CHAPTER – I
INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries characterized by high population growth rate, low per capita income, and low rate of capital formation having unlimited resources. Therefore, Nepal like other developing countries has been facing the problem of accelerating the pace of economic development and Nepal is not the exception.

A sound banking system is a precondition for healthy economy and economic policy formulation. An efficient banking system becomes a top priority as country moves toward free market economy which allows private sectors saving to be retained in the country for the promotion of investment needed for the growth.

Capital formation and its proper utilization are two important aspect of economic development of a country. Private investment can be the significant contributor to economic growth and employment generation in the developing country. “Economic development demands transformation of saving into actual investment. And it is the financial institutions that transfer funds from surplus spending units to deficit units” (NRB, 1996:4). Economic development is supported by financial infrastructure of the country.

Banks are the principal source of credit for millions of individuals and families and for units of government. Moreover, for small local businesses ranging from grocery stores to automobile dealers, banks are often the major source of credit to stock the shelves with merchandise. Banks grant more installment loans to consumer than any other financial institutions.

In most years, banks are the leading buyers of bonds and notes issued by government to finance public facilities, ranging from hospital and football stadium to airport and highways. Moreover, bank reserves the principal

channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have become increasingly active in recent years in making long-term business loans for new plant and equipment. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the banker to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

An investment in any funds is made to have some positive rate of return. Nobody is ready to bear risk without any return but to have returned one must ready to face some risk. To minimize the risk at the given rate of return the concept of portfolio diversification is necessary. Portfolio is simply a collection of securities gathered to achieve certain investment goals. “Investment positions are undertaken with the goal of earning some expected return. Investors seek to minimize inefficient deviations from this expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return” (Francis, 2003:228)

The growth of any commercial bank depends upon its financing and investment policy. A sound financing and investment policy attracts both borrowers and lenders, which helps to increase the volume and quality deposits and investment. Both the depositors and creditors are customers of the banks. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of products offered in the market. Deposit products offered to the customers are categorized into general products and special products. Mobilization of deposit simply by increasing the rate of interest is termed as general products and special products are developed in terms of schemes generally refundable at longer period of time. Customers choose the respective better general products and special products from among the products available in the market. Special products focus on some

specific value and needs of the customers. Under this comes the education scheme for the children, daughter's marriage scheme and retirement pension scheme, among others.

A systematic investment process should be followed to win the stock market. Investment process describes how an investor should go about making decisions with regard to what marketable to invest in, how extensive the investment should be and when the investment should be made. A five step procedure for making these decisions forms the basis of the investment process (Baily, 1995:9):

- Set Investment Policy
- Perform Security Analysis
- Construct a Portfolio
- Revise the Portfolio
- Evaluate the Portfolio

Loans are an essential aspect of commercial banking functions. "First income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community-bank relationship. Third, lending money spurs business development and supports a growing economy (Edmister, 1980:82)." Credit being the most important function of commercial banks, affects overall development of the country. So far as pace of economic development is considered, it is directly related to the quality and quantity of credit, which is derived from various financial institutions especially commercial banks of Nepal.

Investment operation of commercial banks is very risky one. For this, commercial banks have to pay due consideration while formulating Investment policy. A rapid development of any commercial bank depends upon its investment policy. A sound investment policy attracts both borrowers

and lenders, which helps to increase the volume and quality deposits and investment.

1.1.1 Introduction of Banks under Study

Kumari Bank Ltd. (KBL) came into existence as part of Rastriya Bank's liberalization of the Nepalese Banking Industry by starting it's operation from Chaitra 21,2057 B.S.(April 03, 2001). KBL stands in the market with a vision to be a world class Nepalese Bank and to be a leading financial institution of the country. Its goal is to create its own niche in the market and get recognition as the most preferred organization among its customers, shareholders, regulatory authorities and all its stakeholders. And its business philosophy is 'WE DO IT'. Due to the use of Hi-Tech banking system of the world it is growing rapidly and has 10 branches.

The current Capital Structure of KBL is as: Paid-up Capital Rs. 750M, General Reserve Fund Rs. 84.862M, Cumulative profit Rs. 35.031M, Capital Adjustment Fund Rs. 150M, General Loan loss Provision Rs. 89.577M, and Exchange Equalization Reserve Rs. 5.737M. Thus, total capital fund is Rs. 1115.207M as at end of FY 2062/63.

Everest Bank Ltd. (EBL) a joint venture with Punjab National Bank (India) started its operation in 2051B.S.(1994 A.D.) with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 23 branches across the country.

The current Capital Structure of EBL is as: Paid-up Capital Rs. 378M, Share Premium Rs. 6.427M, Non-Redeemable Preference Shares Rs. 140M, General Reserve Fund 232.848M, Cumulative Profit Rs. 130.547M, Capital Adjustment Fund Rs. 283.5M, Other Fund Rs.13.226M, General Loan Loss Provision Rs. 137.506M, Unsecured subordinated Term Debt Rs. 300M, Exchange Equalization Reserve Rs. 16.968M, Other free Reserve Rs. 50.508M Investment under Under-writing Rs 19.414M. Thus, total capital fund is Rs. 1676.115M as at end of FY 2063/64.

1.2 Focus of the Study

In any firm, Portfolio Management is taken as major financial decision, which affects the value of firm. The performance of any business organization largely depends upon its investment policy. Furthermore, investors invest their money analyzing the investment policy of a business organization. Therefore, investment policy is regarded as an important decision with respect to management and investors.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks is very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations. Sound credit policy has the following objectives:

- To have performing assets.
- To give guidance to lending officials.
- To establish a standard for control.
- To contribute to economic development.

Considering these facts, this study mainly focuses on the Portfolio Management practices of Kumari Bank Ltd. and Everest Bank Ltd.

1.3 Statement of the Problem

Portfolio Management is a relatively new concept in Nepalese content. Many companies still have no awareness towards it. The study proposes to the investors' awareness about the portfolio management of the financial institutions while investing.

Investors can be classified into three categories on the basis of risk and return. First type of investors is risk seeker who becomes ready to face high risk in the hope of high return. The second type of investors is risk averters who try to avoid risk and ready to be satisfied in the low return. The third type of investors comes along in between these two investors called risk neutral. These investors are ready to bear medium sized risk and have medium sized return.

The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and acts as development banks, due to the lack of other specialized institutions.

Thus, in this scenario of Nepalese Commercial banking sector, this study mainly seeks the answers of the following specific problems related to Portfolio Management practices of Kumari Bank Ltd. and Everest Bank Ltd.

- What is the proportion of Non-performing Asset on total loans and advances of the bank?
- What is the portfolio behavior of the bank?
- Are the banks' funds mobilization and Portfolio Management effective and efficient?
- Is there any stability in fund mobilization policy or not?
- What is the relationship of investment and loans and advances with total deposit and net profit?

1.4 Objective of the Study

The main objective of the study is to compare the Portfolio Management practices of Kumari Bank Ltd. and Everest Bank Ltd. However the specific objectives are:

- To compare the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks.
- To find out the relationship between deposit and total investment, deposit and loans and advances and net profit.
- To find out the non-performing asset position of the banks.
- To analyze the risk return ratios of investment the banks.
- To evaluate the portfolio management of the banks.

1.5 Significance of the Study

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern times, since credit or bank money constitutes bulk is of the economy's aggregate money supply, it mostly changes the volume of bank money or credit rather than changes in the total supply of the high-powered money issued by the reserves held by the bank against their deposit liabilities that account for changes in the aggregated money supply. The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it too have a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment to the country by providing specially considered loans and advances towards less privileged sectors.

Hence, the study is needed to examine the overall performance of KBL and EBL especially in collection of deposits and its utilization. The study will have to know the overall performance of KBL and EBL. So, it will be useful for the different stakeholders.

1.6 Limitations of the Study

This study has the following limitations:

a) This is a comparative study of KBL and EBL. So the findings of the study cannot be generalized.
b) The study is based on the secondary data published on annual report.
c) Among many factors affecting investment decision, only certain factors i.e. liquidity, profitability, diversification, growth, etc. have been considered.

1.7 Organization of the Study

The whole study has been divided into five chapters as:

Chapter I. Introduction: This Chapter deals with the background of the study, focus of the study, introduction of banks under study, statement of the problem, Objective of the study, Significance if the study, Limitations of the study, and organization of the study.

Chapter II. Review of Literature: This chapter includes the conceptual review and review of related studies.

Chapter III. Research Methodology: This chapter includes the research design, sources of data and data analysis tools.

Chapter IV. Presentation and Analysis of Data: This chapter includes the liquidity ratios, assets management ratios, activity ratios, profitability ratios, growth ratios, correlation coefficient analysis, trend analysis, and major findings of the study.

Chapter V. Summary, Conclusions and Recommendations: This chapter includes Summary, Conclusions, and Recommendations of the study.

CHAPTER – II
REVIEW OF LITERATURE

This chapter is mainly concerned with the competent exploration of the background to the work and a comprehensive review of recent and relevant literature. In this regard, an effort has been made to grasp the knowledge and information that is available from libraries, document collection centers, other information managing bureaus and concerned commercial banks. This chapter helps to take adequate feedback to broaden the information base and inputs to the study. The conceptual framework given by different researchers, authors, practioners, scholars etc is reviewed from research papers, books, annual reports, articles.

2.1 Conceptual Review

A commercial bank is a business organization that receives and holds deposits of funds from others, provides loans or extends credits and transfers funds by written order of deposits. Commercial Bank Act of Nepal (1974) has defined that "A commercial bank is such, which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture and industries or for such specific purpose."

American Institute of Banking (1972) has defined Commercial bank as a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprise, regardless of the scope of its other services". This act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short – term debts necessary for trade and commerce. They take deposits from the public, and grant loans in different forms. They purchase discount bills and promissory notes and exchange foreign currencies. They discharge various functions on behalf of their customers and are paid for their services.

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most the important one. According to of H.D. Crosse (1963), “Commercial banks are very risky one. For this, commercial banks have to pay due consideration while formulating investment policy regarding loan investment. Investment policy is one facet of the overall spectrum of policies that guide banks investment operations.”

“A bank’s marketing starts with proper relationship with customers either to attract savings or for the loan disbursement. Both the depositors and creditors are customers of the bank. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need, purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products. And credit products can be bifurcated into fund based products and non-fund based products” (NRB, 2007:1). The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loam medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees in different forms (bid bonds, performance bonds, etc.)

“Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have an expertise in any one of them for marketing. Relying on any one product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an

example, the bank of America has the vast range of banking business, serving individuals and small firms and a big share of the loan syndicate market" (Economist, 2006:10). It means markets are there for some products and it is created for others. Banks in Nepal are weak in locating the existing market and creating new markets too.

"Loan disbursement is a trade of win-win game lenders and borrowers both get benefited out of it. Customers, who are the ultimate source of income not products. For the analysis of customers several questions need to be answered. These includes questions such as buys the product and how they use it, where do customers buy the product, when do customers buy, how do customers choose, why they prefer that product, how they respond, and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective" (NRB, 2007:3)

Market makers play an important role in the contract between the borrowers and the bank. In principle, it is the duty of the consultant to sell the project on behalf of the borrower to the bank. The rejection of the project can raise a question about the knowledge and quality of the consultant. But in Nepal, after the preparation of the project, the duty of the consultant gets over. And it is the borrower who exercises his personal contact to get the project approved.

Each bank follows some process and system for loan approval and for accepting the deposits. At first, the banks demand a detailed proposal of a project along with an application for loan. The respective loan officer accesses the proposal submitted to the bank and recommends for approval if the proposal is found viable. Normally, only feasible projects are accepted. The preparation of project proposal is a professional job assigned to any consulting firm or organization. The company that needs credit lacks that type of expertise with in the organization. To get the bank credit properly and effectively, there is a network of the parties' involved in the borrowing. These parties are: a) Borrower, b) Consulting firm for the project preparation, c) Bank and d) Consulting firm for collateral valuation.

2.1.1 Concept of Portfolio

A Portfolio is the holding of a collection of investment. For some individuals and institutions, it is the entire holdings consisting of both assets and liabilities. An investment held as part of a portfolio is less risky than the same investment held individually. Therefore, every individuals and institutions should manage the portfolio by which the individuals and institutions get maximum return. The concept of portfolio comes from "***not putting all the eggs in one basket***".

2.1.2 Concept of Portfolio Management

The management of portfolio is called the portfolio management. Portfolio theory evaluates the reduction of non-systematic or diversifiable risks through the selection of securities or other instruments in to a composite holding or efficient portfolio. This efficiency means that a portfolio would offer lower risks or more stable returns for a targeted return level. Instruments that have independent returns lower non-systematic risks. In addition, instruments that are inversely related on a return basis reduce the diversifiable risks.

2.1.3 Assumptions of Portfolio Management

The basic theory assumes that returns are independent, investors expectations are homogeneous and that the normalized probability distributions are stable.

2.1.4 Objective of Portfolio Management

The portfolio manager's task is to select the investment weights that will result in dominant investments. Here after, dominant assets will be called "efficient portfolios" whether they content one or many assets. An efficient portfolio than is any assets or combination of assets that has (1) the minimum expected return in its risk class or conversely,(2) the minimum risk at its level of expected return.

Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from this expected rate of return. Diversification is essential to the creation of an

efficient investment because it can reduce the variability of returns around the expected return.

A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy can attract both borrowers and lenders which help to increase volume and quality of deposits, loans and investments. The loan provided by commercial bank is guided by fundamental principles such as length of time, their purpose, profitability, safety and so on. These fundamental principles are fully considered while making investment policy. Emphasizing upon this H. D. Crosse stated, "The investment policy should be carefully analyzed." Commercial bank should ensure minimum risk and maximum profit from lending.

"Commercial bank should consider the national interest followed by borrower's interest and the interest of the bank itself, before investing to the borrowers." To further peruse his views bank lending must be for such purpose of the borrowers that are in keeping with the national policy and bank's overall investment policy" (Clemens, 1994:29).

Optimal investment decision plays a vital role in each and every organization. But especially for the commercial bands and other financial institutions the sound knowledge of investment is the most because the subject is relevant for all surrounding that mobilize funds in view of return. As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e. investment on different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose the banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested. The information include as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered from the viewpoint of security.

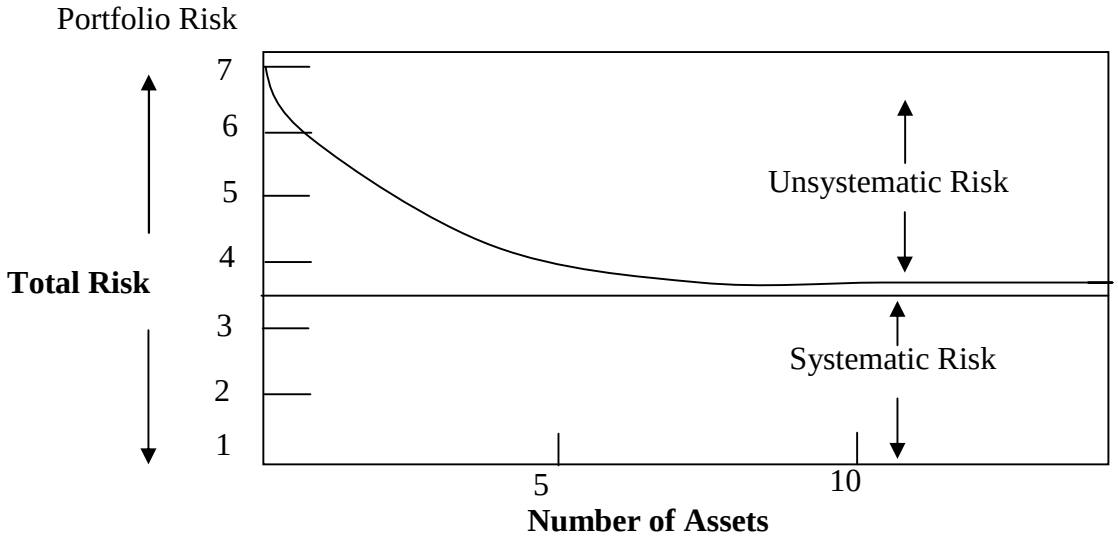
2.1.5 Portfolio Diversification

Portfolio diversification helps to minimize risk and different diversification techniques have been developed for reduction portfolio risk.

Simple diversification

Simple diversification is defined as not putting all the eggs in one basket. Under this diversification securities are selected and are provided equal weight. The portfolio of randomly selected securities can reduce risk. Further, it is not necessary to include too many securities in the portfolio. A portfolio consisting of 10 to 15 randomly selected securities can eliminate almost all-diversifiable risk. The following figure clarifies more about it.

Fig. 2.1 Risk reduction through simple diversification



The x-axis and y-axis in the figure 1.2 represents the number of securities in the portfolio and standard deviation of the portfolio respectively. From the figure, we can see that randomly combining 10 to 15 stocks reduce a portfolio's undiversifiable risk. Further, spreading portfolio's assets randomly cannot be expected to reduce risk any further.

Diversification across Industries

Some investment counselors advocate selecting securities from different industries to achieve better diversification. It is certainly to better to follow this advice than to select all securities in a portfolio from one industry. But empirical research has shown that diversifying across industries is not much better than simply selecting securities randomly.

Superfluous Diversification

If 10 to 15 different assets are selected for a portfolio the maximum risk reduction benefit from simple diversification have most likely been attained further spreading of the portfolio's assets is superfluous diversification and should be avoided. Because it will usually result in the following portfolio management problems like high research cost, high transaction cost, impossibility of good portfolio management etc. The performance of portfolio will not improve and will lower the net return to the investor.

Simple Diversification across Quality Rating Categories

Simple diversification reduces risk within categories of stocks that all have the same quality rating. It suggests that portfolio managers can reduce portfolio risk to levels lower than those attainable with simple diversification by not diversifying across lower-quality assets.

Markowitz Diversification

"Markowitz diversification is named after Harry Markowitz who first explored it. Markowitz diversification may be defined as combining assets which are less than perfectly positive correlated in order to reduce portfolio risk without sacrificing portfolio return. It is more analytical than simple diversification and considers assets correlation or covariance in portfolio formation. It shows that lower the correlation between assets, the more that the diversification will be able to reduce the portfolio's risk. The essence of Markowitz diversification is that there should be combined assets having less than perfectly positively correlated securities" (Bhattarai, 2005:115).

2.1.6 Capital market theory

Capital market theory provides the framework for determining the pricing of the all assets. Capital market theory deals with an equilibrium model of assets prices. Specially, capital market theory postulates the ex.-ante risk-return relationship in individual assets as well as portfolios under equilibrium conditions.

2.1.7 Capital assets pricing model (CAPM)

"Harry M. Markowitz laid down the foundation of modern portfolio theory in 1952; The CAPM was developed 12 years later by William Sharpe, John Lintner and Treynor.

Capital assets are the long term financial as well as real assets and CAPM is based on the pricing of these assets. Modern portfolio theory of Markowitz suggests that the investment decision should be based on the total risk and the price of assets should also be determined on the basis of the total risk. But the CAPM suggests that, any investor can create a portfolio of assets that will eliminate virtually all diversifiable risk, the only relevant risk is non-diversifiable risk, and therefore, the investment decision and the pricing of capital assets should be based on the undiversibiable risk. This is the primary importance of selecting that the price of capital assets should be determined in a way that compensates the systematic risk" (Bhattrai, 2005:146). These assumptions are as follows.

- All investors have the same one period investment horizon
- No taxes and no transaction costs for buying and selling securities exits
- No inflation and no change in the level of interest rates exits
- The capital markets are in equilibrium
- All investments are infinitely divisible, fractional shares may be purchased in any portfolio or any individual asset
- All investor are Markowitz efficient diversifiers who delineate and seek to attain the efficient frontier
- An infinite amount of money can be borrowed or lent at the risk-free interest rate

The CAPM reduces the situations to an extreme case. Everyone has the same information and agrees about the future prospects for securities. This means that investors analyze and process information in the same way. There are perfect markets for securities because potential impediments such as finite divisibility, taxes, transaction costs and different risk free borrowing and lending rates have been assumed away. This approach allows the focus to shift from how an individual should invest to, what would happen to security prices if everyone invested in similar manner. By examining the collective behaviors in the market place, the nature of the

resulting equilibrium relationship between each securities risk and return can be developed. The following features of CAPM are described as follows.

2.1.8 Capital market line

The CAPM assumes that investor can lend or borrow at the same risk-free rate of interest. In reality, such borrowing is likely to be either unavailable or restricted in amount. If there are no opportunities to borrow or lend at the risk free rate, the efficient set would be curve and many combinations of risky securities would be efficient. All the investors face the same efficient set. The different investor will choose different portfolios from the same efficient set because they have different preference toward risk and return. This means that each investor will spread his or her funds among risky securities in the same relative proportions in order to achieve a personally preferred overall combination of risk and return. This feature of CAPM is often referred to as the separation theorem.

Separation theorem

The optimal combination of risky assts for an investor can be determined without any knowledge of the investor's preferences towards risk and return. In other words, the optimal combination of risky assets can be determined without any knowledge of the shape of an investor indifference curves.

Market portfolio

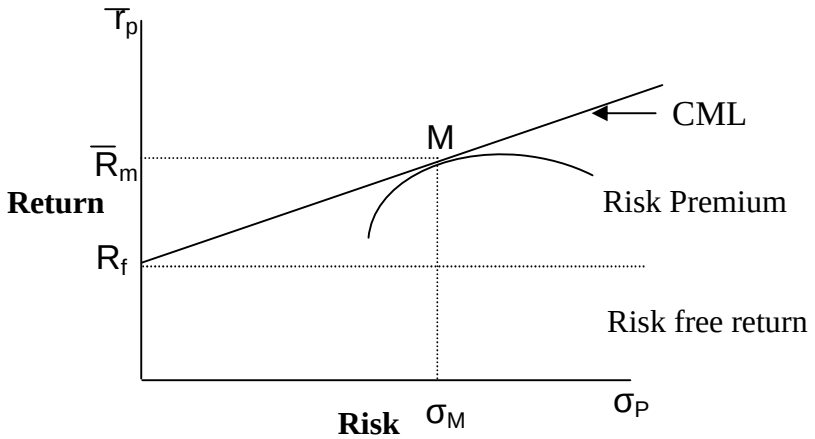
The market portfolio is a portfolio consisting of all the securities where the proportion invested in each security corresponds to its relative market value. The relative market value of a security is simply equal to the aggregate market value of the security divided by the sum of the aggregate market values of all securities.

- It plays a central role in the CAPM because the efficient set consists of an investment in the market portfolio, coupled with a desired amount of either risk free borrowing or lending.

Efficiency set

In the CML it is simple to determine the relationship between risk and expected return for efficient portfolio. The fig. 1.3 clarifies more about it.

Figure-2.2 Capital Market Line (CML)



Point M represents the market portfolio and R_f represents the risk free rate of return. Efficient portfolio plots along the line starting at R_f and going through M and consist of alternative combinations of risk and return. The linear efficient set of CAPM is known as capital market line (CML). All portfolios other than those using the market portfolio and risk free borrowing or lending lie between the CML. It has an intercept of R_f and a slope $[E(R_m)-R_f]/\pm_m$. Therefore, the equation for the capital market line may be expressed as follows.

Symbolically,

$$E\int R_p \AA X R_f \ \Gamma \ \frac{R_m \ Z R_f}{\pm_m} \pm p$$

Where,

R_f = Risk free asset.

R_m = Expected return on market portfolio

$\pm_m$ = Standard deviation on market portfolio

$\pm_p$ = Portfolio risk on efficient

For a portfolio on the CML, the excepted return is equal to the risk free rate plus a return proportional to the total risk of the portfolio. The slope of the CML is the same for all portfolios on the CML and is the market price of risk.

$$\text{Slope of CML} = \frac{E(R_m) \ Z R_f}{\pm_m}$$

Since each of the portfolios on the CML is perfectly diversified, these portfolios have an expected return about the risk free rate proportional to their own total risk.

2.1.9 Security Market Line (SML)

The capital market line (CML) is the relationship between total risk of portfolio, $\pm_p$ and expected portfolio return, E (Rp) which consists of the risk free asset and the market portfolio. However, the total risk of an individual asset should not be used to measure its riskiness. Because some of the risk as reflected in total risk can be eliminated by diversification. Therefore, since its beta reflected risk after taking diversification benefits into account, beta rather than $\pm_i$ is used to measure individual assets' riskiness to investors. The relationship between individual assets riskiness and their required return is set forth in the security market line (SML). The line is drawn in expected return and beta space. It is linear and positively sloped. Irrespective of whether investors can borrow or lend at a risk free rote, all individuals' securities and portfolios are positioned on the security market line. The relationship between an assets return and its systematic risk can be expressed by SML. The equation for the SML is,

Symbolically,

$$E(R_j) = R_f + [E(R_m) - R_f]_j$$

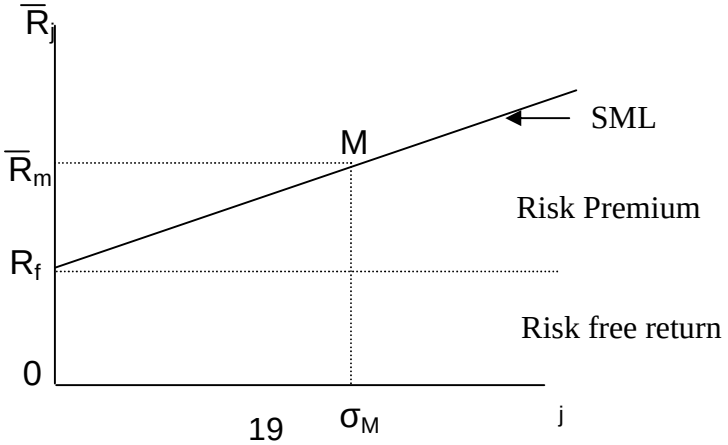
Where,

$E(R_j)$ is the expected return for an assets,

R_f is the risk-free rate (usually assumed to be a short term T-bill rate) equals the expected market return (usually based on NEPSE index) and

$_j$ denotes the asset's beta. It is a measure of sensitivity of a stock's return to changes in the average market returns.

Fig. 2.3 Security Market Line



Here, SML starts from risk free asset (R_f) and moved ahead linearly with beta ($_j$), if the securities beta is greater than 1. Then, it implies that the securities returns fluctuate more than the market returns. If beta is less than 1, the securities returns are less sensitive to the change in the market. The CAPM theory indicates that how much required rate of return of individual securities for bearing the systematic risk.

2.1.10 Empirical test of the CAPM

CAMP was developed on the basis of a set of assumption. If those assumptions were all true, then CAPM would have to be true. However, all the assumptions are not completely correct. The basic SMC equation, ki= (Km-f) be might or might not represent an accurate description of how investors behave and how rates are established in the market place.

If many investors are not fully diversified, hence they have not eliminated all diversifiable risk from their portfolio. Then beta would not be accurate measures of risk and the SML would not fully explain how required return is set. If the interest rate that investors must pay borrow money is greater than risk free rate, then the CML would not continue in a straight line. For all the reasons, it is entirely possible that the CAPM is not completely valid. Therefore CAPM must be tested empirically and validated before it can be used with real confidence.

- Test of the stability of beta coefficients

According to the CAPM, the beta used to estimate a stock's market risk should reflect investor's estimates of the stock's future volatility in relation to that of the market. Robert Levy, Marshall Blame and others have studied the questions of beta stability in depth. Levy calculated betas for individual security as well as for portfolio of securities. He concluded that:

i) The betas of individual stocks are unstable; hence the past betas for individual securities are not good estimators of their future risk.
ii) The beta of the portfolio of ten or more randomly selected stocks is reasonably stable; hence the pastor portfolio betas are good estimators of future portfolio volatility.

- The Fama French Study

A recent study by Eugene F. Fama and Kenneth R. French of the University of Chicago seriously challenges the CAPM. Fama and French examined he relationship

between betas and returns on thousands of stocks over the past 50 years. According to the CAPM, high beta stocks should provide higher returns than the low beta stocks. However, the Fama French study revealed no relationship between historical betas and historical returns-low beta stocks provided about the same returns as high beta stocks provided. About the same returns high-beta stocks. It will take more research to decide whether the Fama-French study truly invalidates the CAPM. The CAPM is purely an expectation model, and its logic is sound.

Therefore it again requires a lot of research to decide whether there actually is no relationship between beta coefficient of any stock and its return. Since CAPM is purely an expectation approach it may not valid in actual life. However, there is no strong reason to believe that there is no relationship between the return of a stock and its beta; therefore we cannot conclude that it is not better to use SML equation for the calculation of required rate of return (Fama and French, 1998:246-273).

2.2 Review of Related Studies

2.2.1 Review of Research Papers

Under this heading, reviews of research papers of researchers are analyzed to find out the investment policies of commercial banks.

Govinda Bahadur Thapa (1994), expresses his views in his research paper "Financial System of Nepal" that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non –traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the

contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

He concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands (Thapa, 1994:29-37).

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

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment (Pradhan,2003:123-133).

2.2.2 Review of Thesis

Several thesis works have been conducted by various students regarding the various aspects of commercial banks such as lending policy, investment policy, investment planning, liquidity and investment position, trends of saving investment and capital formation, investment on priority sectors etc. Some of them as supposed to be relevant for the study are presented below.

Mrs. Ramala Bhattarai,(1987) in her thesis, "Lending Policy of Commercial Banks in Nepal," has made an effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So, she recommended that banks give emphasis on efficient utilization of resources (Bhattarai, 1978:36).

Sunity Shrestha(1993) has conducted a study on "Investment Planning of Commercial Banks in Nepal" with the objectives:

- To evaluate the financial performance of commercial banks in Nepal.
- To examine the investment of commercial banks of Nepal with reference to securities, loans & advances.
- To establish the relationship of banks' portfolio variables with the national income and interest rates.

The research findings of the study are summarized as:

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.
- The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically some. Risk taking attitude is higher in foreign joint

venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.

- The hypothesis that the commercial banks have non –professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.
- Investment in various sectors has a positive impact on the national income from their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.
- Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increase with low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and Treasury bill rate. The investment of commercial banks on government securities has been observed to be affected by total deposit, cash reserve requirements and Treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition (Sherestha,1993:86).

Sharad Wagle's(2000) Study; in his thesis paper "A study on trends of savings, investment and capital formation in Nepal", he concluded that in Nepal there is large gap between investment and saving rate. The low savings rate implies that majorities of people are poor. Low rate of saving and investment has been the continuing characteristic of the Nepalese economy as compared to some selected Asian countries. The need for the improving internal savings and investment performance in the country has been high in

the agenda of Nepalese policy declarations but the performance in has remained rather poor. The rate of investment and capital formation is low in Nepal because of low saving. He has recommended that the government should review existing restriction on foreign direct investment. (Wagle, 2000:72)

Sapkota's (2000) has studied on "Risk and return analysis in common stock investment". In this study he has included eight commercial banks. Sapkota in his study has concluded commercial stock is the most risky security and lifeblood of stock market because expected, common stock attracts more investors. Private common stock holders are the passive owners of the company. But the private investor's plays a vital role in economic development of the nation by mobilizing the scattered capital remained in different form in the society. As overall economy, Nepalese stocks market is in emerging state. Its development is accelerating since the political change in 1990 in effect of openness and liberalization in national economy. But lack of information and poor knowledge, Nepalese private investors cannot analyze the securities as well as market properly. Still most of the Nepalese private investor invests in single security. Some of the investors use their fund on two or more securities but they are not able make any analyze of portfolio. Some of his recommendations are viewed below.

Mrs. Rabina Bajracharya(2000) in her thesis paper entitled, "Investment of Commercial Banks in Priority Sector" has made an effort to examine the banking procedures and services in disbursing loan in priority sector. She has found that:-

- The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by Rastriya Banijya Bank.
- The trend of investment are continued to increase in the following years.
- The regression analysis of the investment and relationship between investment and repayment.

Investment on agriculture is higher than investment on industry and service sector because investment on agriculture benefited a higher number of households. (Bajracharya, 2000:79)

Mukunda Prasad Lamichhane(2001) in his thesis, "Investment policy of the Joint Venture Banks in Nepal" had analyzed between investment policy and different variables like deposits, commission and discount, net profit, interest on loan and investment. He applied correlation, ratio analysis, t- test, and standard deviations.

He concluded that there is significant relationship between deposit and loan and advances as well as outside assets and net profit but not deposits and total investment in case of Nabil and other joint venture banks. Most of the joint venture banks have focused their banking services especially to big clients such as to purchase shares and debentures of other financial and non-financial companies. (Lamichhane, 2001:69)

Mr. Shiba Raj Loudari(2003) conducted a study on "A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd." with the objective of:

- To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
- To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory.

- Although Cash reserve ratio is managed by both banks as per Nepal Rastrya Bank directives, both banks have not paid sufficient insight towards cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.
- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.

The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks. (Loudari, 2003:75)

Kishor Poudel's(2004) in his thesis paper "Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal" had made an attempt to evaluate liquidity and investment of joint venture Banks, special reference to Everest Bank Ltd. and Nabil Bank Ltd. He has concluded that liquidity position of EBL is comparatively better than Nabil. Growth rate of investment is higher in EBL than Nabil. He further found the banks do not have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. A

commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment and to increase its investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return.(Poudel,2004:78)

Kul Chandra Pandit (2005) in his thesis, "A study on the investment policy analysis of Standard Chartered Bank Nepal Limited in comparison to Nabil and Nepal Bangaledesh Bank" has mainly found that SCB's loan & advances to total deposits ratios are significantly lower than that of Nabil and Nepal Bangladesh Bank, SCB is recommended to follow a liberal lending policy, invest more portion of deposition loan & advances. He has further stated that besides giving priority of investing on government securities, SCB is recommended to invest its fund in the purchase of shares and debentures of other financial, non-financials companies, hotels and government companies. This also helps in the maintenance of a sound portfolio of the banks. (Pandit, 2005:65)

2.2.3 Research Gap

The review of relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make the study meaningful and purposive. Various researches have been conducted on portfolio analysis, lending practice, financial performance and credit management commercial banks. Some of the researches have conducted studies on portfolio analysis. Pandit has tried to attempt investment policy analysis of SCB comparison with NABIL and NBB but the research work had not been completed. First of all the researcher used financial tools like liquidity ratio capital stricture profitability and activity ratios only. But the have not used management quality ratio, Assets management ratio in his Analysis. Poudal has conducted research on investment position of commercial banks in Nepal. Research does not consider capital adequacy ratio another researcher Limichane, Loudari, Bajracharya as well another researchers have based their study on financial ratio analysis.

Basically this research work is different from previous research studies because the researcher had tried to attempt all factor of comparative portfolio analysis with reference to different important ratios. In addition, the researcher has tried to analyses quantities as well qualitative analysis according to available information. Therefore the researcher has made attempts to study in the area.

CHAPTER- III
RESEARCH METHODOLOGY

The topic of the study has been selected as "The Comparative study on Portfolio Management of Kumari Bank Ltd. and Everest Bank Ltd." The sole objective of this study is to compare the Portfolio Management Practices of Kumari Bank Ltd. and Everest Bank 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.

3.1 Research Design

To achieve the objective of this study, comparative and descriptive research designs have been used.

3.2 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, which comprise of nineteen among the listed. The sample represents 10.52% of the entire population of the entire listed banking sector.

3.3 Data Collection Procedure

Different tools and techniques were adopted while collecting the data for this study. Collected secondary information was analyzed during the course of the deskwork. However, during the desk study, an information gap was found. This gap was fulfilled by the discussion with the thesis advisor and finance experts of the security board and the NEPSE.

3.4 Sources of Data

The data are collected from the secondary source (i.e. annual reports) of the concerned banks to achieve the objective of the study and also referred the websites for the purpose to complete the thesis.

3.5 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-

3.5.1 Financial Tools

3.5.1.1 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:

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 though 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;

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;

Investment on Govt. securities to total current assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

3.5.1.2 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;

$$\text{Loan \& Advances to total deposit ratio} = \frac{\text{Loan \& advances}}{\text{Total deposits}}$$

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 &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 Working Fund 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;

Investment on Govt. Securities to total working fund =

$$\frac{\text{Investment on Govt. Securities}}{\text{Total working fund}}$$

e.) Total outside Assets to Total Deposits Ratio: Loans and advances and investment comprise the total outside assets of a bank. This ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits, which can be stated as under;

$$\text{Total outside assets to total deposits ratio} = \frac{\text{Total outside assets}}{\text{Total deposits}}$$

f.) 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:

$$\text{Loan and advances to total outside assets ratio} = \frac{\text{Loan and advances}}{\text{Total outside assets}}$$

g.) 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;

Investment on Govt. Securities to total outside assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Total outside assets}}.$$

h.) Total outside Assets to Total Assets Ratio: Loans & advances and investment are total outside assets of commercial banks. This ratio is calculated by dividing total outside assets which can be presented as under;

$$\text{Total outside assets to total assets ratio} = \frac{\text{Total outside assets}}{\text{Total assets}}$$

This is the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize the funds into income generating assets.

3.5.1.3 Activity Ratios:

Activity ratio measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

a.) Loan Loss Provision to Total Loans and Advances Ratio: This ratio describes the quality of assets that a bank is holding. Nepal Rastriya Bank has directed the commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful and loss on the basis of the maturity of principal to make the provision of 1, 25, 50, and 100 percentages respectively. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. This ratio is calculated by dividing the loan loss provision by total loans and advances as presented here under;

Loan loss provision to total loans and advances ratio =

$$\frac{\text{Total loan loss provision}}{\text{Loans and advances}}$$

b.) Non-Performing Loans to Total Loans and Advances Ratio: This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and

advances and bad recovery rate and vice- versa. This ratio is computed by dividing the non-performing loans by total loans and advances as under;

Non-performing loans to total loans & advances ratio =

$$\frac{\text{Total non - performing loans}}{\text{Total loans \& advances}}$$

3.5.1.4 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.) 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;

Interest income to total income ratio = $\frac{\text{Interest income}}{\text{Total income}}$

b.) 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;

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.

c.) Interest Expenses to Total Expenses Ratio: This ratio measures the portion of total interest expenses in the volume of total expenses. The high

ratio indicates the low operation efficiency and vice-versa. This ratio is calculated by dividing interest expenses by total expenses which can be presented as under;

$$\text{Interest expenses to total expenses ratio} = \frac{\text{Interest expenses}}{\text{Total expenses}}$$

d.) Total Interest Earned to Total Working Fund 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;

$$\text{Total interest earned to total working fund ratio} = \frac{\text{Total interest paid}}{\text{Total working fund}}$$

e.) Total Interest Paid to Total Working Fund Ratio: This ratio depicts the percentage of interest paid on liabilities with respect to total working fund which can be presented as;

$$\text{Total interest paid to total working fund ratio} = \frac{\text{Total interest paid}}{\text{Total working fund}}$$

f.) Total Income to Total Expenses Ratio: The comparison between total income and expenses measures the productivity of expenses in generating income .The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indication of higher productivity of expenses and vice-versa. This ratio is computed by dividing total income by total expenses presented as;

$$\text{Total income to total expenses ratio} = \frac{\text{Total income}}{\text{Total expenses}}$$

g.) Total Income to Total Working Fund Ratio: This ratio measures how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets as stated here under;

$$\text{Total income to total working fund ratio: } \frac{\text{Total income}}{\text{Total working fund}}$$

h.) 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;

$$\text{Return on loan and advances ratio} = \frac{\text{Net profit (loss)}}{\text{Loans \& advances}}$$

i.) Return on Total Working Fund 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.

j.) 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;

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

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

k.) Earnings per Share (EPS): EPS refers to net profit divided by total numbers of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

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

L.) Net Interest Margin: Net interest margin in general term is the difference between the interests received from investment and loan and advances and interest paid on deposits collected by bank. It shows the bank's efficiency to earn high profit to meet various costs. Higher ratio shows the higher profitability and vice-versa. This ratio is computed by dividing the difference between interest revenues from earning assets and interest costs on borrowed funds by total earning assets which can be pressed as;

$$\text{Net interest margin} = \frac{(\text{Interest revenues from earning assets} \ \ \text{interest cost on borrowed funds})}{\text{Total earning assets}}$$

Here, interest revenues from earning assets is the total interest income of the bank and interest cost on borrowed funds is the total interest expenses of the bank, Total loan and advances comprises the total earning assets of the bank.

3.5.1.5 Growth Ratio:

To examine and analyze the expansion and growth of the banking business, following growth ratios will be calculated in this part:

a) Growth ratio of total deposits
b) Growth ratio of loans and advances
c) Growth ratio of total investment
d) Growth ratio of net profit

3.5.2Statistical 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.

3.5.2.1 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:

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

Where, $\overline{X}$ = Mean of the values

X = Summation of the values

N = No. of Observations

3.5.2.2 Standard deviation:

The standard deviation measures the absolute dispersion. It is said that higher value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 A. D. and this is denoted by the small Greek letter (pronounced sigma) the formula to calculate the standard deviation is given below:

$$\pm \sqrt{\frac{x^2}{N}}$$

Where, x = $\int X - \overline{X}$

3.5.2.3 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:

Coefficient of variation (C.V.) = $\frac{\pm}{\overline{X}} \times 100$

3.5.2.4 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:

Coefficient of Correlation (r) = $\frac{xy}{N\pm_1\pm_2}$

Where, x = $\int X - \overline{X}$

y = $\int Y - \overline{Y}$

$\pm_1$ = Standard series of X

$\pm_2$ = 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.

3.5.2.5 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, the researcher has used the various financial and statistical tools systematically to present, analyze and measure the portfolio management practices of Kumari Bank Ltd. and Everest Bank Ltd. so that the findings, summary, conclusions and recommendation of the study can be presented. The presentation and analysis of the various investment aspects of the bank is as follows:

4.1 Liquidity Ratios

Liquidity ratios measure the firms' ability to meet its current obligation. The following ratios which measure the liquidity position of banks are calculated:

Table-4.1

Liquidity Ratios

FY	KBL				EBL			
	1.	2.	3.	4.	1.	2.	3.	4.
2059/60	1.05	0.12	0.11	0.09	1.06	0.17	0.14	0.20
2060/61	1.02	0.14	0.14	0.12	1.06	0.08	0.07	0.26
2061/62	1.07	0.07	0.06	0.15	1.08	0.10	0.09	0.18
2062/63	1.06	0.04	0.04	0.13	1.04	0.10	0.09	0.23
2063/64	1.05	0.05	0.05	0.11	1.05	0.09	0.08	0.23
Mean	1.05	0.08	0.08	0.12	1.06	0.11	0.09	0.22
S.D.	0.02	0.04	0.04	0.02	0.02	0.04	0.03	0.03

(Source: Appendix I-IV)

Where, 1. = Current Ratio

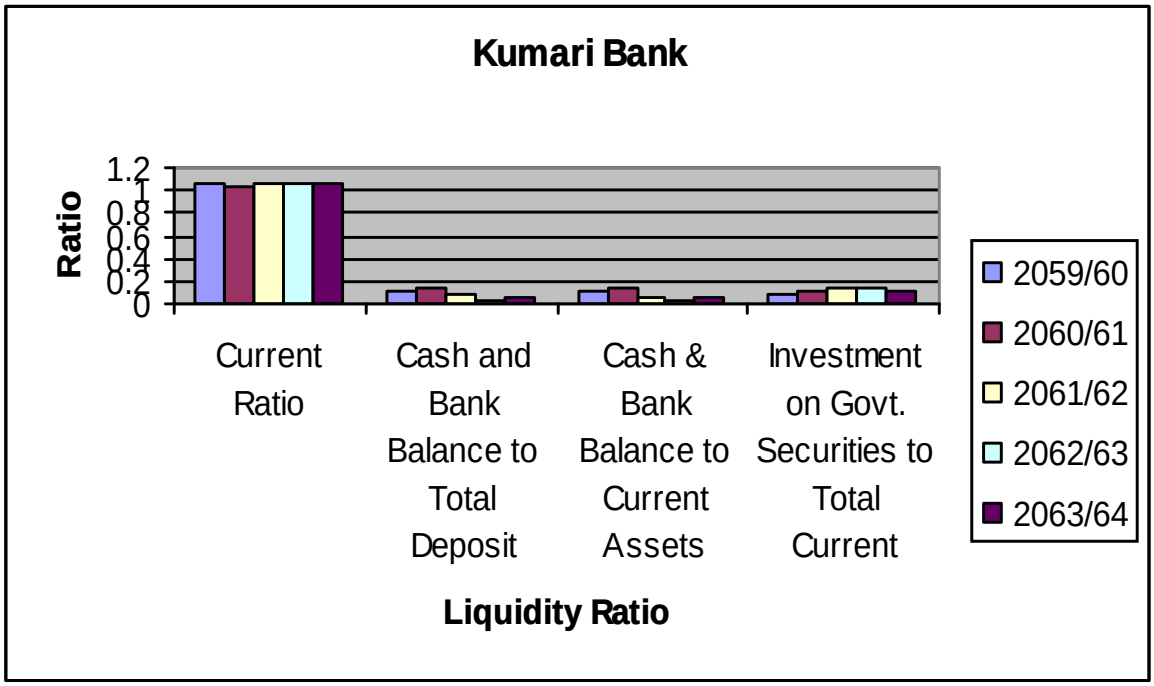
2. = Cash and Bank Balance to Total Deposit Ratio

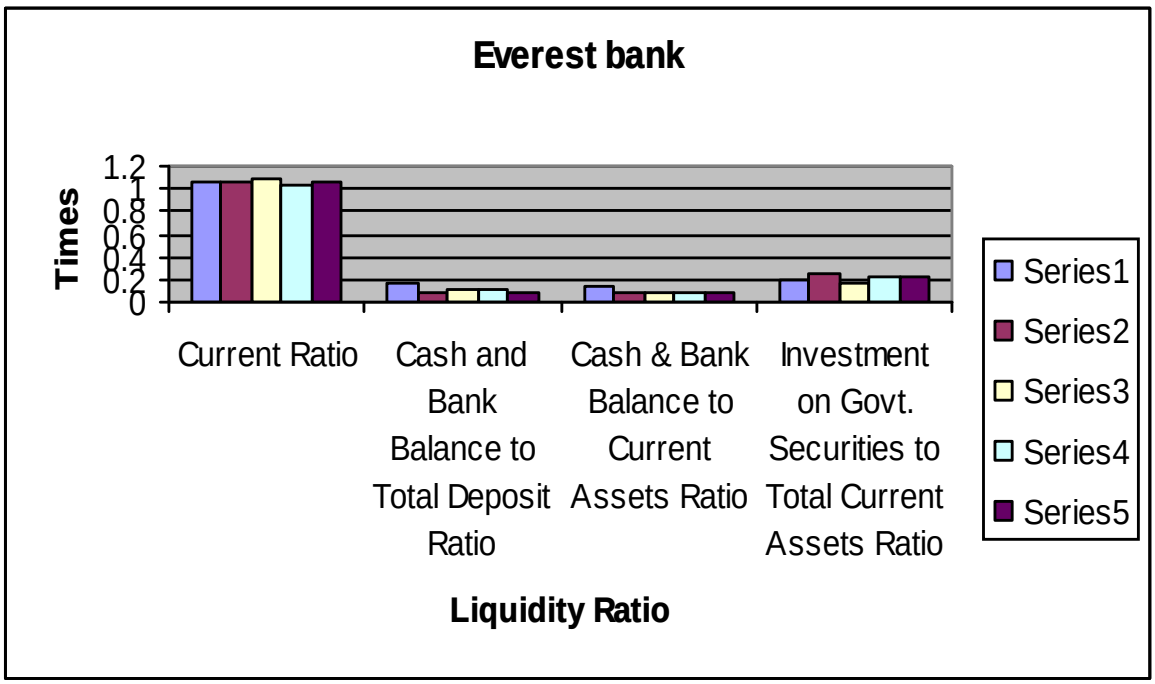
3. = Cash & Bank Balance to Current Assets Ratio

4. = Investment on Govt. Securities to Total Current Assets Ratio

Figure-4.1

Liquidity Ratio





A. Current Ratio

This ratio shows the bank's short term solvency. It shows the ratio of current assets over the current liabilities. Higher ratio indicates the strong short-term solvency position and vice-versa. As being the commercial organization and dependent upon

the deposits of the customers', the organizations use to maintain the ratio just as the directives of the NRB.

In the above table, the current ratios of KBL are 1.05, 1.02, 1.07, 1.06, and 1.05 for five years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 1.05 and S.D. 0.02. But in case of EBL the ratios are 1.06, 1.06, 1.08, 1.04, and 1.05 of the same period with the mean of 1.06 and S.D. 0.02. This can be regarded as the good since it can meet its current obligations. In the periods, the ratio is slightly fluctuated over the periods. Same as the KBL, EBL also maintained its current ratio and slightly fluctuated over the periods.

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. Higher ratio shows the bank's ability to meet its demand for cash. This ratio can be regarded as the combination of the CRR and LRR. CRR means the Cash Reserve Ratio and LRR means the Liquidity Reserve Ratio. CRR is the amount that is deposited in NRB and LRR is the cash with the bank in its vault. Currently, the CRR fixed by the NRB is 5% of the total deposit.

In the above table, this ratio of KBL is: 0.12, 0.14, 0.07, 0.04, and 0.05 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.08 and S.D.0.04. In the year 2062/63 the ratio is only 0.04 which is less than the minimum ratio set by the NRB. But in case of EBL the ratio is: 0.17, 0.08, 0.10, 0.10, and 0.09 respectively with the mean ratio of 0.11 and S.D. 0.04. The EBL has succeeded to manage the adequate ratio set by the NRB.

C. Cash & 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. This ratio should be adequately managed by the bank; neither too high nor too low since high ratio doesn't

yield might any interest and low ratio is failure to meet the request of the customers.

In the table above, this ratio of KBL is: 0.11, 0.14, 0.06, 0.04, and 0.05 in the subsequent years starting from the FY 2059/60 with the mean ratio of 0.08 and S.D. 0.04. And the ratio of EBL is: 0.14, 0.07, 0.09, 0.09, and 0.08 in the same order as in KBL has been presented with the mean ratio of 0.12 and S.D. 0.03. Here, this ratio of both the bank is highly fluctuated over the periods which are not good as it has been highly fluctuated.

D. Investment on Govt. Securities to Total Current Assets Ratio

This ratio shows the proposition of government securities of commercial banks in its current assets. The commercial banks invest their funds to various types of government securities such as treasury bills, development bonds and national saving bond. Government securities are not liquidable as much as cash & bank balance. The main objective of the ratio is to examine the portion of government in current assets.

In the table above, this ratio of KBL is: 0.09, 0.12, 0.15, 0.13, and 0.11 in the years starting from FY 2059/60 respectively with the mean ratio of 0.12 and S.D. 0.02. And the ratio of EBL is: 0.20, 0.26, 0.18, 0.23, and 0.23 as in the order of KBL is presented with the mean ratio of 0.22 and S.D. 0.03. Here, the ratio of EBL is higher than that of KBL in every year

4.2 Assets Management Ratios

The assets management ratio is used to measure the efficiency of asset utilization of a bank. A commercial bank should be able to manage its assets to gain a sustainable profit so that it can survive is the competitive environment. It is used to measure the banks' efficiency towards its fund mobilization. Following ratios are used to measure the assets management efficiency:

Table-4.2

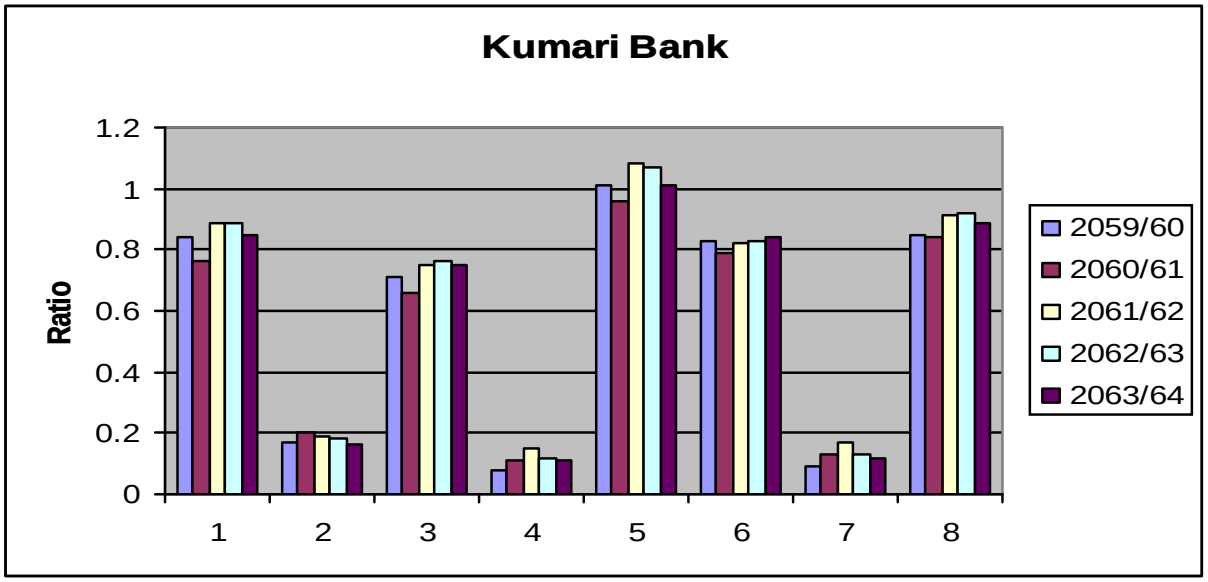
Assets Management Ratios

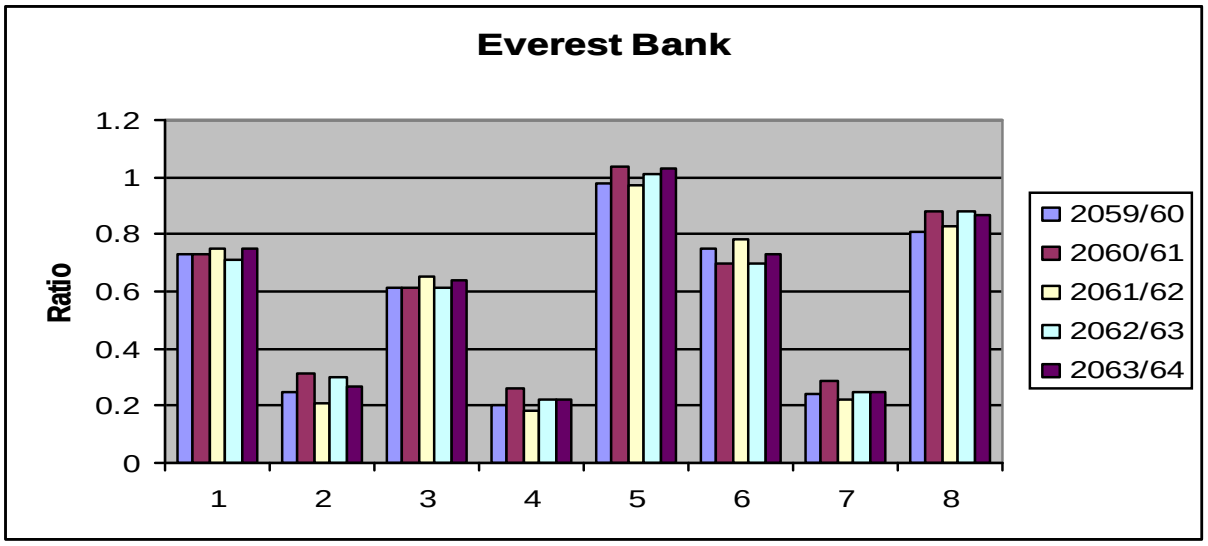
F\Y	KBL								EBL							
	1.	2.	3.	4.	5.	6.	7.	8.	1.	2.	3.	4.	5.	6.	7.	8.
2059/60	0.84	0.17	0.71	0.08	1.01	0.83	0.09	0.85	0.73	0.25	0.61	0.20	0.98	0.75	0.24	0.81
2060/61	0.76	0.20	0.66	0.11	0.96	0.79	0.13	0.84	0.73	0.31	0.61	0.26	1.04	0.70	0.29	0.88
2061/62	0.89	0.19	0.75	0.15	1.08	0.82	0.17	0.91	0.75	0.21	0.65	0.18	0.97	0.78	0.22	0.83
2062/63	0.89	0.18	0.76	0.12	1.07	0.83	0.13	0.92	0.71	0.30	0.61	0.22	1.01	0.70	0.25	0.88
2063/64	0.85	0.16	0.75	0.11	1.01	0.84	0.12	0.89	0.75	0.27	0.64	0.22	1.03	0.73	0.25	0.87
Mean	0.85	0.18	0.73	0.11	1.03	0.82	0.13	0.88	0.73	0.27	0.62	0.22	1.01	0.73	0.25	0.85
S.D.	0.05	0.02	0.04	0.03	0.05	0.02	0.03	0.04	0.02	0.04	0.02	0.03	0.03	0.03	0.03	0.03

(Source: Appendix V-XII)

Figure-4.2

Assets Management Ratio





Where, 1= Loans & Advances to Total Deposit Ratio

2= Total Investment to Total Deposit Ratio

3= Loans & Advances to Total Working Fund Ratio

4= Investment on Govt. Securities to Total Working Fund Ratio

5= Total outside Assets to Total Deposits Ratio

6= Loan & Advances to Total outside Assets Ratio

7= Investment on Govt. Securities to Total outside Assets Ratio

8= Total outside Assets to Total Assets Ratio

A. Loans & Advances to Total Deposit Ratio

This ratio measures the efficiency of the bank in mobilizing its deposits on loans and advances to generate the profit of the bank. A high ratio indicates the better the performance of the bank and vice- versa. But the every bank should manage capital adequacy for which the bank should balance between the loans and advances and total deposit. The ratio should be less than or equal to 90% as set by the NRB.

In the above table, this ratio of KBL is: 0.84, 0.76, 0.89, 0.89, and 0.85 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.85 and S.D.0.05. But in case of EBL the ratio is: 0.73, 0.73, 0.75, 0.71, and 0.75 respectively with the mean ratio of 0.73 and S.D. 0.02. This seems to

be good enough as the ratio is duly maintained by both the bank. In addition to that KBL has utilized the available funds in better way.

B. Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposits by investing its fund in different securities issued by the government and other financial and non-financial institutions. Now the efforts have been made to measure the efficiency of bank in mobilizing its deposits to its investing activities. A high ratio indicates the better performance of the bank in mobilizing its deposits in investment activities and vice- versa. The bank should maintain the balance between the return from the investment and the risk of liquidation from the investment

In the above table, this ratio of KBL is: 0.17, 0.20, 0.19, 0.18, and 0.16 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.18 and S.D. 0.02. But in case of EBL the ratio is: 0.25, 0.31, 0.21, 0.30, and 0.27 respectively with the mean ratio of 0.27 and S.D. 0.04. And in this regard the EBL has better managed its deposits in the investment activities in comparison to KBL.

C. Loans & Advances to Total Working Fund Ratio

A commercial bank's working fund plays very significant role in profit generation activity. The ratio reflects the extent to which the bank is successful to mobilize its total assets on loan and advances for the purpose of income generation. A high ratio indicates a better fund mobilization as loan and advances and vice-versa.

In the above table, this ratio of KBL is: 0.71, 0.66, 0.75, 0.76, and 0.75 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.73 and S.D. 0.04. But in case of EBL the ratio is: 0.61, 0.61, 0.65, 0.61, and 0.64 respectively with the mean ratio of 0.62 and S.D. 0.02. In this regard, the KBL is succeeded to mobilize its funds than that of EBL.

D. Investment on Govt. Securities to Total Working Fund Ratio

This ratio presents the proposition of fund invested in government securities to total working fund of the bank. From liquidity viewpoint, higher the ratio of investment on government securities to total working funds higher the liquidity of the bank and vice versa. But higher the ratio also implies the banks' inefficiency in investing in other high income generating investment activities. Therefore, the bank should maintain an optimum level of investment in government securities so that the balance between the liquidity and the return can be maintained.

In the above table, this ratio of KBL is: 0.08, 0.11, 0.15, 0.12, and 0.11 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.11 and S.D. 0.03. But in case of EBL the ratio is: 0.20, 0.26, 0.18, 0.22, and 0.22 respectively with the mean ratio of 0.22 and S.D. 0.03. Here, the ratio of EBL is as twice more as the KBL has in almost all the years. This means EBL is more curious to invest in Govt. securities than that of KBL.

E. Total outside Assets to Total Deposits Ratio

The total outside assets of a bank includes its loan and advances and investment. They are the major fund utilization activity of the bank for generating its income. Loan & advances has return and high risk whereas investment has comparatively low return and risk. Loan & advances and investment to total deposits show the firms fund mobilizing power in gross. The main source of the banks' fund is its deposits. The ratio shows how the bank is efficient in utilizing its collected deposits in total outside activities.

In the above table, this ratio of KBL is: 1.01, 0.96, 1.08, 1.07, and 1.01 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 1.03 and S.D. 0.05. But in case of EBL the ratio is: 0.98, 1.04, 0.97, 1.01, and 1.03 respectively with the mean ratio of 1.01 and S.D. 0.03. In this regard both the banks are equally capable in managing this ratio.

F. Loan & Advances to Total outside Assets Ratio

Loan and advances and investment made by the bank comprise the total outside assets of a commercial bank. This is the portion of assets employed by the bank for the purpose of income generation. This ratio measures the contribution made by loan & advances in total amount of loans & advances and investment. The proportion between investment and loans and advances measures the management's attitude towards the risky assets. Loans & advances are more risky and also generate more return in comparison to investments. The total mobilized fund i.e. loan and advances and investment in whole doesn't provide the quality of assets that the bank has created. Thus, this ratio measures the risk of the banking business also. The high ratio indicates the mobilization of funds in more risky area and vice-versa.

In the above table, this ratio of KBL is: 0.83, 0.79, 0.82, 0.83, and 0.84 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.82 and S.D. 0.02. But in case of EBL the ratio is: 0.75, 0.70, 0.78, 0.70, and 0.73 respectively with the mean ratio of 0.73 and S.D. 0.03. In comparison between KBL and EBL, KBL has the more ratios in all the years. Thus the KBL has lent its funds in risky area as described above.

G. Investment on Govt. Securities to Total outside Assets Ratio

The total outside assets indicates composition of total risky and risk free assets. The investment on government securities is the risk- free risk free assets where the total outside assets is the composition of risky and risk-free assets or assets holding average risk. This ratio helps us to measure the risk of the banks' business. Higher the ratio lowers the banks' business and vice-versa. This also presents the management's attitude towards the risk. In the other hand, higher the ratio lowers the return and vice-versa. Here the bank should also maintain the optimum level of these two assets so that the balance between risk and return is maintained.

In the above table, this ratio of KBL is: 0.09, 0.13, 0.17, 0.13, and 0.12 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.13 and S.D. 0.03. But in case of EBL the ratio is: 0.24, 0.29, 0.22, 0.25, and 0.25 respectively with the mean ratio of 0.25 and S.D. 0.03. This shows

that the ratio of EBL in comparison to KBL is higher in all the years as the huge amount invested in the government sector.

H. Total outside Assets to Total Assets Ratio

Commercial banks' outside assets includes its loans & advances and investment. Total outside assets is the fund that in used for income generating purpose where as the total assets include both the income generating assets and non-income generating assets. A high ratio indicates better mobilization of funds in the form of income generating assets from the return viewpoint vice-versa.

In the above table, this ratio of KBL is: 0.85, 0.84, 0.91, 0.92, and 0.89 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.88 and S.D. 0.04. But in case of EBL the ratio is: 0.81, 0.88, 0.83, 0.88, and 0.87 respectively with the mean ratio of 0.85 and S.D. 0.03. This shows that the ratio is consistent over the periods.

4.3 Activity Ratios

The activity ratio which is also called performing ratio is calculated to measure the lending efficiency in terms of quality and turnover. To measure the ratios of various relationships between balance sheet items and P/L items are established. The following ratios are calculated to measure the activity ratios, which are presented as follows:

Table -4.3

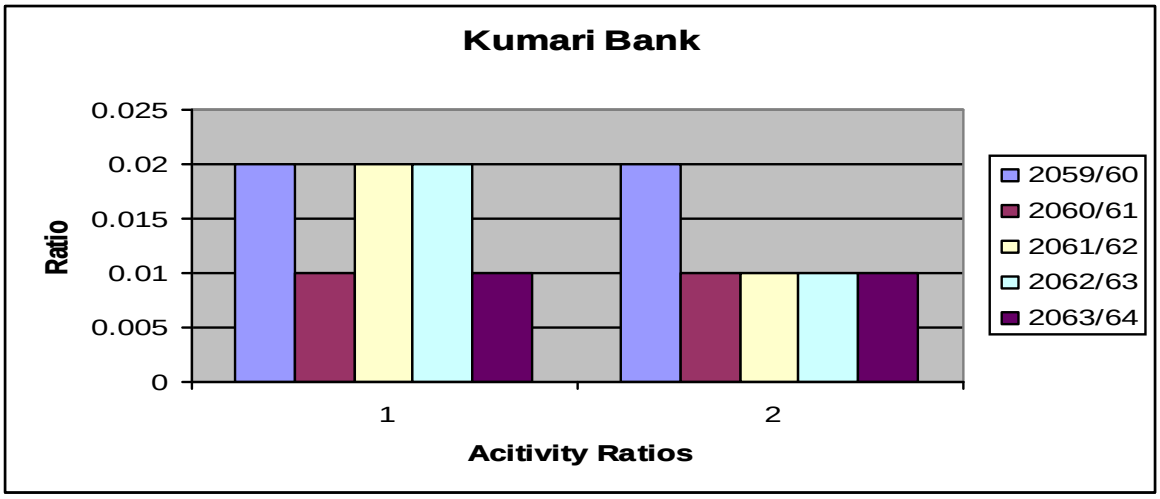
Activity Ratios

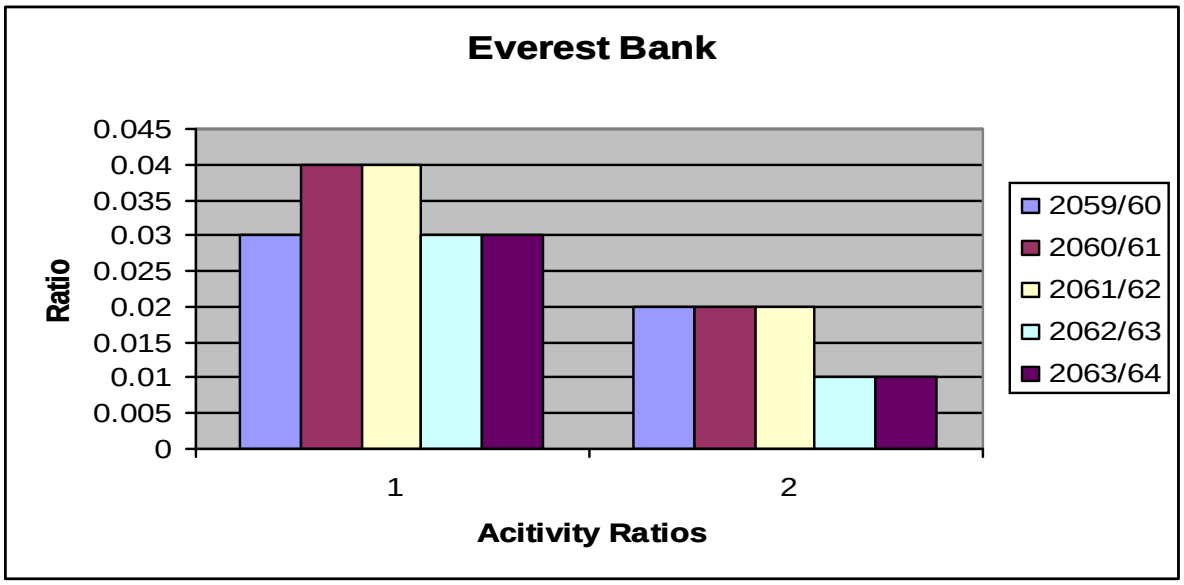
F/Y	KBL		EBL	
	1.	2.	1.	2.
2059/60	0.02	0.02	0.03	0.02
2060/61	0.01	0.01	0.04	0.02
2061/62	0.02	0.01	0.04	0.02
2062/63	0.02	0.01	0.03	0.01
2063/64	0.01	0.01	0.03	0.01
Mean	0.016	0.012	0.034	0.016
S.D.	0.001	0.004	0.004	0.01

(Source: Appendix XIII-XIV)

Figure-4.3

Activity Ratio





Where, 1= Loan Loss Provision to Total Loans & Advances Ratio

2= Non-Performing Loans to Total Loans & Advances Ratio

A. Loan Loss Provision to Total Loans & Advances Ratio

The loan loss ratio shows how efficiently the bank manages its loans and advances and makes effort for timely recovery of loans & advances. NRB has directed the commercial banks to classify its loans & advances into the category of pass, substandard, doubtful, and loss to make the provision of 1%., 25%, 50 %, and 100% respectively. NRB has classified the pass loan as performing loan and other three types of loans as non performing Assets (NPA) of the commercial banks. Loan loss provision set aside for performing

loans is defined as general loan loss provision and loss provision set aside of non-performing is defined as specific loan loss provision. The higher the ratio indicates increasing probability of non-performing loans in the volume of loan & advances. On the other hand, loan loss provision signifies the cushion against future contingency created by the default of the borrowers. The high ratio signifies the relatively more risky assets in the volume of loans & advances.

In the above table, this ratio of KBL is: 0.02, 0.01, 0.02, 0.02, and 0.01 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.016 and S.D. 0.001. But in case of EBL the ratio is: 0.03, 0.04, 0.04, 0.03, and 0.03 respectively with the mean ratio of 0.034 and S.D. 0.004. This shows that the ratio of KBL is less than that of EBL over the periods.

B. Non-Performing Loans to Total Loans & Advances Ratio

Non-performing loan includes the loan, which lies in the category of sub-standard, doubtful, and bad loan. The ratio measures the proportion of non-performing loan on the volume of loan & advances. It shows the quality of lending of the bank. Higher the ratio indicates the poor performance of the bank in terms of collecting loan and vice-versa.

In the above table, this ratio of KBL is: 0.02, 0.01, 0.01, 0.01, and 0.01 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.012 and S.D. 0.004. But in case of EBL the ratio is: 0.02, 0.02, 0.02, 0.01, and 0.01 respectively with the mean ratio of 0.016 and S.D. 0.01. This shows that the ratio is consistent over the periods.

4.4 Profitability Ratios

Each and every business organization is established to earn profit. The main objective of commercial banks is to earn profit by providing different types of banking services to its customers. Profitability ratios are helpful to measure the overall efficiency of a bank. The profit of the bank is affected by the various activities of the bank such as: liquidity activity, assets management activity, and leverage activity. Therefore, profit is the major indicator of the

efficiency of the operation of the bank. Higher profitability ratio shows the better efficiency of the bank and vice-versa. The following ratios are calculated to measure the profitability ratios which are presented below:

Kumari Bank Limited

F\Y	1	2	3	4	5	6	7	8	9	10	11	12
2059/60	0.92	0.07	0.57	0.06	0.03	1.25	0.07	0.01	0.00	0.035	3.630	0.04
2060/61	0.90	0.07	0.66	0.06	0.03	1.38	0.06	0.01	0.01	0.091	9.738	0.04
2061/62	0.92	0.07	0.68	0.07	0.03	1.53	0.07	0.02	0.01	0.136	17.580	0.05
2062/63	0.65	0.07	0.69	0.07	0.04	1.93	0.10	0.02	0.01	0.120	16.590	0.04
2063/064	0.63	0.07	0.69	0.07	0.03	2.19	0.11	0.02	0.01	0.166	22.750	0.04
Mean	0.80	0.07	0.66	0.06	0.03	1.65	0.08	0.01	0.01	0.110	14.040	0.04
S.D	0.15	0.00	0.05	0.00	0.00	0.39	0.02	0.00	0.00	0.050	7.469	0.00

Sources: Appendix XV to XXVI

Everest Bank Limited

F\Y	1	2	3	4	5	6	7	8	9	10	11	12
2059/60	0.819	0.08	0.70	0.06	0.04	1.45	0.08	0.02	0.01	0.15	29.9	0.04
2060/61	0.837	0.08	0.67	0.07	0.03	1.67	0.08	0.02	0.01	0.21	45.6	0.06
2061/62	0.837	0.07	0.61	0.06	0.03	1.76	0.07	0.02	0.01	0.22	54.2	0.06
2062/63	0.576	0.06	0.65	0.06	0.03	2.55	0.10	0.02	0.01	0.25	62.8	0.05
2063/064	0.576	0.06	0.66	0.05	0.02	2.54	0.09	0.02	0.01	0.25	78.4	0.05
Mean	0.729	0.07	0.66	0.06	0.03	1.99	0.08	0.02	0.01	0.22	54.2	0.05
S.D	0.140	0.01	0.03	0.01	0.01	0.52	0.01	0.00	0.00	0.04	18.2	0.01

Sources: Appendix XV to XXVI

Where,
1= Interest Income to Total Income Ratio
2= Total Interest Earned to Total outside Assets Ratio
3= Interest Expenses to Total Expenses Ratio
4= Total Interest Income to Total Working Fund Ratio
5= Total Interest Expenses to Total Working Fund Ratio
6= Total Income to Total Expenses Ratio
7= Total Income to Total Working Fund Ratio

8= Return on Loans & Advances Ratio

9= Return on Total Working Fund Ratio (ROA)

10= Return on Equity (ROE)

11= Earning Per Share (EPS)

12= Net Interest Margin

A. Interest Income to Total Income Ratio

Interest income is the major source of the banks' total income. It measures the proportion of interest income in total income of the bank. This ratio also indicates how well the bank is able to mobilize its fund in interest generating activity.

In the above table, this ratio of KBL is: 0.92, 0.90, 0.92, 0.65, and 0.63 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.804 and S.D. 0.15. But in case of EBL the ratio is: 0.82, 0.84, 0.84, 0.58, and 0.58 respectively with the mean ratio of 0.732 and S.D. 0.14. This shows that the ratio of KBL is more than that of EBL over the periods.

B. Total Interest Earned to Total outside Assets Ratio

The outside assets include loan & advances and investment of commercial banks. It is the sources of interest income of the bank. The ratio reflects the extent to which the bank is successful to earn interest as major income from the outside assets. A high ratio indicates high earning power of total outside assets and vice-versa.

In the above table, this ratio of KBL is: 0.07, 0.07, 0.07, 0.07, and 0.07 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.07 and S.D. 0. But in case of EBL the ratio is: 0.08, 0.08, 0.07, 0.06, and 0.06 respectively with the mean ratio of 0.07 and S.D. 0.01. This shows that the ratio of KBL is consistent over the periods and the ratio of EBL is fluctuating slightly in the years.

C. Interest Expenses to Total Expenses Ratio

The ratio measures the proportion of interest expenses to total expenses. Higher the ratio means higher cost of funds of the bank.

In the above table, this ratio of KBL is: 0.57, 0.66, 0.68, 0.69, and 0.69 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.66 and S.D. 0.05. But in case of EBL the ratio is: 0.70, 0.67, 0.61, 0.65, and 0.66 respectively with the mean ratio of 0.66 and S.D. 0.03. This shows that the ratio of KBL is less than that of EBL in the preceding years but in the last two this ratio is higher than the EBL.

D. Total Interest Income to Total Working Fund Ratio

The ratio reflects the proportion of total interest income to total working fund. Higher the ratio indicates the bank has portion of interest income with respect to total working fund and vice-versa. The higher ratio shows the better efficiency of the bank.

In the above table, this ratio of KBL is: 0.06, 0.06, 0.07, 0.07, and 0.07 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.066 and S.D. 0.004. But in case of EBL the ratio is: 0.06, 0.07, 0.06, 0.06, and 0.05 respectively with the mean ratio of 0.06 and S.D. 0.01. This shows that the ratio of KBL is more consistent over the periods than that of EBL.

E. Total Interest Expenses to Total Working Fund Ratio

The total interest expenses to total working fund ratio shows the proportion of total interest expenses to total working fund. It shows the efficiency of cost management relating to interest expenses with respect to total working fund. Higher the ratio indicates higher the interest cost of total working fund and vice-versa.

In the above table, this ratio of KBL is: 0.03, 0.03, 0.03, 0.04, and 0.03 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.032 and S.D. 0.003. But in case of EBL the ratio is: 0.04, 0.03, 0.03,

0.03, and 0.02 respectively with the mean ratio of 0.03 and S.D. 0.01. This shows that the ratio is consistent over the periods.

F. Total Income to Total Expenses Ratio

The ratio shows the proportion of total income with respect to total expenses. The profit of the business organization is affected by these two variables. The income increases the profit and the loss decreases the profit of a business organization. It is the measurement of the productivity of the expenses in generating the income of a business organization. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indication of higher productivity of expenses and vice-versa.

In the above table, this ratio of KBL is: 1.25, 1.38, 1.53, 1.93, and 2.19 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 1.656 and S.D. 0.39. But in case of EBL the ratio is: 1.45, 1.67, 1.76, 2.55, and 2.54 respectively with the mean ratio of 1.994 and S.D. 0.52. This shows that the ratio of both the bank is in increasing trend but in the last year the ratio is slightly declined.

G. Total Income to Total Working Fund Ratio

The ratio measures the proportion of total income tot total working fund. It measures the efficiency of total working fund in generating total income. The ratio is calculated by dividing the total income by total working fund.

In the above table, this ratio of KBL is: 0.07, 0.06, 0.07, 0.10, and 0.11 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.082 and S.D. 0.02. But in case of EBL the ratio is: 0.08, 0.08, 0.07, 0.10, and 0.09 respectively with the mean ratio of 0.084 and S.D. 0.01. This shows that the ratio is consistent over the periods.

H. Return on Loans & Advances Ratio

Return on loan and advances ratio measures the proportion of net income to loan and advances. It measures the efficiency of the loans and advances in

generating the net income. It is calculated by dividing net profit of the bank by its loans and advances. Higher the ratio is the indication of higher performance of loans and advances in generating net profit and vice-versa.

In the above table, this ratio of KBL is: 0.01, 0.01, 0.02, 0.02, and 0.02 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.016 and S.D. 0.004. But in case of EBL the ratio is: 0.02, 0.02, 0.02, 0.02, and 0.02 respectively with the mean ratio of 0.02 and S.D. 0. This shows that the ratio of EBL is more consistent over the periods than that of KBL.

I. Return on Total Working Fund Ratio (ROA)

This ratio measures the proportion of net profit of the bank to total working fund. It measures the efficiency of the working fund in generating its net profit. The ratio is calculated by dividing the net profit by working fund. Higher the ratio means the higher the efficiency of the bank in utilizing its working fund and vice-versa.

In the above table, this ratio of KBL is: 0, 0.01, 0.01, 0.01, and 0.01 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.01 and S.D. 0.004. But in case of EBL the ratio is: 0.01, 0.01, 0.01, 0.01, and 0.01 respectively with the mean ratio of 0.01 and S.D. 0.001. This shows that the ratio is consistent over the periods.

J. Return on Equity (ROE)

Return on equity shows the proportion of net profit of the bank to its shareholders equity. It measures the efficiency of equity in generating the net profit of the bank. The ratio is calculated by dividing the net profit of the bank by its shareholders equity.

In the above table, this ratio of KBL is: 0.03, 0.09, 0.14, 0.12, and 0.17 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.11 and S.D. 0.05. But in case of EBL the ratio is: 0.15, 0.21, 0.22, 0.25, and 0.25 respectively with the mean ratio of 0.216 and S.D. 0.04. This shows that the ratio is in increasing trend over the periods.

K. Earning Per Share (EPS)

EPS is calculated by dividing the total net earning of the by total number of shares. It shows the net profit per share. Higher the ratio indicates the higher the efficiency of the bank and vice-versa. It represents the overall efficiency of the bank.

In the above table, this ratio of KBL is: 3.56, 9.74, 17.6, 16.6, and 22.7 in the years starting from FY 2059/60 till 2063/64 respectively with the mean EPS is 14.04 and S.D. is 7.47. But in case of EBL the ratio is: 29.9, 45.6, 54.2, 62.8, and 78.4 respectively with the mean EPS of 54.18 and S.D. 18.2. This shows that the ratio of both the bank is increasing over the periods.

L. Net Interest Margin

Net interest margin measures the proportion of net interest (interest income-interest expenses) to loan and advances. It shows the efficiency of the bank to earn profit to meet the other various costs like office, staffing, and etc. expenses and to provide the attractive return to shareholders. The ratio is calculated by dividing net interest by loans and advances. Higher the ratio indicates the higher the bank's efficiency to meet other expenses and to provide return to shareholders.

In the above table, this ratio of KBL is: 0.04, 0.04, 0.05, 0.04, and 0.04 in the years starting from FY 2059/60 till 2063/64 respectively with the mean ratio of 0.042 and S.D. 0.003. But in case of EBL the ratio is: 0.04, 0.06, 0.06, 0.05, and 0.05 respectively with the mean ratio of 0.052 and S.D. 0.01. This shows that the ratio is consistent over the periods.

4.5 Growth Ratios

The study is based on the annual reports published by the banks for 5 years starting from FY 2059/60 to 2063/64. And the study is comparative. That is why; the findings of the study cannot be generalized. The growth ratio helps the researchers to determine the trend of the various parameters so that a conclusion about the various parameters of the bank can be outlined. The growth ratio can be calculated by dividing the last period figure by the

preceding period figure. Here, the growth ratios related to investment policies are presented and analyzed.

a.) Deposits Growth Rate

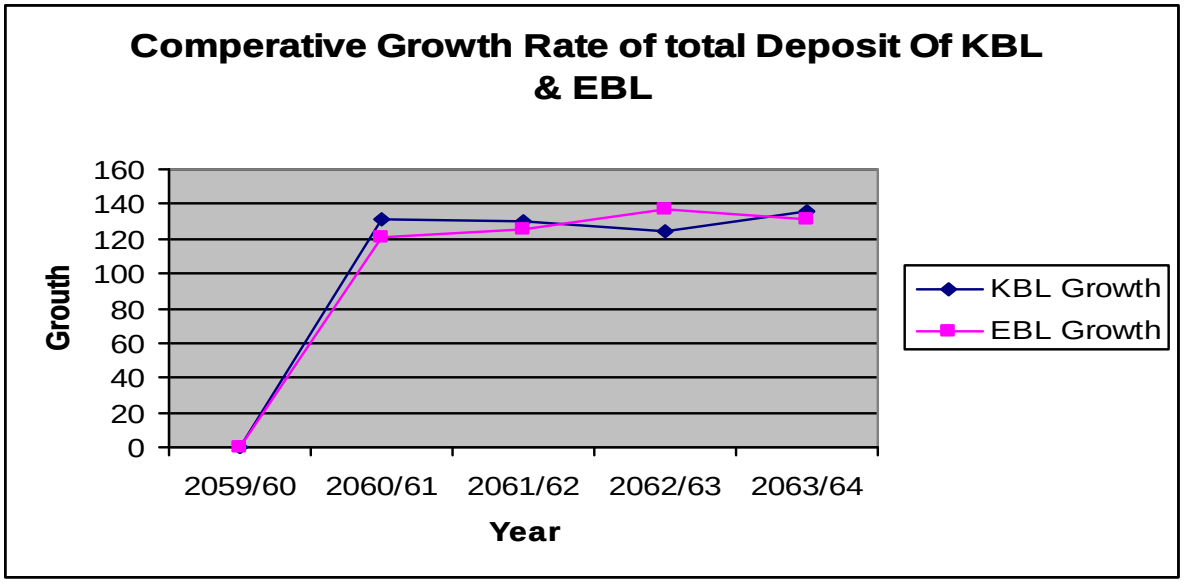
The growth ratio of total deposit shows the trend of the deposits of the bank. It shows the banks' efficiency in increasing its deposits.

Table-4.5

Deposits Growth Rate

FY	KBL		EBL	
	Total Deposit (Rs.in million)	Growth Rate (In %)	Total Deposit (Rs.in million)	Growth Rate (In %)
2059/60	2513.14	-	6694.96	-
2060/61	4807.94	131.31	8063.90	120.44
2061/62	6268.96	130.39	10097.69	125.22
2062/63	7768.96	123.93	13802.44	136.69
2063/64	10557.42	135.89	18186.25	131.76

Sources: Appendix Trend Analysis



In the above table, the growth rate of KBL is: -, 131.31%, 130.39%, 123.93%, and 135.89% in the years starts from FY 2059/60 till 2063/64 respectively.

But in case of EBL the growth rate is: -, 120.44%, 125.22%, 136.69%, and 131.76% respectively. This shows that the growth rate of both the bank is fluctuating slightly over the periods.

b.) Loans & Advances Growth Rate

The loan and advances growth rate shows the trend of the loan and advances of the bank.

Table- 4.6

Loans & Advances Growth Rate

FY	KBL		EBL	
	Loans & Advances (Rs in million)	Growth Rate (In %)	Loans & Advances (Rs in million)	Growth Rate (In %)
2059/60	2105.74	-	4908.46	-
2060/61	3649.01	173.29	5884.12	119.88
2061/62	5590.93	153.22	7618.67	129.48
2062/63	6891.86	123.27	9801.31	128.65
2063/64	8929.01	129.56	13664.08	139.41

Sources: Appendix VII

In the above table, the growth rate of KBL is: -, 173.29%, 153.22%, 123.27%, and 129.56% in the years starts from FY 2059/60 till 2063/64 respectively. But in case of EBL the growth rate is: -, 119.88%, 129.48%, 128.65%, and 139.41 respectively. This shows that the growth rate of KBL is highly fluctuating than that of EBL over the periods.

c.) Investment Growth Rate

The investment growth rate shows the trend of the investment of the bank over the study period. It shows the banks' efficiency to increase its investment.

Table-4.7

Investment Growth Rate

FY	KBL		EBL	
	Investment (Rs in million)	Growth Rate (In %)	Investment (Rs in million)	Growth Rate (In %)
2059/60	423.15	-	1653.98	-
2060/61	983.50	232.42	2535.66	153.31
2061/62	1190.27	121.02	2128.93	83.96
2062/63	1394.95	117.20	4200.52	197.31
2063/64	1678.42	120.32	4984.31	118.66

Sources: Appendix VI

In the above table, the growth rate of KBL is: -, 232.42%, 121.02%, 117.20%, and 120.32% in the years starts from FY 2059/60 till 2063/64 respectively. But in case of EBL the growth rate is: -, 153.31%, 83.96%, 197.31, and 118.66% respectively. This shows that the growth rate of KBL was the highest in the year 2060/61 whereas the growth rate of EBL was just 153.31.

d.) Net Profit Growth Rate

The net profit growth rate shows the trend of the net profit during the study period. It shows the efficiency of the bank in increasing its net profit.

Table-4.8

Net Profit Growth Rate

FY	KBL		EBL	
	Net Profit (Rs in million)	Growth Rate (In %)	Net profit (Rs in million)	Growth Rate (In %)
2059/60	12.47	-	94.18	-
2060/61	48.69	390.46	143.57	152.44
2061/62	87.88	180.49	170.81	118.97
2062/63	103.67	117.97	237.29	138.92
2063/64	170.26	164.23	296.41	124.91

Sources: Appendix XXII

In the above table, the growth rate of KBL is: -, 390.46%, 180.49%, 117.97%, and 164.23% in the years starts from FY 2059/60 till 2063/64 respectively. But in case of EBL the growth rate is: -, 152.44%, 118.97%, 138.92%, and 124.91% respectively. This shows that the growth rate of KBL is highly increasing in the first two years than that of EBL.

4.6 Correlation Coefficient Analysis

Under this topic, Karl Pearson's co-efficient of correlation is used to find out the relationship between various independent and dependant variables such as deposits and loans and advances, deposits and investments, loans and advances and net profit, investments and net profit etc. The relationship may be positive and negative. It may be highly significant or insignificant. It helps the researcher to measure the nature and the degree of movement of the relationship between dependant and independent variables.

Table- 4.9

Correlation Analysis

	KBL	EBL
Correlation between Deposit and Loan & Advances	0.9944	0.9976
Correlation between Deposit and Investment	0.9780	0.9565
Correlation between Loan & Advances and Net Profit	0.9907	0.9842
Correlation between Investment and Net Profit	0.9614	0.9631

(Source: Appendix XXVII-XXX)

a) Correlation Coefficient between Deposit and Loans and Advances

The correlation coefficient between deposit and loan and advances measures the nature and degree of relationship between deposit and loans and advances. Here, deposit is independent variable and loan and advances is dependent variable.

In the above table, the correlation coefficient between deposit and loan and advances of KBL is 0.9944 and of EBL is 0.9976 this means the loans & advances is perfectly positively correlated. It means to provide the loans &

advances to its customers the deposits are required. Higher the volume of deposits higher will be the volume of loans & advances.

b) Correlation Coefficient between Total Deposits and Total Investment

The correlation coefficient between total deposits and total investment describes the degree of relationship between these two items. How a unit increases in deposits impact in the volume of investment is measured by this correlation. Here, deposit is the independent variable and the investment is the dependent variable.

In the above table, the correlation coefficient between deposits and investment of KBL is 09780 and of EBL is 0.9565. This means the deposits and investments are positively correlated but not perfectly.

c) Correlation between Loans & Advances and Total Net Profit

The correlation between total loans and advances and total net profit measures the degree of relationship between total loans and advances and total net profits. It measures whether the net profit is accompanied by increase in the volume of loans and advances. Here, the loans and advances is the independent variable where as the dependent variable.

In the above table, the correlation coefficient between loans & advances and net profit of KBL is 0.9907 and of EBL is 0.9842. Than from this we can say that the amount of net profit heavily depends upon the amount and quality of loans & advances.

d) Correlation between Total Investment and Total Net Profit

The correlation coefficient between total investment and total net profit measures the degree and the movement of the relationship between these two variables. Here, total investment is the independent variable and the net profit is the dependent variable.

In the above table the correlation coefficient between investment and net profit of KBL is 0.9614 and of EBL is 0.9631.This means both the bank has the positive correlation of investment with the net profit.

4.7 Trend Analysis and Projection for Next Five Years

The objective of this section is to present and analyze the trend of the deposits collection, its utilization and net profit of the bank during the study period. Here, the researcher has presented and analyzed the trend of deposit, loan and advances, investment, and net profit of the bank during the study period.

a.) Trend Analysis of Total Deposits

The trend value of deposit is presented in the table from 2059/60 to 2068/69. The trend value of deposit from 2064/65 to 2068/69 is expected values of the deposits in the respective years.

Table-4.10

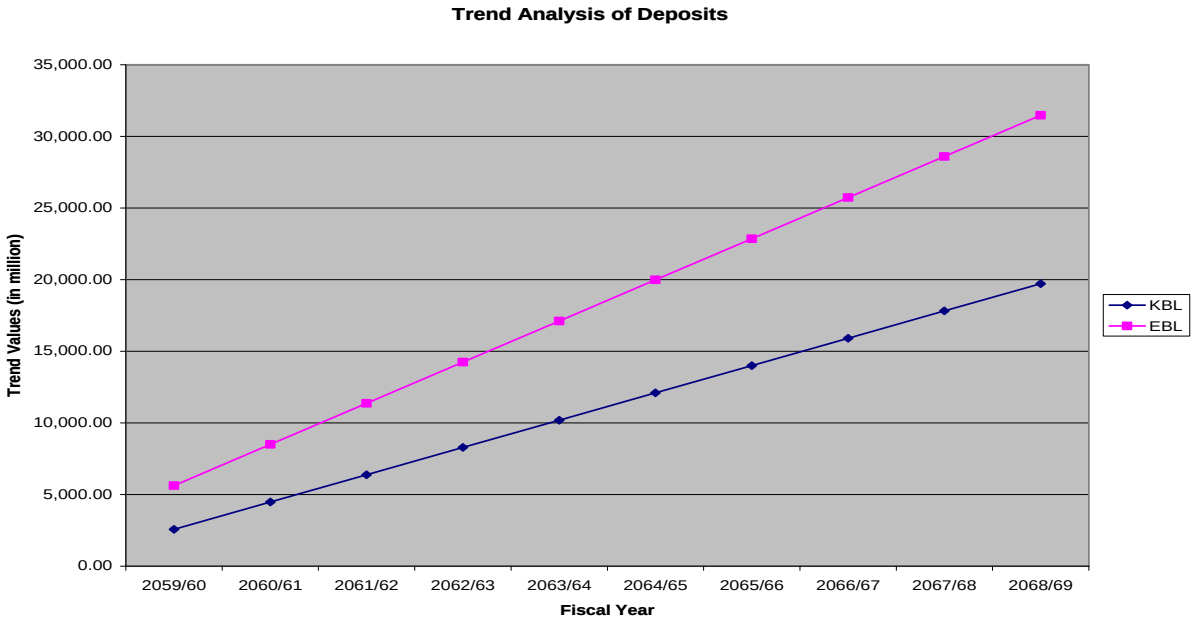
Trend Analysis of Total Deposits

(Rs. in million)

FY	KBL		EBL	
	X	Trend Value	X	Trend Value
2059/60	-2	2,573.36	-2	5625.05
2060/61	-1	4,478.32	-1	8497.05
2061/62	0	6,383.28	0	11369.05
2062/63	1	8,288.24	1	14241.05
2063/64	2	10,193.20	2	17113.05
2064/65	3	12,098.16	3	19985.05
2065/66	4	14,003.12	4	22857.05
2066/67	5	15,908.08	5	25729.05
2067/68	6	17,813.04	6	28601.05
2068/69	7	19,718.00	7	31473.05

(Source: APPENDIX- XXXI)

Figure-4.4



Here, the effort has been made to analyze the trend values of total deposit of KBL and EBL from 2059/60 to 2068/69, which includes the forecasting of five years. The above table shows the trend values deposits of different period from 2059/60 to 2068/69. The deposit forecasted for the FY 2064/65 of KBL is NPR. 12098.16 million And that for the FY 2068/69 is NPR. 19,718 million. And of EBL is NPR. 19985.05 million for the FY 2064/65 and NPR. 31473.05 million for the FY 2068/69. The trend of deposit in both the bank is increasing.

b.) Trend Analysis of Loans and Advances

The trend values of loans & advances are presented in the table. The trend values of loans & advances from 2064/65 to 2068/69 are expected value of loans & advances in the respective years.

Table-4.11

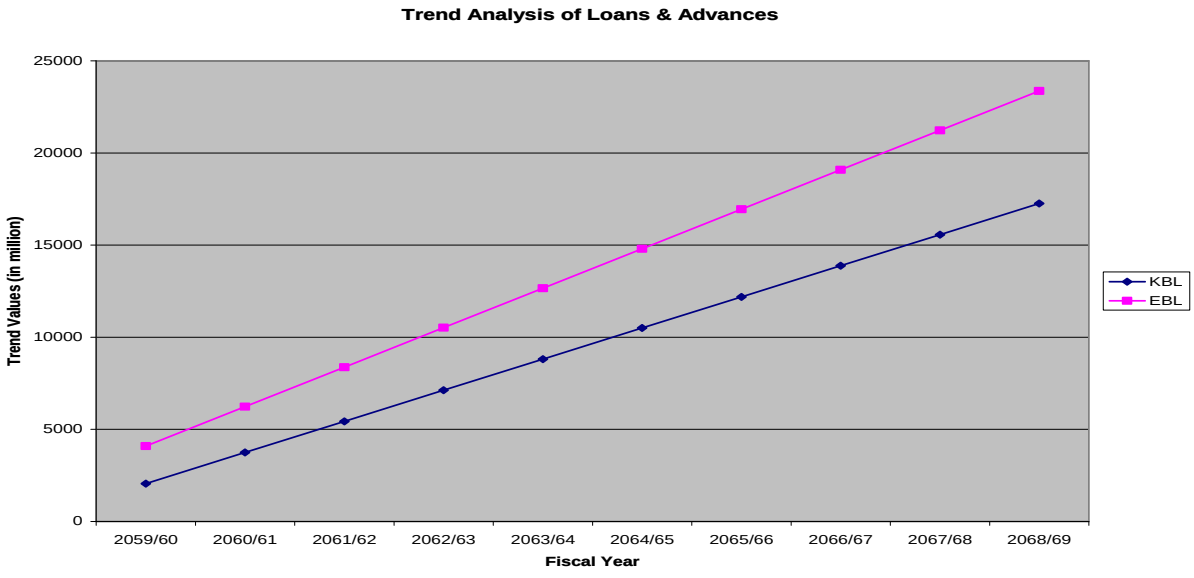
Trend Analysis of Loans & Advances

(Rs. in million)

FY	KBL		EBL	
	x	Trend Value	x	Trend Value
2059/60	-2	2055.43	-2	4091.33
2060/61	-1	3744.37	-1	6233.33
2061/62	0	5433.31	0	8375.33
2062/63	1	7122.25	1	10517.33
2063/64	2	8811.19	2	12659.33
2064/65	3	10500.13	3	14801.33
2065/66	4	12189.07	4	16943.33
2066/67	5	13878.01	5	19085.33
2067/68	6	15566.95	6	21227.33
2068/69	7	17255.89	7	23369.33

(Source: APPENDIX- XXXII)

Figure- 4.5



The above table shows that the loans & advances of both the bank is in increasing trend. The expected value of loans & advances of KBL in 2064/65 and 2068/69 are NPR.10500.13 million and 17255.89 million respectively. And of EBL in 2064/65 is 14801.33 million and 23369.33 million in the year 2068/69.

c.) Trend Analysis of Investment

The trend values of investment are presented in the table. The trend values of investment from 2064/65 to 2068/69 are expected values of loans & advances in the respective years.

Table- 4.12

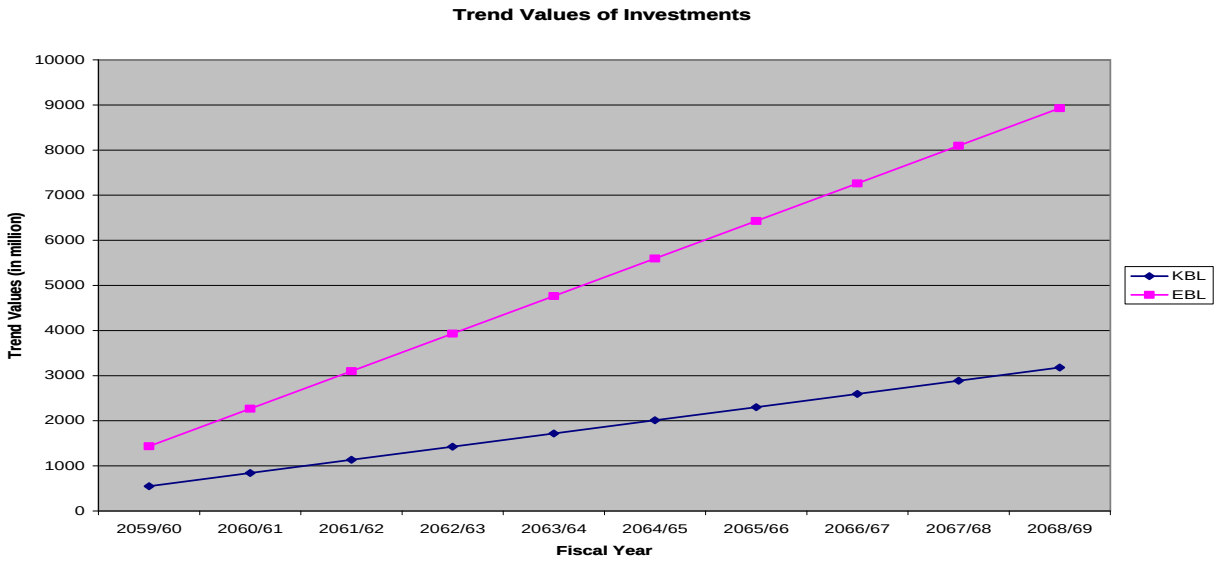
Trend Analysis of Investments

(Rs. in million)

FY	KBL		EBL	
	x	Trend Value	x	Trend Value
2059/60	-2	549.66	-2	1435.98
2060/61	-1	841.86	-1	2268.33
2061/62	0	1134.06	0	3100.68
2062/63	1	1426.26	1	3933.03
2063/64	2	1718.46	2	4765.38
2064/65	3	2010.66	3	5597.73
2065/66	4	2302.86	4	6430.08
2066/67	5	2595.06	5	7262.43
2067/68	6	2887.26	6	8094.78
2068/69	7	3179.46	7	8927.13

(Source: APPENDIX- XXXIII)

Figure-4.7



The above table shows that the investment of both the bank is in increasing trend. The expected value of investment of KBL in the year 2064/65 is 2010.66 million and in the year 2068/69 is 3179.46 million. And of EBL in the year 2064/65 is 5597.73 million and 8927.13 million in the year 2068/69.

d.) Trend Analysis of Net Profit

The trend values of net profit are presented in the table. The trend values of net profit from 2064/65 to 2068/69 are expected value of net profit in the respective years.

Table-4.13

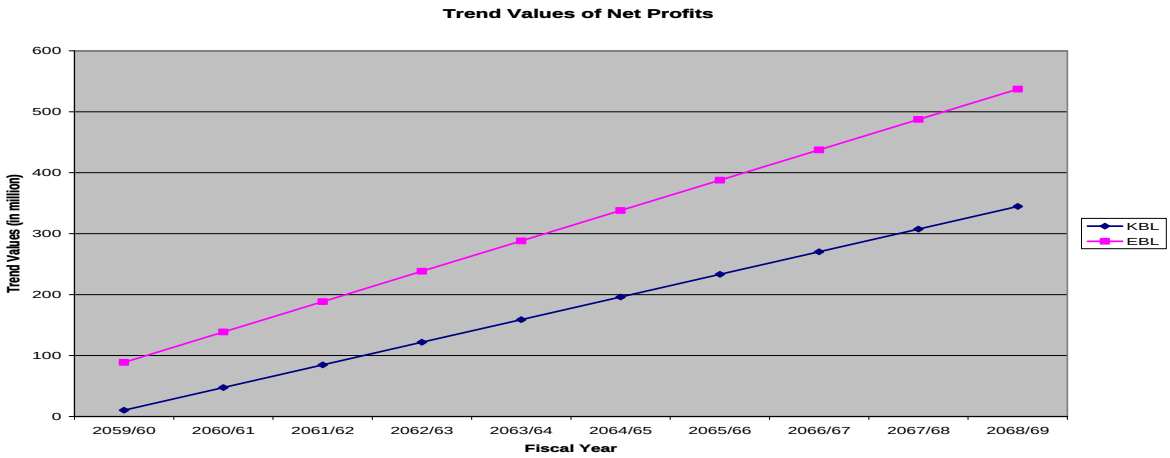
Trend Analysis of Net Profit

(Rs. in million)

FY	KBL		EBL	
	x	Trend Value	x	Trend Value
2059/60	-2	10.41	-2	88.81
2060/61	-1	47.54	-1	138.63
2061/62	0	84.67	0	188.45
2062/63	1	121.8	1	238.27
2063/64	2	158.93	2	288.09
2064/65	3	196.06	3	337.91
2065/66	4	233.19	4	387.73
2066/67	5	270.32	5	437.55
2067/68	6	307.45	6	487.37
2068/69	7	344.58	7	537.19

(Source: APPENDIX- XXXIV)

Figure- 4.8



The above table shows that the net profit of both the bank is in increasing form. The expected value of net profit of KBL in 2064/65 and 2068/69 are 196.03 million and 344.58 million respectively. And of EBL is 337.91 million in the year 2064/65 and 537.19 million in the year 2068/69.

4.8 Major Findings of the Study

In the preceding part, the researcher has presented and analyzed the various aspects of the study with the help of the financial and statistical tools. In this part, 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. The major findings of the study, based on the financial and statistical tools can be presented as follows:

A. Liquidity Ratio

Current ratio of KBL is ranging from 1.02 to 1.07 over the study period. And current ratio of EBL is more than that of KBL in each year except in FY 2063/64. This shows that EBL has the strong liquidity position in comparison to KBL during the study period.

Cash and bank balance to total deposit ratio of KBL is ranging from 0.04 to 0.14 over the study periods however the ratio of EBL is ranging from 0.08 to 0.17 in the same period. Cash and bank balance is the Cash Reserve Ratio (CRR) which is to be managed by the banks in duly manner (not too high and not too low). The minimum CRR to be maintained by the banks is 5% of the total deposit. But, the ratio of KBL in the year 2062/63 is only 0.04 which is less than the minimum CRR to be maintained. And the EBL has maintained the CRR all over the study periods.

Cash and bank balance to current assets ratio of KBL is ranging from 0.04 to 0.14 during the study period and the ratio of EBL is ranging from 0.07 to 0.14. This shows that the ratio of KBL is inconsistent and less than that of EBL over the periods.

Investment on government securities to total current assets ratio of KBL is ranging from 0.09 to 0.15 during the study period and the ratio of EBL is

ranging from 0.18 to 0.26 of the same period. This shows that EBL is more interested on the government securities since it has no risk. But, this also can be stated that KBL has succeeded to search the lending market in comparison to EBL.

Loan & advances to current assets ratio of KBL ranging from 0.72 to 080 but the ratio of EBL is 0.62 to 0.66. The ratio of EBL is low due to the greater portion invested in the government securities.

If the overall liquidity position is analyzed, it is found that the KBL has reduced its cash and bank balance significantly during the period. In comparison to KBL, EBL has the strong liquidity position.

B. Assets Management Ratio

Loans & advances to total deposit ratio of KBL is ranging from 0.76 to 0.89 where as the ratio OF EBL is ranging from 0.71 to 0.75. The ratio of EBL is less than that of KBL because of higher portion of amount invested into the government securities.

Total investment to total deposit ratio of KBL is ranging from 0.16 to 0.20 where as the ratio of EBL is 0.21 to 0.31. This shows that the ratio of EBL is higher than that of KBL during the study period.

Loans & advances to total working fund ratio of KBL is ranging in between 0.66 and 0.76 whereas the ratio of EBL is ranging from 0.61 to 0.65 over the periods. This shows that the ratio of KBL is inconsistent in comparison to EBL.

Investment on government securities to total working fund ratio of KBL is ranging from 0.08 to 0.15 whereas the ratio of EBL is 0.18 to 0.26 over the periods. EBL uses to invest the huge portion of total assets into the government securities during the study period.

Total outside assets to total deposits ratio of KBL is ranging from 0.96 to 1.08 where as the ratio of EBL is 0.97 to 1.04 over the periods. This shows that the ratio of KBL is more than that of EBL in most of the years.

Loans & advances to total outside assets ratio of KBL is ranging from 0.79 to 0.84 where as the ratio of EBL is 0.70 to 0.78 over the periods. This shows that the ratio of KBL is higher than that of EBL since it invests the large amount in the risky area than that of EBL.

Investment on government securities to total outside assets ratio of KBL is ranging from 0.09 to 0.17 where as the ratio of EBL is 0.22 to 0.29 over the periods. This shows that the ratio of KBL is less than that of EBL since EBL has invested the huge portion in the risk less area.

Total outside assets to total assets ratio of KBL is ranging in between 0.84 and 0.92 where as the ratio of EBL is in between 0.81 and 0.88 over the periods. The ratio of KBL is higher than that of EBL.

C. Activity Ratio

Loan loss provision to total loans & advances ratio of KBL is ranging from 0.01 to 0.02 where as the ratio of EBL is 0.03 to 0.04. This shows that KBL has less loan loss provision to total loans & advances than that of EBL.

Non-performing loans to total loans & advances ratio of KBL & EBL is ranging in between 0.01 and 0.02. In the FY 2059/60 the NPL of KBL is 0.02 and in other FYs the NPL is only 0.01. But in case of EBL, in the FYs 2059/60, 2060/61, and 2061/62 the NPL is 0.02 and only in the FYs 2062/63 and 2063/64 is 0.01. This means the NPL is the same in the last two years.

D. Profitability Ratio

Interest income to total income ratio of KBL is ranging in between 0.63 and 0.92 where as the ratio of EBL is ranging in between 0.58 and 0.84. The ratio of KBL is more than that of EBL in every year. But the ratio of both the bank is decreasing since last three years.

Total interest earned to total outside assets ratio of KBL is 0.07 throughout the period which is very consistent where as the ratio of EBL is ranging in between 0.06 and 0.08 over the periods.

Interest expenses to total expenses ratio of KBL is ranging in between 0.57 and 0.69 where as the ratio of EBL is ranging in between 0.61 to 0.70. The ratio of KBL is constantly increasing over the periods but in case of EBL the ratio is in decreasing form for the first three years and in the last three years the ratio is in increasing form.

Total interest income to total working fund ratio of KBL is in between 0.06 and 0.07 where as the ratio of EBL is in between 0.05 and 0.07. This shows that the ratio of both the banks is consistent over the periods.

Total interest expenses to total working fund ratio of KBL is in between 0.03 and 0.04 where as the ratio of EBL is in between 0.02 and 0.04. The ratio of KBL is higher than that of EBL in the last two years.

Total income to total expenses ratio of KBL is in between 1.25 and 2.19 where as the ratio of EBL is in between 1.45 and 2.55. The ratio of KBL is in increasing trend throughout the periods but in case of EBL the ratio is in decreasing form in the last two years.

Total income to total working fund ratio of KBL is in between 0.06 and 0.11 and of EBL is in between 0.07 and 0.10. The ratio of KBL is increasing all over the periods keeping except for the first year. But in case EBL, ratio is ups and downs.

Return on loans & advances ratio of KBL is in between 0.01 and 0.02 but in case of EBL the ratio is consistent i.e. 0.02 all over the periods. The ratio of KBL also seems consistent in the last three years.

Return on total working fund ratio (ROA) of KBL and EBL in all the years is 0.01 which is very consistent.

Return on equity (ROE) of KBL is in between 0.03 and 0.17 where as the ROE of EBL is in between 0.15 and 0.25. Here, the ROE of both the bank is increasing however the ratio of EBL is higher than that of KBL in all the years of study period.

Earning per share (EPS) of KBL is in between 3.56 and 22.7 where as the EPS of EBL is in between 29.9 and 78.4. Here, the EPS of EBL is higher than KBL in all the years.

Net interest margin of KBL is in between 0.04 and 0.05 where as the NIM of EBL is in between 0.04 and 0.06 the ratio of KBL is consistent in the first two years, increased in the third year and decreased in the last two years. But in case of EBL, the ratio is increased in 2^{nd} & 3^{rd} years and decreased in last two years.

CHAPTER-V
SUMMARY, CONCLUSION AND RECOMMENDATION

There are two aspects included in this chapter. The first aspect focuses on the summary and the conclusion of the study while the second aspect focuses on the suggestions and recommendations that are useful to improve the portfolio management practices of KBL and EBL.

5.1 Summary

Economic development is essential for the development of the country. For this, it is required to transform savings into actual investment. Economic development is supported by the financial infrastructure of the country. The financial institutions transfer funds from surplus spending units to deficit units.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

Investment operation of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

The major problem in almost all underdeveloped countries and Nepal as no exception is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and acts as development banks, due to the lack of other specialized institutions.

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern

times, since credit or bank money constitutes bulk is of the economy's aggregate money supply, it mostly changes the volume of the bank money or credit rather than changes in the total supply of the high-powered money issued by the reserves held by the bank against their deposit liabilities that account for the changes in the aggregated money supply. The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it has a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

A bank's marketing starts with a proper relationship with customers either to attract savings or for the loan disbursement. Both the depositors and the creditors are customers of the bank. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products, and credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loam medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.)

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but

none of them so far have been found to have expertise in any one of them for marketing. Relying on any one of the product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the bank of America has a vast range of banking business serving individuals and small firms and a big share of the loan syndicate market. It means markets are there for some products and it is created for others. Banks in Nepal are weak in locating the existing market and in creating new markets too.

Loan disbursement is a trade of win-win game lenders and borrowers both get benefited out of it. Customers are the ultimate source of income not products. For the analysis of customers several questions need to be answered. This includes questions such as which customer buys the product and how do they use it? Where do customers buy the product, when do customer buy, how do customers choose, why do they preferred that product, how do they respond, and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective.

Portfolio is the holding of a collection of investment. For some individuals and institutions, it is the entire holdings consisting of both assets and liabilities. An investment held as a part of the portfolio is less risky than the same investment held individually. So, every individuals and institutions should manage the portfolio by which the individuals and institutions get maximum return. The concept of the portfolio comes from "not putting all the eggs in one basket". Portfolio theory evaluates the reduction of non-systematic or diversifiable risks through the selection of securities or other instruments in to a composite holding or efficient portfolio. This efficiency means that a portfolio would offer lower risks or more stable returns for a targeted return level. Instruments that have independent returns lower non-systematic risks. Also, instruments that are inversely related on a return basis reduce the diversifiable risks. The basic theory assumes that returns are independent, investors expectations are homogeneous, and that the normalized probability distributions are stable.

Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

5.2 Conclusions

The mean of current ratio of KBL is1.05 and of EBL is 1.06 during the study period. Since the ratio is more than one, the banks are able to meet its current obligations. The current ratio is decreasing in the most recent years in both the banks. The mean of cash and bank balance to total deposit ratio of KBL is 0.08 and of EBL is 0.11. The cash and bank balance to total deposit ratio of KBL is highly fluctuated in FY 2061/62. The mean of cash and bank balance to current ratio of KBL is 0.08 whereas of EBL is 0.09. Likewise the mean of investment of government securities to current assets ratio of KBL is 0.12 and of EBL is 0.22.and loans and advances to current assets ratio of KBL is 0.77 and of EBL is 0.64. In conclusion, it can be said that the liquidity position of both the banks are satisfactory since the current ratio of both the banks are more than one over the period. The liquidity position of KBL is decreasing. It suggests that the banks are maintaining low liquidity. It will help to increase the overall profit of the bank. The cash and bank balance to total deposit ratio as stated earlier should be more than 5% of total deposit which is set by NRB. But in case of KBL, in the year 2062/63 the ratio is only 0.04. It means the bank couldn't maintain CRR as set by NRB. Investment on government securities to current assets ratio of EBL is more than that of KBL in all the years. This might be taken as the risk minimization strategy than the KBL. The mean CD ratio of KBL is 0.85 and of EBL is 0.73. The CD ratio of 70% (i.e. 0.70) is considered as good. Here, the CD ratio of both the banks is greater than 0.76. It shows that the banks are aggressive in lending. The ratio of KBL is decreasing in the last two years. The Mean of investment to total deposit ratio of KBL is 0.18 whereas of EBL is 0.27. The ratio is highly fluctuating over the periods than that of KBL. The loans and advances to total working fund ratio of KBL is more fluctuating and mean ratio than that of EBL. It shows that the KBL has more productive investment. However, it

increases the liquidity risk of the bank. The Mean of investment on government securities to total working fund ratio of KBL is 0.11 whereas of EBL is 0.22. It shows that the EBL is maintaining its liquidity by increasing its investment in government securities. The mean of total outside assets to total deposits ratio of KBL is 1.03 and of EBL is 1.01. The ratio of KBL is highly fluctuating over the periods of the than that of EBL. Mean of loans and advances to total outside assets ratio of KBL is 0.82 and of EBL is 0.73.In this also, the ratios are fluctuating over the periods. The mean of loan loss provision to total loans and advance ration of KBL is 0.016 and of EBL is 0.034. It shows KBL has low ratio than that of EBL in all the years. It means KBL has the more quality loans than that of EBL. The means of non-performing loans to total loans and advances ratio of KBL is 0.012 and of EBL is 0.016. It shows that the KBL has less NPL than that of EBL. The mean of interest income to total income ratio of KBL is 0.804 and EBL is 0.732. It shows that interest income has the greater portion of total income is KBL than that of EBL. However, the ratio is in the decreasing trend in both the banks. The mean of interest earned to total outside assets ratio of both the bank is 0.07 which is consistent over the periods. The mean of interest expenses to total expenses ratio of both the banks is 0.66. However, the ratio is increasing in KBL throughout the period whereas in EBL the ratio is decreased in first two years and is increased in last three years. The mean of total income to total expenses ratio of KBL is 1.656 and of EBL is 1.994. The ratio of both the bank is increasing. However, the EBL has more ratio than that of KBL. The mean of ROA of both the bank is 0.01. It shows that the ratio is consistent over the periods. The mean of ROE of KBL is 0.11 and of EBL is 0.216. It shows that the ROE of EBL is nearly as twice as of KBL. However, the ratio of both the bank is increasing. The mean of EPS of KBL is 7.47 and of EBL is 54.18. However, the ratio is increasing in both the banks.

The growth rate of deposit for the period of KBL is more than that of EBL in the last few years. However the total amount of deposit is greater of EBL than to KBL. The growth rate of KBL of loans & advances is less than that of EBL in the last year. The EBL is increasing the volume of loans & advances. The

growth rate of investment and net profit of both the bank is highly fluctuating over the periods.

Correlations of both the bank with the different variables are positive with more than +0.95 it means all the variable are positively correlated with the variables used in the research. Trend analysis of all the variables are in increasing throughout the periods. The trend of EBL in almost every years is more increasing than that of KBL.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the portfolio management practices of KBL and EBL effective and efficient.

1. As the current ratios of both the banks are more than 1:1, it is good as it can meet the short-term obligations. The cash and bank balance to total deposit ratio of KBL is only 0.04 in the year 2062/63 which is less than the CRR set by NRB. So, the bank is to be conscious to maintain its CRR. Investment on government securities to total current assets ratio of KBL is low than EBL. So, the KBL has to increase the volume of investment in the government securities.
2. As stated earlier, the CD ratio of 70% is regarded as good but both the banks have more than 70%. So these banks should minimize the CD ratio. Moreover, the KBL has to decrease its CD ratio significantly. Total investment to deposit of KBL is less than that of EBL, hence it is to be increased.
3. The loan loss provisions to total loans and advances of KBL are less than that of EBL. So, the EBL has to maximize in the quality lending. Hence, the loan loss provision will be minimized. NPL of KBL is also lower than the EBL So, EBL should minimize its NPL since it doesn't indicate well.
4. Interest income of KBL is greater than EBL as it has more CD ratio. ROA of both the banks are equal. ROE of KBL is less than EBL. So, the KBL has to increase its ROE significantly. EPS of KBL is also less than that of EBL.

Keeping all these in consideration, the KBL has less performance than that of EBL. This might be due to the EBL is established six years before than KBL. So, in this short span of time the KBL has earned the good reputation in the market. Another point is that EBL is a joint-venture. So, in the future ahead, the KBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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