 | 44596.2 | 18196.5 |
| 2011/12 | 50540.5 | 20230.5 |
| 2012/13 | 56484.7 | 22264.5 |
| 2013/14 | 62428.9 | 24298.5 |
| 2014/15 | 68373.1 | 26332.5 |
| 2015/16 | 74317.3 | 28366.5 |

| <b>Fiscal<br/>Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|---------------------------|-------------|------------|
| 2006/07                   | 6405.88     | 2776.486   |
| 2007/08                   | 6884.43     | 3041.833   |
| 2008/09                   | 7362.97     | 3307.18    |
| 2009/10                   | 7841.52     | 3572.527   |
| 2010/11                   | 8320.06     | 3837.874   |
| 2011/12                   | 8798.61     | 4103.221   |
| 2012/13                   | 9277.15     | 4368.568   |
| 2013/14                   | 9755.7      | 4633.915   |
| 2014/15                   | 10234.2     | 4899.262   |
| 2015/16                   | 10712.8     | 5164.609   |



| <b>Fiscal Year(x)</b> | <b>NIBL</b> | <b>BOK</b> |
|-----------------------|-------------|------------|
| 2006/07               | 524.434     | 273.346    |
| 2007/08               | 716.377     | 356.712    |
| 2008/09               | 908.32      | 440.078    |
| 2009/10               | 1100.26     | 523.444    |
| 2010/11               | 1292.21     | 606.81     |
| 2011/12               | 1484.15     | 690.176    |
| 2012/13               | 1676.09     | 773.542    |
| 2013/14               | 1868.04     | 856.908    |
| 2014/15               | 2059.98     | 940.274    |
| 2015/16               | 2251.92     | 1023.64    |

